July 2021

Longleaf Partners International Fund Commentary

2Q21

Longleaf Partners International Fund added 1.19% in the quarter and 8.00% year-to-date, trailing the MSCI EAFE Index's 5.17% and 8.83% for the same periods. US markets continued the monetary liquidity fueled run to ever sillier valuation levels, while non-US lagged relatively. The majority of our holdings were positive in the quarter. The Fund's exposure to China and Hong Kong (including Netherlands-listed Prosus, whose business is driven by the Chinese consumer) was the biggest geographic headwind. FX was a moderate contributor to the Fund, as well as the MSCI EAFE index. Despite relative underperformance, it was a solid period for value per share growth at our holdings.

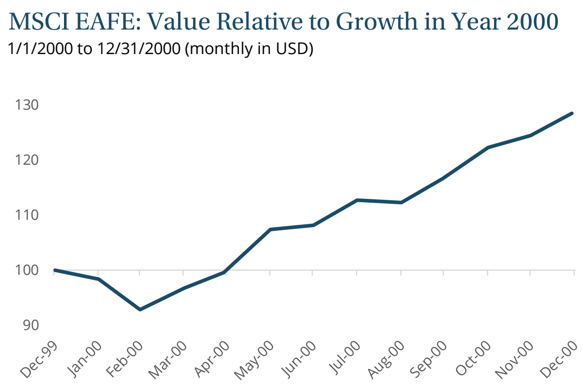
"Value" had a (we believe temporary) pullback vs. "growth" in the second quarter on the back of lower interest rates and various other factors. Over the last year, we have seen interest rate consensus go from "low rates forever" for most of 2020 to "rates are definitely going up" in February/March of 2021 to what now feels like magical goldilocks thinking for growth stocks in the 1-2% US 10-year range. While we cannot predict precisely what rates will do in the near term, we welcome increased volatility on this all-

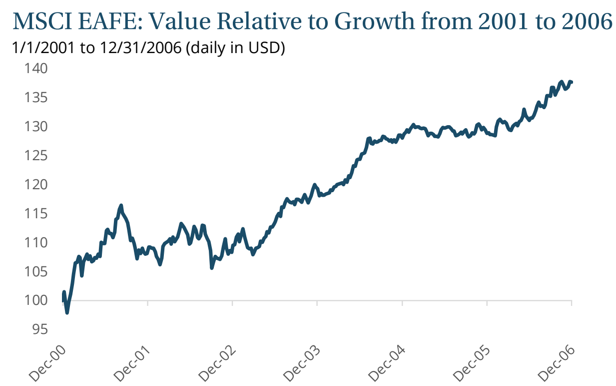
Average Annual Total Returns for the Longleaf Partners International Fund (6/30/21): Since Inception (10/26/98): 7.45%, Ten Year: 4.50%, Five Year: 10.64%, One Year: 34.82%. Average Annual Total Returns for the MSCI EAFE (6/30/21): Since Inception (10/26/98): 5.62%, Ten Year: 5.89%, Five Year: 10.28%, One Year: 32.35%. Average Annual Total Returns for the MSCI EAFE Value (6/30/21): Since Inception (10/26/98): 5.45%, Ten Year: 3.86%, Five Year: 7.81%, One Year: 33.50%.

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 southeasternasset.com. The prospectus expense ratio before waivers is 1.20%. The International Fund's expense ratio is subject to a fee waiver to the extent the Fund's normal operating expenses (excluding interest, taxes, brokerage commissions and extraordinary expenses) exceed 1.15% of average net assets per year.

important valuation input, especially after decades of gradual moves down have made things relatively harder for value-focused public equity investors.

It is also important to remember that, while what matters most will always be our individual holdings, we do not expect value to ever go up in a straight line. The chart below illustrates that point well. It can be easy to forget that, even in the greatest value bull market of our lifetime that started in 2000, there was a several month period after the initial turn in March/April in which growth fought back from similarly absurd relative valuations.



