

July 2022

# Longleaf Partners Small-Cap Fund Commentary 2Q22

Longleaf Partners  
Funds

## Fund Characteristics

P/V Ratio	Low-50s%
Cash	4.30%
# of Holdings	20

	Annualized Total Return						
	2Q (%)	YTD (%)	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)	Since Inception* (%)
Small-Cap Fund	-15.66	-15.02	-17.03	2.52	2.71	8.03	9.78
Russell 2000	-17.20	-23.43	-25.20	4.21	5.17	9.35	8.96
Russell 2000 Value	-15.28	-17.31	-16.28	6.18	4.89	9.05	9.87

\*Inception date 2/21/1989

Longleaf Partners Small-Cap Fund declined 15.66% in the second quarter, outperforming the Russell 2000 Index, which declined 17.20%, and roughly in line with the Russell 2000 Value. We saw two primary categories of companies that negatively impacted absolute returns – Real Estate businesses that are temporarily being hit with rising interest rates and a more challenging economy, and tech-adjacent companies that we bought (with hindsight, too early) within the last year as venture capital-superstar growth companies fell from grace. While newer positions Vimeo and Oscar were the Fund's top two detractors in the quarter, the Fund's underweight to

*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](http://southeasternasset.com). As reported in the May 1, 2022 prospectus, the total expense ratio for the Small-Cap Fund is 0.97%. Southeastern has contractually committed to limit operating expenses (excluding interest, taxes, brokerage commissions and extraordinary expenses) to 0.95% of average net assets per year. This agreement is in effect through at least April 30, 2023 and may not be terminated before that date without Board approval.*

Information Technology and better stock performance within the Consumer Discretionary and Communication Services sectors more than drove the Fund's relative outperformance in the period.

We have seen a bifurcation of value investing approaches – with investors “paying up for quality” on one side of the spectrum and on the other extreme, what we would call a “Value ETF” that pays low multiples without regard to quality. The former worked very well over the last decade, and we missed out on opportunities by not lowering our discount rates or “paying up” in the past, but this has been a painful place to be year to date in 2022. The latter approach has driven value's relative outperformance this year, led by energy and banks – great places to be in the near term, as commodity prices rallied, the Federal Reserve raised interest rates and anything that had perceived stability hung in well. We view this as the first wave of a value rebound with the simplest, statistically cheapest and least volatile outperforming first. However, we question whether undifferentiated banks and energy companies can sustain relative outperformance over the longer term. We believe the second, longer-term wave of value outperformance will come from our style of value investing, which falls somewhere in between these two extremes. We remain focused on business and people quality but also recognize that price matters, especially in an environment like today. We are finding opportunity (though we have so far proven to be early) in high quality businesses with favorable industry dynamics that have innate complexity and/or are misunderstood in the near term.

We encourage you to watch our [video](#) with Portfolio Managers Ross Glotzbach and Staley Cates for a more detailed review of the quarter.

## Contribution To Return

### 2Q Top Five

Company Name	Total Return (%)	Contribution to Return (%)	Portfolio Weight (%) (6/30/22)
White Mountains	10	0.54	6.8
Mattel	1	-0.02	6.6
Ingles	-2	-0.02	0.9
RenaissanceRe	-1	-0.06	4.2
Lumen	-1	-0.07	14.4

### 2Q Bottom Five

Company Name	Total Return (%)	Contribution to Return (%)	Portfolio Weight (%) (6/30/22)
Oscar	-57	-3.60	3.2
Vimeo	-49	-2.17	2.7
Anywhere (formerly Realogy)	-37	-2.12	4.4
Empire State Realty	-28	-1.56	4.7
CNX Resources	-21	-1.02	4.6

*Holdings are subject to change. Past performance does not guarantee future results.*

**White Mountains** – Newly purchased in 4Q21 insurance conglomerate White Mountains was the top contributor in the quarter. We have known this company for decades, and they proved their ability to deliver value in the quarter by selling NSM Insurance Group for a great price (\$1.775 billion) to private equity company Carlyle. This move gives White Mountains a lot of financial firepower to go on offense at a great time and makes the leverage-adjusted price-to-value even more attractive than when we first bought shares, meaning the company still has significant upside from here.

