Small-Cap Fund Management Discussion

Longleaf Partners Small-Cap Fund gained 3.9% in the quarter, outpacing the Russell 2000's 2.1%. Year-to-date (YTD) the Fund returned 9.2%, versus the Index's 3.2%. Over longer periods shown below, the Fund's performance surpassed the Index as well. For the last one and five years, Longleaf Small-Cap far exceeded our annual absolute return goal of inflation plus 10%, as it did for the last 20 years.

Cumulative Returns at June 30, 2014

	Since Inception	25 Year	20 Year	15 Year	Ten Year	Five Year	One Year	YTD	2Q
Small-Cap Fund (Inception 2/21/89)	**1507.60%**	**1343.31%**	**1096.77%**	**352.57%**	**177.67%**	**190.50%**	**24.00%**	**9.24%.**	**3.87%**
Russell 2000 Index	997.54	921.21	550.00	217.54	130.34	151.03	23.64	3.19	2.05

Average Annual Returns at June 30, 2014

	Since Inception	25 Year	20 Year	15 Year	Ten Year	Five Year	One Year
Small-Cap Fund (Inception 2/21/89)	**11.58%**	**11.27%**	**13.21%**	**10.59%**	**10.75%**	**23.77%**	**24.00%**
Russell 2000 Index	9.91	9.74%	9.81	8.01	8.70	20.21	23.64

Returns reflect reinvested capital gains and dividends but not the deduction of taxes an investor would pay on distributions or share redemptions. Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by visiting longleafpartners.com.

The December 31, 2013 total expense ratio for Longleaf Small-Cap Fund 0.91%. The expense ratio is subject to fee waiver to the extent normal annual operating expenses exceed 1.50% of average annual net assets.

The Fund had good absolute and relative performance in the quarter and YTD despite having over 30% cash. Merger activity, combined with solid operating results at several core holdings, drove results. Fiber and networking company Level 3 Communications announced a deal to acquire tw telecom, which gained 29% in the quarter and 32% for the first half of the year. Level 3 returned 12% and 32% over the same periods. The deal benefits both companies as tw telecom shareholders collect a fair price for the company's valuable assets and, through the Level 3 equity they will receive, will participate in the upside of the combined company. Level 3 gets increased tax benefits for its historic NOLs (net operating losses) due to the company's increased equity capitalization. The transaction also affords an identified $200 million in synergies, roughly half of which come from the straightforward traffic switch onto Level 3's backbone. The deal is expected to close in the fourth quarter. Beyond the merger, in his first year as Level 3 CEO, Jeff Storey and his team have delivered solid revenue growth, margin improvements, and higher cash flow guidance.

Vail Resorts had a strong end to the ski season in Colorado and Tahoe, and the stock added 11% in the quarter. Ski pass sales and pricing (up 6% so far) already are going well for the next ski season. Vail also had a pickup in condo sales. The market reacted favorably to a court decision regarding their lease in Park City. Also in the quarter, Empire State Realty Trust (ESRT), the New York metropolitan office and retail REIT, gained 10%. ESRT delivered strong FFO (funds from operations) and good leasing news on New York City properties.

The Fund's largest holding, cement producer Texas Industries (TXI), gained 34% YTD. Martin Marietta's all-stock deal to acquire TXI closed at the end of the quarter, and we subsequently sold the position at our appraisal. In spite of the financial crisis and worst recession in our lifetime, we doubled our money in the eight years we owned TXI, a high quality but cyclical business. Many things that helped make this investment successful are applicable to Southeastern's approach more broadly.

- "Recycled" names tend to do well. We also more than doubled our money in TXI from 2001-2005, and because we knew the company, industry, and management well, our case had a strong foundation when we bought the stock again in the second half of 2006.

- A five year time horizon can give clarity and conviction through short-term uncertainty. The slow economic recovery after the financial crisis made the timing of a rebound in U.S. construction and infrastructure uncertain through 2011. Given the healthier Texas economy and TXI's new plant coming on line, we felt certain that over five years volumes and prices would be higher, even though we were not sure of the path. Sentiment turned quickly, and in 2012 and 2013 TXI was the largest contributor to Small-Cap's return, gaining 66% and 35%, respectively.

- Overweighting positions at opportune times can pay off handsomely. In the 2010-2011 timeframe, we doubled down on our investment when TXI had 1) competitive advantages including its location in a state that was rebounding, new capacity, and a solid balance sheet, 2) management and a board committed to getting shareholder value recognized, 3) a major shareholder in the form of 23% owner Nassef Sawiris with industry expertise, and 4) a price that was a fraction of both the company's replacement value and comparable sales ($/ton) of other U.S. cement plants.