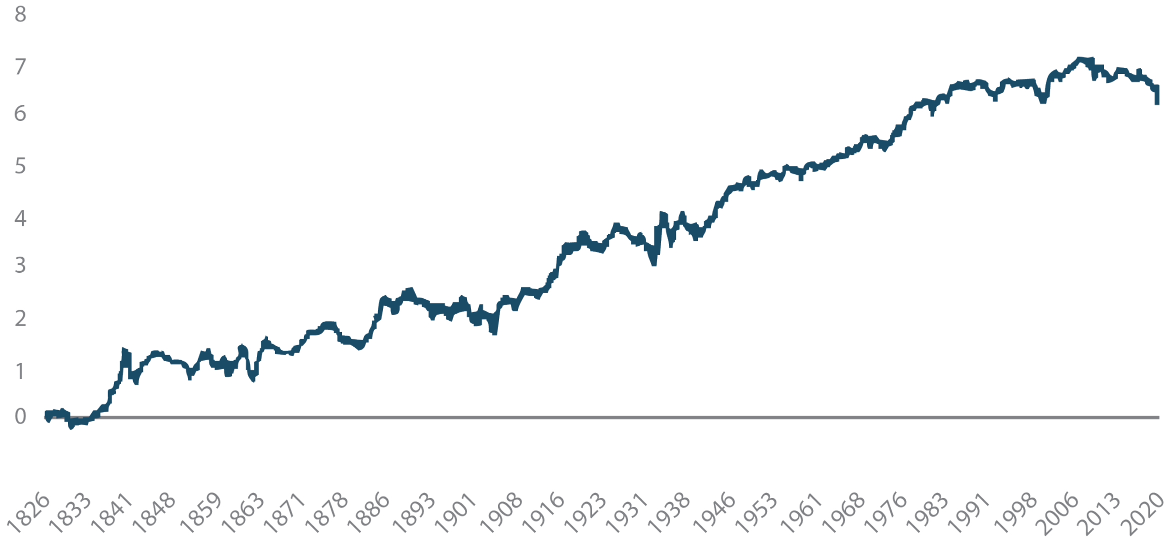


Source: Factset

However, value ultimately prevailed (with even more ups and downs in 2001-02), and the next several years looked like the previous 200 years for value. (Note the chart below is a reprint from our "[Why We Believe Value Will Work Again]" white paper published in December 2020.)

The Value Factor

Cumulative Excess Return of Value vs Growth



Source: TwoCenturies

Last quarter we highlighted Swiss luxury products company Richemont as an example of the kind of superior quality company we have invested in over the last several years. Generally, the highest quality companies trade at deserved rich multiples. As discussed last quarter, occasionally because of local market complexity, broad non-US and/or regional cheapness, and company specific short-term issues, we have an opportunity to invest in such gems. The market began to recognize this in the quarter, and Richemont was the top contributor in the quarter, returning 26%.

Contributors and Detractors

(Q2 Investment Return; Q2 Fund contribution)

Richemont (26%, 1.19%), the Swiss luxury goods company, was the top contributor in the quarter. Richemont's performance was driven primarily by the continued strong demand for luxury branded jewelry, a structural driver with a long runway as unbranded jewelry still accounts for approximately 75% of the total market. The most iconic brands continue to gain share disproportionately, particularly among the newer consumer groups in China and Southeast Asia, and Richemont's Cartier and Van Cleef & Arpels are two of the strongest brands in the market. Richemont reported FY4Q jewelry growth of 62% YOY and, even more impressively, 28% on a 2-year comparison as the jewellery maisons shrugged off COVID and travel restrictions. Demand simply repatriated to domestic markets with Richemont demonstrating a strong ability to rapidly transition supply chains and retail distribution to mainland China in particular. With excellent capital expenditure (capex) and cost control, FCF generation has also been exceptionally strong, with over SFr4 billion of net cash on the balance sheet. This cash has been partially deployed to address YOOX Net-a-Porter (YNAP), which has implicitly been trading at a negative valuation for the past two years. Richemont invested €460 million into a joint venture in China with Farfetch, and into Farfetch itself, with the potential to leverage Farfetch's technology and expertise to develop YNAP into a hybrid wholesale/marketplace model. Aided by the recent IPO of MyTheresa – a pure online luxury wholesale business which currently trades at 3x revenue – Richemont is finally benefitting from a recognition of the true value of the high net worth customers that are cornerstones of the YNAP model.

