

July 2026

Longleaf Partners Small-Cap Fund 2Q26 Commentary

Longleaf/
Partners
Funds

Fund Characteristics

P/V Ratio	Mid-50s%
Cash	11.7%
# of Holdings	16

All data as of June 30, 2026

	Annualized Total Return						
	2Q (%)	YTD (%)	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)	Since Inception (%)
Small-Cap Fund	-2.47	-5.12	-2.10	7.56	1.17	5.30	9.40
Russell 2000	21.49	22.57	40.78	18.60	6.98	11.62	9.79
Russell 2000 Value	17.19	22.99	43.01	18.73	8.23	10.89	10.45

The 90 days since our first quarter letter distilled the last four quarters into an even more speculative period. We are grateful for patient clients like you who have stuck with us through the past year. Our investments are now more attractive on both P/V and P/FCF metrics, while the market winners have gone still higher beyond their fair values. We believe that our absolute and relative returns have been deferred, not foregone, with considerably less risk going forward. We will focus most of this letter on what we own, but we first need to talk about the overall market. It has gotten to the point where we are having to weather irrational, short-term impacts on the stock prices of some of our current holdings. As we said [recently](#), now is not the time to chase what has worked, but rather it is the time to go on record that things have gotten crazy.

We, along with our concentrated value peers who are trailing the market (as we discussed in our most recent [Research Perspectives](#)), have increasingly been asked if

Inception date 2/21/1989. 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 1.04%. The Small-Cap Fund's expense ratio is subject to a contractual fee waiver to the extent the Fund's normal operating expenses (excluding interest, taxes, brokerage commissions and extraordinary expenses) exceed 0.95% of average net assets per year. This agreement is in effect through at least April 30, 2027, and may not be terminated before that date without Board approval.

active investing is worth doing anymore in small cap equities. While we are comforted that we were hearing the opposite of that question in the first half of 2025 and for many years before that, it is true that the strong performance of the index over the last 12 months has been unique and is not easily defined. The Russell 2000's performance in the quarter came from Information Technology (IT) (36% of return), Industrials (21%), Healthcare (19%) and Financials (13%). Healthcare saw unprofitable biotech companies do well as big pharma shook off its caution from last year to start catching up on overpaying for growth. You have heard us mention periods like this before and how this part of the market is in our "too hard box," which lines up with underwhelming long-term returns for this small cap sector. Financials that started the quarter fairly valued (especially quality banks, which were generally trading over 1.5x tangible book value) followed along with the prevailing market winds as they usually do.

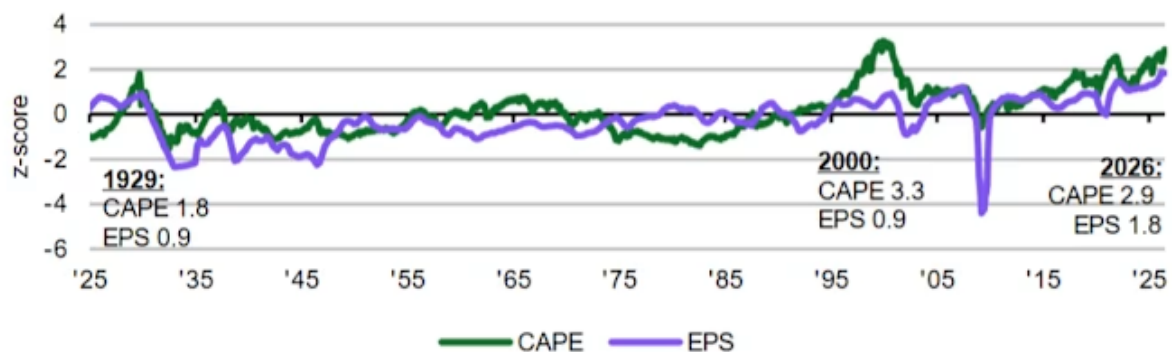
What happened in small cap IT and Industrials was rarer, however. Industrials saw their P/E multiples move up 10-15% over the quarter, which is a very large move driven by perceived AI-winners. In any other quarter, this would be the lead story. In this quarter, however, we had the Russell 2000 IT sector's P/E multiple increase over 25%, which was topped by the Russell 2000 Value IT P/E multiple going up over 40%. Let that sink in. This is a speculative market, not a fundamentally driven weighing machine. One example worth pointing out is the growth in on/off swings in the small cap market. An average year for us will see 5-10 days when we are +/- 150 basis points vs. the index on the day. We had eleven of those days in the second quarter alone (and 21 of those days in the first half of the year), with an unusual bias to the negative. Things will turn in our favor and could do so rapidly, but this market environment led to a painful relative period in the meantime. We also had one of the bigger large cap sentiment indicators – the SpaceX IPO – play an important role in our only material small cap detractor (Liberty Capital, formerly known as GCI Liberty), which we will discuss later.