- Our size can be an advantage. We owned 9% of the company in 2009. To help protect against potential buyers who might try to steal TXI from shareholders at a deep discount, we successfully suggested one board member whom we knew would be protective of shareholders. We did the same thing with additional directors after we had increased our position to over 20% in 2011.

Our four decades of experience, long time horizon, willingness to heavily concentrate at opportune points, friendly engagement with management, and network of industry contacts were all instrumental parts of our successful outcome at TXI. These strengths are equally relevant to all of our holdings.

Global fertilizer and chemical producer OCI, the only performance detractor in the quarter, fell almost 14%, causing the stock to also be among the few YTD decliners. The company announced that no dividend would be paid on 2013 earnings due to pre-funding $1 billion in capital investment for 2014. We view substituting growth capital expenditure for the dividend as a solid capital allocation move by CEO Nassef Sawiris (the same partner we had at TXI), who has generated attractive returns over time through greenfield expansions and financial investments. In addition to eliminating the dividend, several short-term pressures impacted the stock. OCI's Algerian fertilizer plant, Sorfert, had shipments delayed in 2013 after the Algerian government required new export license agreements. As of April 2014, the plant had returned to 100% utilization, and management expects this utilization to continue for the rest of the year. The company also reported weak utilization at its Egyptian plants due to gas curtailments, which we already accounted for in our appraisal.

For the YTD, media company Scripps Networks was the other main detractor, down 6%. The stock sold off in January when rumored acquisition talks with Discovery did not materialize. The company's operations performed well, however, and the stock recovered 7% in the second quarter. U.S. advertising grew 9%, comparing favorably to peers. Management repurchased discounted shares at an 8% annualized pace.

Stock prices continued to run up, especially impacted by real or anticipated merger and acquisition activity. As a result, we are still finding almost no companies that meet our discount requirement. In spite of the elevated market level, we began buying one new qualifier in the quarter. We added to OCI given its price decline and stable appraisal value. Hopewell's intrinsic value grew ahead of its price, allowing us to increase our position. We also added to timber and real estate company Rayonier before it spun off its performance fibers business Rayonier Advanced Materials, which we sold. These transactions brought cash down to 41% at quarter-end, but the subsequent sale of our remaining shares of Texas Industries took cash to 47% while improving the Fund's price-to-value ratio (P/V) to the high-70s%.

As the Fund's largest owners, we prefer not to hold this much cash. We are less comfortable, however, compromising our investment discipline for the sake of being fully invested. We are diligently searching for qualifiers around the world. We should continue to find new opportunities in stock-specific situations and with more market volatility, but finding the eight to nine new holdings that we need to put all the cash to work could take some time without the help of an overall market pullback. In whatever way new purchases emerge, they will drive down both the cash and P/V. We will continue to search for opportunities that meet our criteria but maintain our longstanding discipline.

See following page for important disclosures.

Before investing in any Longleaf Partners Fund, you should carefully consider the Fund's investment objectives, risks, charges, and expenses. For a current Prospectus and Summary Prospectus, which contain this and other important information, visit longleafpartners.com. Please read the Prospectus and Summary Prospectus carefully before investing.

RISKS

The Longleaf Partners Small-Cap Fund is subject to stock market risk, meaning stocks in the Fund may fluctuate in response to developments at individual companies or due to general market and economic conditions. Also, because the Fund generally invest in 15 to 25 companies, share value could fluctuate more than if a greater number of securities were held. Smaller company stocks may be more volatile with less financial resources than those of larger companies.

The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3,000 Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index. An index cannot be invested in directly.

P/V ("price to value") is a calculation that compares the prices of the stocks in a portfolio to Southeastern's appraisal of their intrinsic values. The ratio represents a single data point about a Fund and should not be construed as something more. P/V does not guarantee future results, and we caution investors not to give this calculation undue weight.

As of 6/30/14, the top 10 holdings in Longleaf Partners Small-Cap Fund - Level 3 (8.6%), Graham Holdings (6.9%), OCI (5.9%), Texas Industries (5.7%), Everest Re (5.3%), tw telecom (4.9%), Empire State Realty Trust (4.6%), Vail Resorts (4.3%), Hopewell (4.3%), Scripps Networks (3.7%). Holdings are subject to change and holding discussions are not recommendations to buy or sell any security. Current and future holdings are subject to risk.

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