Domino's Pizza Group (DPG) (15%, 0.75%), the leading UK pizza delivery company, was another top contributor in the quarter. The COVID-19 pandemic was a significant tailwind for DPG's delivery business. However, lockdown dynamics negatively impacted carryout sales, which were ~20% of system revenue pre-pandemic. As the UK and Ireland re-open, DPG is demonstrating that new delivery customers acquired during the lockdown are proving to be sticky. At the same time, re-opening and return to the office dynamics are supporting a carryout recovery, resulting in a double benefit. Strong trends on top of the pandemic-assisted like-for-like sales of a year ago are demonstrating the strength of the business model and the renewed vigor of the system under new CEO Dominic Paul. We expect this strong performance to continue as the company supports and empowers the franchisee base and brings improved technology into play with the newly relaunched app and new analytics capabilities. The company is actively buying back shares on the back of a robust capital allocation policy.

CK Asset (CKA) (17%, 0.55%), the Hong Kong and China real estate company, was also a contributor in the quarter. In March, CKA announced a transaction to buy stakes in infrastructure assets from Li Ka Shing Foundation via scripts and structured a tender offer and buyback plan to offset the dilution. After hearing feedback from various shareholders (including us), CKA decided to increase the tender offer size, which will result in a net share count reduction when fully completed. This transaction was voted through at the EGM with enough shares tendered. The net effect is equivalent to CKA spending HK$17 billion cash for the deal and an additional HK$2.4 billion in buying back shares at HK$51/share. What the market did not expect is that after fully completing the deal, CKA continued on-market share buybacks, on top of additional insider buying. It is not surprising to us because CKA management recognizes that the business is being severely undervalued by the market today. Based on the deal circular, the net asset value (NAV) per share would be over HK$130, if carrying CKA's properties at the market valuation.

Prosus (-12%, -0.71%), a global consumer internet group, was the top detractor in the quarter. There are two key components to Prosus's NAV - its 29% stake in Tencent (which represents the majority of its appraisal) and the global e-commerce portfolio (which includes the food delivery, classifieds, payments and education technology investments). Tencent reported strong results in the first quarter with revenues up 25% and profits up 22% YOY. The online advertising, gaming and cloud businesses all delivered solid topline growth YOY and strengthened their competitiveness. The company also announced its plans to step up investments in cloud, large-scale gaming and short form video, which we believe can help drive higher value growth in the coming years. But its stock price performance was negatively impacted by increasing regulatory headwinds for the entire online platform industry. The global e-commerce portfolio reported strong results with revenues up 54% YOY in FY21 and trading loss margin improving by 11%. This portfolio has been independently valued by Deloitte at $39 billion vs. an investment of $16 billion (inception to date). IRR on these investments is greater than 20%. During the second quarter, Prosus announced the disposal of 2% of its Tencent stake, raising around $14 billion. This will provide the company with greater financial flexibility to invest in this growth ventures portfolio. Despite solid operating performance, the discount to NAV has increased in recent months primarily due to holding company Naspers's (which owns a 73% stake in Prosus) excessive weighting (23%) on the South African Index (SWIX), which causes funds to limit their exposure to Naspers due to single stock ownership limits. To address this issue, Prosus announced a share exchange offer wherein Prosus proposes to acquire a 45.4% stake in Naspers in exchange for newly issued Prosus shares. This will reduce Naspers's weighting on SWIX to 15% without any tax leakage. While this increases complexity by introducing crossholding structure, this is a value-accretive transaction for Prosus shareholders, as we are buying higher discount Naspers shares in exchange for relatively lower discount Prosus shares and addressing the key reason for the NAV discount. Prosus also announced an additional $5 billion share repurchase program alongside this transaction (on top of the $5 billion announced in November 2020). We believe these value accretive steps will lead to narrowing of discount to NAV. Given management's alignment and history of unlocking values, we remain positive on Prosus and added to our position in the quarter.

