July 13, 2018

Longleaf Partners International Fund Commentary

2Q18

Longleaf Partners International Fund declined slightly in the quarter, returning -0.06%, but outperformed the MSCI EAFE Index, which lost -1.24%. The Fund's -0.06% return year-to-date (YTD) also exceeded the Index's -2.75%. The Fund had a handful of companies with double-digit gains, but the small aggregate impact of a few detractors and a strong U.S. dollar offset the positive contributors. Currency translation cost the International Fund approximately -3%, reflecting foreign exchange fluctuations rather than challenges to our companies' underlying operations or quality. Companies with large perceived emerging market (EM) and trade related exposure came under pressure in the quarter. The Emerging Market Index fell almost 8% as rising U.S. bond yields, heightened geo-political tensions, weaker EM currencies and increased prospects of a trade war all conspired to create the sell-off in EM equities.

We manage the portfolio without regard to index weights or style categories, and our returns come from the outcomes at our businesses, rather than top-down market sectors. For example, oil prices reached their highest level since 2014, making Energy the only notable positive impact to the Index. The sector rose 11%, while no other

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Average Annual Total Returns (6/30/18): Since Inception (10/26/98): 7.68%, Ten Year: 2.77%, Five Year: 5.71%, One Year: 5.25%.

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.

As reported in the Prospectus dated May 1, 2018, the total expense ratio for the Longleaf Partners International Fund is 1.19% (gross) and 1.15% (net). The expense ratio is subject to fee waiver to the extent normal annual operating expenses exceed 1.15% of average annual net assets.

sector generated more than 1%, and most were negative. The worst performing sector was Financials, down 6%. By contrast, the Fund outperformed the Index with no exposure to Energy and with a positive return for Financials (two insurance related businesses). Additionally, "growth" once again outperformed "value," with an almost 3% difference in just the last three months. Our investment criteria require "growth" and "value" - quality businesses that will grow purchased at material discounts to what they are worth.

The most notable development of the quarter was having more investment qualifiers than cash after two years of higher than average cash levels and limited qualifiers. Cash ended the quarter in the low single digits, down from 13% three months ago and a recent high of 29% in June 2017. As predicted, we found compelling opportunities without an overall market correction. We began to find undervalued high quality companies in the latter part of 2017, as performance dispersion among global share prices widened. New investments ramped up in the first quarter. Over the last three months, we added two additional companies to the portfolio and increased the Fund's stake in some of the more recent purchases. We have a robust on-deck list of prospective investments, and the remaining cash already has been allocated to a new buy order.

Contributors/Detractors

(Q2 Investment return; Q2 Fund contribution)

Hikma Pharmaceuticals (+19%, +1.07%), a multinational generic pharmaceutical company based in the U.K., had a strong quarter and was the largest contributor for the quarter and YTD. The company has three divisions: Branded Generics with products sold primarily in the Middle East and North Africa (MENA), Injectable Generics (U.S., MENA and Europe), and U.S. Oral Generics. The company reported positive results and ongoing cost reductions and reiterated guidance for the year, in spite of challenging pricing pressures across the U.S. Oral Generics industry. Injectables and Branded Generics make up the majority of our value and are strong underlying businesses with high barriers to entry. For decades, Southeastern has found opportunities in this kind of "good segment / bad segment" situation. The short-term focus on lower margin Oral Generics is overshadowing the growing, higher margin Injectables business, as well as the rising demand for Branded Generics in EM. We believe that the aligned and experienced leadership of CEO Siggi Olafsson and

Executive Chairman Said Darwazah, whose family owns 25%, will further grow the company and build value per share. During the quarter, we trimmed our position to reflect the higher price-to-value ratio (P/V) and to fund new purchases.

OCI (+17%, +0.87%), a leading producer of nitrogen fertilizers and natural gas-based chemicals in the U.S., Europe and the Middle East, was one of the largest contributors this quarter. The company refinanced its debt, pushing out maturities and lowering cost. OCI has reached a deleveraging phase, as free cash flow will ramp up materially with the methanol plant now online, the completion of major capital expenditure (capex) projects, and a positive pricing environment. The Iowa plant benefited from fertilizer pricing's "Midwest premium" to New Orleans (NOLA), which CEO Nassef Sawiris indicated is likely to increase, given the logistics of getting product to the Corn Belt. Methanol's 2Q contract prices were strong at $490 (vs. mid-$300s last year). Global demand for both nitrogen and methanol is increasing. The pricing outlook is strong for the foreseeable future with no new capacity coming online in the next 4-5 years and Chinese exports down 80% with the possibility of going away completely, given their cost disadvantage to U.S. natural gas and the Chinese government's shutdown of higher polluting coal plants. In the quarter, OCI tendered for the remaining shares of OCI Partners, the master limited partnership (MLP) that is majority owned by OCI, primarily made up of a single integrated methanol and ammonia facility on the U.S. Gulf coast. OCI sells for well below the replacement cost of its assets. Sawiris is an owner-operator focused on value creation and recognition, as well as optimizing the capital structure and generating significant free cash flow.

C&C (+19%, +0.67%), the Irish cider and beer company, was a strong contributor in a quarter that saw the company make a significant acquisition that improves its route to market in England and Wales. C&C was able to buy Matthew Clark Bibendum, one of the largest distributors in the U.K., at a significant discount to its potential value because C&C was the only buyer able to move quickly in a deal that required fast closure. In addition to the deal, price increases over the last two years and a shift toward higher margin sales helped Scotland perform well, and the competitive environment in Ireland appeared to stabilize. C&C's management has been disciplined on capital allocation, holding back capacity for just such an opportunity while paying a dividend and shrinking the share count opportunistically. Our patience in supporting that approach has been vindicated with this opportunistic deal.

