July 13, 2018

Longleaf Partners Fund Commentary

2Q18

Longleaf Partners Fund gained 3.37% in the second quarter, outpacing our annual absolute goal of inflation plus 10% and in line with the S&P 500 Index's 3.43% return. Year-to-date (YTD) the Fund was up 0.67% versus the Index's 2.65%. In the quarter, a combination of six holdings rising double-digits, including several more recent purchases in the last year, and an absence of any significant performance detractors drove returns. We delivered solid performance with less market risk given the Fund's 14% average cash position.

Information Technology (26% of the S&P 500) remained the main driver of the Index, gaining over 7%. Consumer Discretionary (13% of the S&P 500), where Amazon and Netflix reside, was the other major Index contributor. "Growth" once again significantly outperformed "Value," with a 4% difference in just the last three months. We manage the portfolio without regard to index weights or top-down style categories. Our investment criteria require both "growth" and "value" - quality businesses that will grow purchased at material discounts to what they are worth. The Fund's long-term returns will depend on the outcomes of the limited number of companies we own, not on broader market trends.

Average Annual Total Returns (6/30/18): Since Inception (4/8/87): 10.43%, Ten Year: 5.72%, Five Year: 7.59%, One Year: 7.71%.

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 Fund is 0.95%. The expense ratio is subject to fee waiver to the extent a fund's normal annual operating expenses exceed1.50% of average net assets.

Trade war fears were the largest collective pressure on those stocks that declined, including CK Hutchison, CNH Industrial, FedEx, and United Technologies. It is too early to know how tariffs will settle out, but in most cases, even where segments of our companies could be negatively impacted, other parts of the business seem largely immune or have catalysts that could help insulate them.

Stock price volatility and increasing return dispersion produced a growing on-deck list of prospective investments. We did not buy any new companies, nor did we exit any investments. Cash declined slightly to 14%, as we added to two of our newer investments, General Electric and Comcast.

Contributors/Detractors

(Q2 Investment return; Q2 Fund contribution)

CenturyLink (+17%, +1.45%), the global fiber telecommunications company that is the Fund's largest position, was the largest contributor in the quarter and YTD, although the stock still sells for less than half of our appraisal. The merger integration with Level 3 progressed, with synergies realized as planned, cost cutting initiatives at the legacy segments, and a focused reduction in capital spending. Earnings results confirmed management's confidence in maintaining the substantial dividend. CenturyLink (CTL) is viewed more as a traditional landline business akin to overleveraged, lower-quality peers Frontier Communications and Windstream Holdings, but CTL's declining legacy landline business is becoming less relevant to the company's total value, as the mix shifts to the growing Enterprise services fiber segment. For decades, Southeastern has found opportunities in this kind of "good segment / bad segment" situation. CEO Jeff Storey and CFO Sunit Patel are focused on maximizing value in both parts of the business to benefit shareholders.

Mattel (+25%, +1.16%), the toy company, was another large contributor following a strong first quarter. In April, Chairman Ynon Kreiz became CEO. Kreiz arrives with an excellent track record of building and monetizing brands for children and has a strong plan to put Mattel's intellectual property to best use. He has a big opportunity to restore margins by focusing on the company's core brands and rationalizing the supply chain. Sales stabilized following the Toys "R" Us bankruptcy, with Barbie up 24% this quarter in her fifty-ninth year. Rumors of interested buyers continued, and we believe the company is worth significantly more than its current price, with additional upside as Kreiz and his team execute.

Park Hotels & Resorts (+17%, +0.83%), the owned hotel REIT with multiple Hilton brands, also rose double digits, making it a major contributor for the quarter and YTD. The company's Hilton Hawaiian Village, among the most unique and desired hotel properties in the world, put up another solid quarter of revenue and EBITDA growth. A majority of Park's major metropolitan conference hotels performed well. CEO Tom Baltimore shrewdly sold Hilton Berlin for an attractive price and grew value by repurchasing discounted shares.

CNX Resources (+15%, +0.83%), the Appalachian natural gas company, rose again in the second quarter following its notable first quarter gain. At 36% year-over-year (yoy) growth, production came in ahead of expectations. With the majority hedged over the next four years, the stock's outperformance does not require higher natural gas strip pricing. Due to CNX's consolidated accounting following the intelligent purchase of its pipeline's General Partner stake, the company's net debt per share appears higher than the effective debt burden, and many ignore the value of that pipeline stake. Chairman Will Thorndike and CEO Nick Deluliis continued to improve operations and de-risk CNX's balance sheet and production, growing the value of this pure-play gas business.

CK Hutchison (-10%, -0.69%), 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 yoy 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.

CNH Industrial (CNHI) (-13%, -0.49%), the maker of Case and New Holland agriculture equipment (AG), and Iveco trucks (CV), was also a detractor in the quarter. Negative currency translation from the weak euro to the strong U.S. dollar accounted for almost half of the impact. Trade tension between the U.S. and China indirectly affected the stock since China could impose tariffs on U.S. agricultural products, thus hurting farmers who buy AG products. We see this potential threat as less negative than the stock's price move implies. Near term, many farmers may have locked in pricing for the current crop. Longer term, row crop equipment demand in the U.S. is low relative to historical standards, with current demand more tilted to the less discretionary replacement purchases. Because CNHI has balanced its channel inventory, the company is getting positive pricing and product mix. CNHI's $700 million buyback program should allow management to build additional value per share by continuing to repurchase shares in this price pullback.

Portfolio Activity

Trading was relatively quiet during the quarter with no new or exited positions. We trimmed several holdings that performed well in the last six months to manage position sizes relative to the stocks' discounts. We added to GE near its low for the quarter, before the welcome news of the company's plan to separate and/or sell its Healthcare and Energy businesses. We also added to Comcast during the quarter, as the bidding for Twenty-First Century Fox heated up. We expect Comcast's growing, profitable residential and small enterprise broadband to drive value growth at the company, whatever the conclusion to the Fox drama. The shrinking residential video customers are a minimal part of the value and do not impact the formidable broadband and NBCUniversal entertainment assets.

Outlook

The Partners Fund has the potential to deliver above average long-term returns with less risk because the Fund owns good businesses that sell materially below their values. The price-to-value ratio in the high-60s% offers excess return opportunity. Successful acquisition integration should help produce higher earnings at CTL, LafargeHolcim, FedEx, and United Technologies. Furthermore, at CTL, Park Hotels, CNX, Fairfax Financial, Allergan, Alphabet and United Technologies, we expect under-earning or non-earning assets to contribute substantial additional earnings. 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 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. Mid-cap stocks held by the Fund may be more volatile than those of larger companies.

The S&P 500 Index is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. 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.

"Margin of Safety" is a reference to the difference between a stock's market price and Southeastern's calculated appraisal value. It is not a guarantee of investment performance or returns.

EBITDA is a company's earnings before interest, taxes, depreciation and amortization.

REIT is a real estate investment trust.

As of June 30, 2018, the top ten holdings for the Longleaf Partners Fund: CenturyLink, 10.0%; CK Hutchinson, 6.6%; CNX Resources, 6.4%; Mattel, 6.1%; LafargeHolcim, 6.1%; Comcast, 6.0%; FedEx, 5.7%; Fairfax, 4.9%; United Technologies, 4.9%; Park Hotels, 4.7%. Fund holdings are subject to change and holdings discussions are not recommendations to buy or sell any security. Current and future holdings are subject to risk.

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