Melco International (-10%, -0.60%), the Macau casino and resort holding company, was another top detractor in the quarter. The quarterly results (which were largely in-line with expectations) were a non-event because of the travel restrictions in its most important feeder markets, China and Hong Kong. As a result, revenue for the industry is down over 65%, and EBITDA is down almost 90% from pre-COVID levels. During the quarter, a COVID outbreak in parts of neighboring Guangdong province (the most important feeder market) led to tighter travel restrictions being imposed, hurting any signs of recovery after a strong May Golden Week holiday. While the reopening progress has been disappointing, we are confident that the demand is not impaired and Chinese consumers will come back strongly as vaccination rolls out and travel restrictions ease. Macau will be the biggest and the earliest beneficiary of Chinese outbound tourism. Melco International's operating subsidiary Melco Resorts (MLCO) reported property level EBITDA that, adjusting for the luck factor and bad debt provision, has shown a sequential improvement. MLCO continues to outperform the industry in the Macau mass segment with mid-single digit gross gaming revenue (GGR) growth on a quarter-over-quarter basis. In June, Melco International announced its joint venture with Agile to develop and operate a theme park in Zhongshan, Guangdong, contributing US$23 million for the land acquisition and US$28 million for the development costs. Although earnings contribution would be minimal in the near term, we still see value in the project, as this should enhance Melco's brand value in Guangdong and may serve them well on the license renewal front with increasing non-gaming contribution without a significant capital outlay. CEO Lawrence Ho, who has shown strong capital allocation skills during many uncertain times in the past, is well aligned with the shareholders, and we were encouraged to see him buying shares during the quarter. We continue to believe Melco's mid-to-long-term growth prospect is intact, and it will emerge stronger post-COVID given Lawrence Ho and his team's strong execution and the company's leading position in the premium mass segment. We took advantage of the price discount to add to our position in the quarter.

Portfolio Activity

We exited one position in the quarter in Becle, a leading manufacturer of tequila and whiskeys based in Mexico. Like Richemont, Becle sits in our top category of business quality rank. We did not sell it lightly, but when the share moved above our top end of the valuation range, we exited the small remaining position. The holding period return was 87% in under three years. We trimmed Richemont after its strong quarter took the position to an overweight. Likewise, we trimmed Fairfax on the back of good performance. We added opportunistically to more heavily discounted Lanxess, Alibaba, Millicom, Prosus and Melco. We also initiated two new positions, which will be discussed in more detail in future letters, as both positions are still in process of being filled out. The portfolio ended the quarter at 8% cash, and the Fund would essentially be fully invested if prices cooperate so both new positions can scale to a full weight. The on-deck list remains healthy, and global research productivity is high, reflecting the opportunity set.

Outlook

Our outlook on the stock market and our portfolio is not dramatically different than it was the last time we wrote to you. Our confidence in the specific company opportunities in our portfolio has only grown, as our businesses made solid progress in the quarter, and we believe the Fund is more attractively positioned - qualitatively and quantitatively - than both the market and the average "value" strategy. We believe the recent pullback in value's performance of the last month or so is a temporary blip, and that the strong performance that began in the second half of 2020 marks a longer-term reversion to the mean for value vs. growth.

Non-US markets continue to have more opportunities and a healthy on-deck list. Cash has increased slightly in the quarter, mostly due to timing, not a reflection on opportunity set. We are finding much to be excited about in China, Hong Kong and increasingly, India. Europe remains a target-rich environment. While not broadly as cheap from a top-down level as sometimes in the recent past, Europe broadly remains highly inefficient in our view, providing ample idiosyncratic opportunities for our style of investing.

We wrote in our 4Q20 letter about the work we have done to formalize the way we incorporate environmental, social and governance (ESG) issues within our firm and our investment process in the last several years. We are excited to share our first Annual ESG Report, which highlights some of the progress we have made and the work we are doing to keep improving in this area. In addition to our annual ESG report, we will be sharing a semi-annual portfolio carbon footprint report and will continue to discuss our engagement efforts with our management partners on these important issues in our quarterly letters and the Price-to-Value Podcast.

Speaking of podcasts, we thought it would be good to close with a recent interview that our Vice-Chairman Staley Cates did with Bob Huebscher of Advisor Perspectives. It is a great summary of what we are all about at Southeastern and why we remain very excited about our future.

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 southeasternasset.com/account-resources 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.

The MSCI EAFE Value Index captures large and mid-cap securities exhibiting overall value style characteristics across Developed Markets countries around the world, excluding the US and Canada. 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.

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.

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

Internal rate of return (IRR) is the interest rate at which the net present value of all the cash flows from an investment equal zero.

Price / Earnings (P/E) is the ratio of a company's share price compared to its earnings per share.

As of June 30, 2021, the top ten holdings for the Longleaf Partners International Fund: EXOR, 7.8%; Melco International, 6.2%; Glanbia, 5.8%; Domino's Pizza Group (UK), 5.4%; Prosus, *5.1%; Richemont, 5.0%; Fairfax, 4.7%; Lazard, 4.6%; Lanxess, 4.6%; and Accor, 4.5%. 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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