A big picture question we have been asked, as a version of the active/passive debate, is if mean reversion will no longer exist in both business and the stock market. Our answer remains no, but this has been a very long period that has tested us. Brief shocks in 2020 (COVID), 2022 (interest rates) and 2025/26 (Liberation Day/Iran War) have been overcome by free money in the early 2020s, then ChatGPT in late 2022 kicking off an AI boom, then Trump changes more recently. Thus, the market has climbed multiple walls of worry like it did before previous speculative peaks. Importantly, we have noticed more signs that recent market winners have entered a new phase when they are both looking for ways to get off this runaway train while implicitly acknowledging that they are running low on places to conquer. For example, Microsoft is showing signs of regret (also driven

by self-interest) that it legitimized OpenAI when it had the chance to do the opposite, as this extraordinary outreach to the Wall St. Journal (WSJ) [showed](#). Other mega caps and investors are choosing the Citigroup-in-2007 “as long as the music is playing, you’ve got to get up and dance” route to blasting money into AI, but this is only delaying the rush to a more crowded exit. For markets themselves, we saw another telling moment when secretive and highly profitable quant firm Jane Street decided to also proactively reach out to the [WSJ](#), which suggests to us that it is running out of places to keep growing profits. These factors and others combine for dangerous market structure dynamics. [We](#) and [others](#) have been early pointing out the bubbling instability that is lurking, which likely means that the pressure is building up further before something dramatic happens. Politicians and regulators will be late to this party as usual, but when they join it, government influence will be more restrictive going forward than the current laissez faire approach in the USA.

We have shared a version of the chart below [before](#) and do not like repeating ourselves, but it is worth presenting the data in a different and longer-term form to highlight again [how dangerous markets have become](#):

This time, both earnings and prices are in a bubble



Source: Panmure Liberum, Shiller Data, Bloomberg

The Cyclically Adjusted Price / Earnings (CAPE) multiple above is not perfect, and we acknowledge that earnings and prices are not necessarily normally distributed. However, this is the first time in history that both earnings and the multiple on them have gotten so far disconnected from their long run averages. For market participants who own broad indices and/or thematic ETFs and care most about market-weighted multiples, this has been a good thing. But they now have multiple ways to lose on both multiples and earnings going back to more sensible levels (much less long run averages). At

Southeastern, we concentrate our portfolios and therefore care more about the median, unweighted multiples of broader parts of the market (which are more compelling than the above). This means that we can win from 1) FCF per share growth even if the broader economy turns down; 2) multiples that actually have room to increase; 3) strategic actions that realize our values.

In our last quarterly note, we talked about an unusually large gap between quarterly price and value performance for certain names that we own. It was good to see progress on that front this quarter. We also alluded to more engagement in our last letter and have seen results there as well. The main example we were able to call out then was Tripadvisor, where the new focus brought by the improved board led to an announced asset sale that puts the company on offense and +29% stock price performance since we last wrote to you. While we did not lead the charge on the recent positive changes at Partners and Global Fund holding Fortune Brands (thank you Ed and Arkin at Garden Investments), we did engage behind the scenes in a way that was helpful to all involved as the company worked to get back on track and ended the quarter with a great new CEO hire. We also released a public letter to Mattel in the quarter after our initial engagement efforts did not yield enough results. Things have gone well with our engagement since then even if it has not shown up yet in the stock price. There remain ongoing efforts at other investees as well. Another positive trend is that our partners have been getting frustrated with their own low valuations and taking matters into their own hands (positive moves at Partners and Global Fund holding People Inc./MGM and Empire State Realty Trust, among others) or having something done to them to realize value (the bidding war that burst out for Global Fund holding Delivery Hero). All to say that we have multiple ways to win throughout the portfolio, and we are working alongside our management partners to accelerate these wins.

Notable Contributors & Detractors

Tripadvisor – Digital experiences, dining and travel company Tripadvisor contributed in the quarter. As mentioned above, the main news in the quarter was that the company announced the sale of its TheFork business to American Express. The price was well above depressed market expectations and closer to our opinion of fair value. The closing of the deal will put the company into a strong net cash position and open up additional strategic options from a position of strength. No matter what happens strategically, Tripadvisor can grow its own FCF per share more than the market expects as its growing Viator business crosses over its shrinking Tripadvisor business.

Atlanta Braves Holdings – The owner of the Atlanta Braves baseball team and surrounding real estate was a contributor during the quarter. The highlight during the quarter was the sale of the Padres baseball team for a revenue multiple that implies a much higher value than what the market is ascribing to the Braves, and that is before considering the characteristics that we think make the Braves a better asset. Former Braves owner Ted Turner passed away during the quarter. The market reacted positively to this news as Braves controlling owner John Malone had previously said he would not sell the team while Ted was alive. Operations at “The Battery,” their real estate development, remain strong, and the team is off to a good start this season with one of the best records in the league.

Alexander’s and Empire State Realty Trust – New York real estate companies Alexander’s and Empire State Realty Trust both contributed in the quarter. Alexander’s was the bigger contributor, as the company closed the previously announced asset sale of a non-core property while signing a lease with Target to get its key shopping center in Queens fully-leased. It is getting harder for the market to ignore the steady FCF power and strong balance sheet of this company. Empire State also contributed but on a lesser scale in the quarter as the company closed a great asset sale itself that implies a value for the rest of its business that is over 2x the current share price. Both companies are on offense and able to continue closing their price to value gaps.