MinebeaMitsumi (-21%, -0.80%), the Japanese manufacturer of high precision equipment and components, was the largest detractor in the quarter. The company's conservative forecast for this financial year ending March 2019 was below investor expectations. In May, a rumor that Apple would adopt OLED screens for all of its iPhones next year further affected Minebea's share price because the company provides LCD backlights for Apple. This rumor was unverified and, we believe, unlikely to be true, given that MinebeaMitsumi recently decided to increase capital expenditures for the backlight business. More importantly, MinebeaMitsumi's entire backlight business accounts for only about 2% of our appraisal, making the size of the stock move unwarranted. Minebea's cash cow ball bearings business remained strong, with volume expected to be up 10% and revenue up 17% this fiscal year. Although optical devices and mechanical parts within the Mitsumi division are having a slow start in the first half of this fiscal year, demand is expected to increase in the second half, and the company has increased capacity by 50% for both sub-segments. Free cash flow generation continued to grow under the leadership of CEO Yoshihisa Kainuma, whose family owns over 6% of the company. Barring any major mergers and acquisitions, MinebeaMitsumi will be in a net cash position within two years. We added to our stake during the quarter after initiating the position earlier in the year

CK Hutchison (-10%, -0.66%), a Hong Kong listed conglomerate of telecommunications, health & beauty retail, infrastructure, global ports, and energy was a detractor in the quarter. Italy's telecom market had more aggressive competitive pricing than expected. Retailer Watson China's comparable store sales growth in Q1 2018 was still slightly negative (-0.5%), despite gradually improving. The British pound and euro weakness impacted CK Hutchison's numerous European assets. Additionally, concerns over a potential trade war between China and the U.S. not only pressured the company's ports business, but also generated broad negative sentiment around Asian stocks. CK Hutchison's well-balanced mix of businesses across the globe means that the short-term challenges facing some segments should not alter the long-term attractiveness of the entire portfolio. Overall, the company expects to deliver strong year-over-year organic earnings growth, partially helped by commodity price recovery. At 5x earnings, the acquisition from VEON of the 50% of the Italian mobile telecom operations that CK currently does not own will further boost earnings and accelerate merger synergies. In May, Victor Li took on the additional role of Chairman from his father, the founder.

Victor has proven his ability to run the business over the last four years, and we expect any market uncertainty about Li Ka-shing's departure to be short-lived.

Portfolio Activity

During the quarter, we added two new, undisclosed investments to the Fund. One of these is a conglomerate with industrial businesses that have been impacted by tariff and trade concerns. The other is a telecommunications (Telco) company, a sector that has been weak around the world. Immediately after the quarter, we started buying a second new Telco.

We added to several holdings that became more discounted relative to the underlying strength of their core businesses. We also took Vestas Wind Systems, which we bought in the first quarter, to a full position. In the first quarter, we purchased Cemex convertible bonds, a small position that we sold in the second quarter, as other more discounted and higher quality opportunities emerged. We exited the Fund's minimal stake in MLog, and we trimmed several more fully valued positions to enable adding to more discounted existing and new companies.

Outlook

The International Fund has become more compelling for long-term investors. The P/V sits in the low-70s%, and we are fully invested in competitively advantaged businesses managed by competent executives. Successful acquisition integration should help produce higher earnings at LafargeHolcim and C&C. Furthermore, at Fairfax Financial, Melco, OCI, Ferrovial and Belmond, we expect under-earning or non-earning assets to contribute substantial additional earnings. Additionally, the values of the wonderful businesses at Hikma, Melco, Ferrovial, Millicom and Minebea are dwarfing their poorer segments that created the misperceptions for us to invest. As the Fund's largest owner, we are encouraged by having more investment qualifiers than liquidity for the first time in a while. We are confident that our companies' increased earnings generation over the next couple of years in combination with the market's more appropriate weighing of our investees' values can yield important excess returns.

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 International 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 invests in 15 to 25 companies, share value could fluctuate more than if a greater number of securities were held. Investing in non-U.S. securities may entail risk due to non-US economic and political developments, exposure to non-US currencies, and different accounting and financial standards. These risks may be higher when investing in emerging markets.

MSCI EAFE Index (Europe, Australia, Far East) is a broad based, unmanaged equity market index designed to measure the equity market performance of 22 developed markets, excluding the US & Canada. An index cannot be invested in directly.

MSCI Emerging Markets Index is a free float-adjusted market capitalization index designed to measure equity market performance of emerging markets. 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.

Capital Expenditure (capex) is the amount spent to acquire or upgrade productive assets in order to increase the capacity or efficiency of a company for more than one accounting period.

Free Cash Flow (FCF) is a measure of a company's ability to generate the cash flow necessary to maintain operations. Generally, it is calculated as operating cash flow minus capital expenditures.

As of June 30, 2018, the top ten holdings for the Longleaf Partners International Fund: EXOR, 8.3%; OCI, 7.0%; CK Hutchison, 7.0%; LafargeHolcim, 6.7%; Hikma Pharmaceuticals, 5.5%; CK Asset, 5.1%; Ferrovial, 4.9%; Baidu, 4.9%; Fairfax, 4.8%; Belmond, 4.7%. Fund 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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