Global Fund Management Discussion

Longleaf Partners Global Fund gained 14.3% for the third quarter, bringing the return since the Fund opened at the beginning of the year to 17.6%. These results outpaced the MSCI World Index returns of 8.2% and 17.3% for the same periods.

Cumulative Returns at September 30, 2013

	Since Inception	YTD	3Q
Global Fund (Inception 12/27/12)	**17.60%**	**17.60%**	**14.29%**
MSCI World Index	17.49	17.29	8.18

See page 28 for additional performance information.

German-based construction and engineering firm Hochtief gained 34% in the quarter and 60% year-to-date (YTD), making it the largest contributor for both periods. Since CEO Marcelino Fernandez Verdes took over late last year, the company has sold its airport assets and services business at prices above our carrying value, repurchased 10% of shares, and opportunistically bought an additional 3% of Leighton at a steep discount to value. Management has embarked on a turnaround of the European construction business and improved risk controls at its 55%-owned Leighton subsidiary, which should lead to improved margins and free cash flow in both of these segments. Hochtief is working to sell its non-core real estate assets to complete its transformation into one of the world's leading infrastructure construction firms.

Several other companies led performance over the last three months and in the YTD. Chesapeake Energy gained 27% in the quarter and 33% YTD. Together with new CEO Doug Lawler, the board that we helped seat last June is instilling financial and operating discipline into the company. Over the last sixteen months, the company has reduced SG&A by 20%, sold and announced sales of over $10 billion in non-core assets, decreased 2013 capex by a projected 46%, and promised to live within its cash flow in 2014. Exor, the Agnelli family holding company run by John Elkann, also contributed to the quarter and YTD, rising 27% and 41% respectively. Elkann's sale of SGS Testing created and realized substantial value by striking a deal above our appraisal value. The company also bought back shares to take advantage of the market price discount. Macau gaming company Melco International added 44% in the third quarter and 122% YTD. Double-digit visitation increases from Mainland China drove industry gross gaming revenue growth to the high-teens/low 20% range. Margins at the company rose as the more profitable mass market business grew faster than the VIP business (where margins are much lower because revenues are shared with junket operators). The company is exploring opportunities in new gaming markets and earlier this year completed an IPO of its Philippine business. The value of the company grew, and we added to our position in the quarter.

Level 3 was a primary contributor to third quarter results, adding 27%. Since taking over as CEO in April, Jeff Storey has implemented the necessary steps to grow top line and increase cash flow by reducing costs and focusing on higher margin enterprise customers. Even with meaningful recent stock gains, the company remains among our most discounted names.

Over the last three months, two holdings declined slightly, though both were positive performers YTD. DIRECTV slipped 3% in the quarter on increased subscriber churn amidst a challenged Brazilian economy. DIRECTV Latin America remains well positioned to benefit from rising pay-TV penetration in the region, and the mature U.S. business continues to generate higher ARPU (average revenue per user). Malaysian gaming company Genting also was off 3%. Genting's

Singapore casino operations had limited local visitor growth. Our appraisal of Genting was unaffected.

UK-based Guinness Peat was the sole detractor YTD, down 5%, though it rose in the quarter with strong performance at subsidiary Coats, the world's leading industrial thread and textile crafts business. Guinness Peat has sold all of its investments and now holds cash and Coats. Management is waiting to return excess capital to shareholders following the conclusion of the UK pension regulator's ruling to determine if legacy pension plans will need additional capital.

We sold Murphy USA, the retail station operation that was spun out of Murphy Oil. We initiated one position, OCI, and we added to several existing holdings, making progress in getting the Fund invested. Net cash is now at 23%, and following the strong quarter, the P/V is in the low-70s%. We have identified some interesting opportunities, mostly outside of the U.S., but their prices are currently above levels that our discount discipline allows. We will wait patiently for individual share movement or general market volatility to buy businesses that meet our qualitative and quantitative criteria.

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