Liberty Capital Corp – Alaskan cable company GCI Liberty was a detractor during the quarter. The company has recently changed its name to Liberty Capital Corp to signify their goal to transform into an owner of assets beyond their core business in Alaska. Prior to this move, GCI made a smart acquisition of Quintillion at a good price for an asset that will strengthen their Alaskan network. We trimmed our holding earlier in the quarter when the stock was trading well in the wake of the news. The stock was hit later in the quarter as they announced a deal to acquire a voting interest in Liberty Latin America from a private equity firm and John Malone, with the goal of eventually obtaining control. The market did not like this decision, and we did not either. To their credit (and with engagement from us), management quickly rectified it by having Malone purchase at cost all the shares they had acquired. We expect that the company will further distance itself from this episode as the year goes on, but its impact lingered in the quarter. Negative overall sentiment for the broadband industry, fueled by SpaceX going public and making outlandish claims, has also continued to weigh on the stock. This sentiment fails to take into account the company’s strong balance sheet and a more favorable competitive environment in Alaska compared to the Lower 48, along with free upside for a stronger Alaskan economy if the long-discussed LNG project (which 2/3rds

to 3/4ths of Alaskans want) comes to fruition. At less than 4x EBITDA, we believe share repurchase is an intelligent use of capital and something that will take place as FCF rolls in during Q4 as their multi-year capital plan winds down. We added to our position later in the quarter and were encouraged to see CEO Ron Duncan purchase shares personally.

Boston Beer – Alcoholic beverage company Boston Beer was a detractor for the quarter as the market continues to react to mixed short-term industry data. The company reported a decent quarter that showed continued progress on gross margins. They were one of the few companies in the industry that gained share in shelf resets this past year as Sun Cruiser is now making its way into large chains. Boston Beer has one of the best innovation track records in the industry, and their pace of new product launches has recently picked up. We believe these will help contribute to ultimately returning the company to growth as they overcome declines at Truly. Their innovation track record and industry-leading salesforce remain very attractive to any potential strategic acquirors. In the meantime, the company continues to repurchase a meaningful amount of stock at value accretive prices.

CNX Resources – After contributing in the first quarter, natural gas company CNX Resources detracted in the second quarter. The company reported another solid quarter and continues to focus on steadily growing FCF per share and value per share. While it was mildly disappointing that CNX did not get a fuller runup earlier in the year like some of its less conservatively financed energy stock peers yet still traded off this quarter, we take comfort knowing that the company has been one of our best share repurchasers over the last several years. This means that stock pullbacks are buying opportunities for the company and for us. We had trimmed our position when energy stocks were riding highest in the wake of the Iran War, but we added back to CNX at better prices recently.

Portfolio Activity

We did not have any new purchases or exits in the portfolio during the quarter. This is not too surprising given the unique market dynamics we discussed above. That said, the on-deck list remains solid, and we expect to put our cash to work when the market shifts.

Outlook

We hope you can sense how our level of disappointment with our trailing 12-month relative performance is outweighed by our conviction in our portfolio going forward. We

remain consistent with our disciplined Business, People, Price approach rather than chasing overpriced speculation. We thank you again for your partnership through both favorable and challenging environments.

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 <https://regdocs.blugiant.com/longleaf/#>. Please read the Prospectus and Summary Prospectus carefully before investing.

RISKS

The Longleaf 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 invests 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 2000 smallest companies in the Russell 3000 Index. The Russell 3000 represents approximately 97% of the American public equity market and the Russell 2000 represents 10% of the Russell 3000. An index is unmanaged, does not reflect the deduction of fees or expenses, and 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.

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.

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

Enterprise value (EV) is a company's market capitalization plus debt, minority interest and preferred shares, and less total cash and cash equivalents.

PE multiple is a financial metric that frames a company's current stock price in terms of the company's earnings per share.

REIT is a Real Estate Investment Trust which is a company that owns, operates, or finances income-producing real estate.

A Basis Point is one hundredth of one percent.

Mergers and Acquisitions (M&A) are business transactions in which the ownership of a company, business organization, or one of their operating units is transferred to or consolidated with another entity.

As of June 30, 2026, the top ten holdings for the Longleaf Partners Small-Cap Fund: Becele S.A.B. de C.V. 7.8%; Rayonier, Inc. 7.7%; Empire State Realty Trust, Inc. 7.3%; Mattel, Inc. 7.0%; Liberty Capital Corporation 6.7%; CNX Resources Corporation 6.1%; Shenandoah Telecommunications Company 6.1%; White Mountains Insurance Group Ltd. 4.9%; Atlanta Braves Holdings, Inc. 4.9%; and TripAdvisor, Inc. 4.8%. 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.

Funds distributed by ALPS Distributors, Inc.

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