**Oscar Health** - US health insurance and software platform Oscar Health, a new position purchased in 4Q21, declined alongside most tech-related businesses in the quarter. The market is not recognizing the meaningful value of its managed care plan members and is instead focusing on near-term EBITDA declines driven by the company rapidly growing its health insurance and software businesses. Our management partners are aligned and have a track record of adding value for shareholders.

**Vimeo** – Digital software company Vimeo is another newer tech-related holding that declined in the quarter. The company continues to be misunderstood as a consumer company, when actually a large portion of the value and the growth comes from its shift to being more of an enterprise company doing business with larger customers. However, this transition has taken longer than expected, and the COVID boost of the

last year created difficult comps. While we believe having Joey Levin of IAC and other aligned shareholders on the board is a benefit, our value has declined since our initial purchase, and we did not add in the quarter.

**Anywhere (previously Realogy)** – Real estate brokerage franchisor Anywhere declined amid concerns over the housing market and spiking mortgage rates, in a sharp reversal from the last year. However, Anywhere is better positioned as a franchisor with franchised fees tied to home price appreciation, which should continue over the long-term. Multi-year demand fundamentals for the industry are strong with millennial home buying set to increase over the next decade. We also expect capital allocation to be another tailwind as the company is in a position to be on offense.

**Empire State Realty** – New York commercial real estate and tourism company Empire State Realty Trust (ESRT) also declined with real estate broadly, even though it is not a direct pure play on commercial real estate, given its Observatory business, whose economics are more similar to a Disney World-type theme park. The Observatory will continue to come back as post-COVID travel resumes. CEO Tony Malkin and team are focused on driving value realization by monetizing assets and continuing the share repurchase program.

### Portfolio Activity

We have taken advantage of the market volatility this year to purchase a SPAC called Riverview Acquisition Corp (RVAC), which will ultimately be Westrock Coffee. While we have written extensively about the craziness of the SPAC world, this is a unique opportunity to partner with fantastic people and own a high-quality business trading at a discount. We have successfully partnered previously with chairman Brad Martin (former CEO of Saks Fifth Avenue) and Founder and CEO Scott Ford (former CEO of Alltel), both of whom have fantastic track records of value creation. Westrock is “the brand behind the brand”, distributing coffee to larger entities while building its extract and flavoring business that is highly valuable and growing.

### Outlook

The Small-Cap Fund is fully invested with 4% cash, and our on-deck list is growing longer amid market volatility. New investments have a high hurdle to qualify given our conviction in our current holdings and the steep discount of the portfolio, which trades at a rare and attractively discounted price-to-value (P/V) in the low-50s%. We expect to see continued progress in our individual holdings, as our management partners pursue catalysts that could drive significant near-term payoffs. We own companies that

have pricing power, strong balance sheets and clear paths to organic growth, and we are partnered with aligned management teams that are proactively taking steps to add value in ways they can control and close the (near historically wide) value gap. We believe that our largest macro headwinds over the last decade could soon become tailwinds.

*See following page for important disclosures.*

**Data and discussion is as of June 30, 2022**

**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://southeasternasset.com/account-resources>. 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 2,000 smallest companies in the Russell 3,000 Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index. The Russell 2000 Value index is drawn from the constituents of the Russell 2000 based on book-to-price (B/P) ratio. An index cannot be invested in directly.*

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

*A SPAC is a special purpose acquisition company. SPACs are formed strictly to raise capital through an initial public offering for the purpose of acquiring or merging with an existing company.*

*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*

*As of June 30, 2022, the top ten holdings for the Longleaf Partners Small-Cap Fund: Lumen, 14.4%; White Mountains, 6.8%; Mattel, 6.6%; Liberty Braves Group, 5.2%; Eastman Kodak, 5.2%; Graham Holdings, 4.9%; GRUMA, 4.8%; Madison Square Garden Sports, 4.8%; Empire State Realty, 4.7% and CNX Resources, 4.6%. 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.*