

International Fund Management Discussion

Longleaf Partners International Fund gained 13.0% for the third quarter and 19.9% year-to-date (YTD), outpacing the EAFE Index's 11.6% and 16.1% returns for the same periods, and far surpassing of our annual absolute return goal of inflation plus 10%. Over the last year, the Fund was up almost 30%. Since inception almost 15 years ago, the International Fund has returned more than two-and-one-half times the Index.

Cumulative Returns at September 30, 2013

	Since Inception	Ten Year	Five Year	One Year	YTD	3Q
International Fund (Inception 10/26/98)	266.65%	82.06%	32.56%	29.83%	19.87%	12.95%
EAFE Index	101.11	116.07	36.06	23.77	16.14	11.56

See page 20 for additional performance information.

Macau gaming company Melco International was the largest contributor in the third quarter and YTD, up 42% and 132% respectively. 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.

German-based construction and engineering firm Hochtief rose 34% in the quarter and 53% YTD, making it the second 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. ACS, the Spanish-based global construction and engineering company that owns 52.5% of Hochtief, also appreciated with the positive news, adding 28% in the third quarter and 34% YTD.

Our Dell options position, which we closed out, gained 38% YTD. Michael Dell put his personal gain above other shareholders' interests and eventually won approval of a management buyout well below the value of Dell's free cash flow and assets. We recognized our errors in assessing Michael Dell as a partner, but we believed that fighting for our clients' interests against the first MBO in our 38 year history would generate a better outcome than his initial offer, and it did. Our collective opposition with other institutional owners forced the board to postpone the vote three times to avoid defeat, change the record date, alter voting rules, and secure a higher offer to gain approval of the deal. Southeastern infrequently becomes an activist, but when we do, we cover all expenses incurred out of our own pockets – not the Longleaf Funds' assets. Importantly, fighting for shareholders usually has delivered a superior result.

The Fund's position in Brazilian oil and gas exploration company HRT was minimal, but the stock was among the few decliners over the last three months and YTD. Shares fell in the quarter following unsuccessful drilling results in Namibia. Over the last year, we worked to

improve governance via new board members and a management change. The company is exploring all options to extract the remaining value, but given the time it will take and the inconsequential impact it would have on the Fund's results, we sold the position subsequent to quarter-end. Brazilian iron ore company Manabi's stock moved little in the quarter, but remained a YTD detractor after we lowered our carrying value in the second quarter. The price change reflected a variety of external factors but did not indicate any fundamental changes to our investment case. Manabi's Tier One assets have a concentration of the highest quality iron ore, and management is making progress in securing the necessary infrastructure to bring this iron ore to market.

Despite the run-up in the market, we were able to buy one new position, OCI. We filled out our News Corp position and added to TNT Express and UGL, all of which we initiated earlier in the year. We increased our Vodafone position after CEO Vittorio Colao announced the company would sell its 45% stake in Verizon Wireless to Verizon for \$130 billion in cash and stock and return much of the proceeds to shareholders. Through a swap, we hedged out the Verizon shares we would own in the deal and gained larger exposure to Vodafone. We also added to Exor, the Agnelli family holding company run by John Elkann. Exor, which owns 27% of CNH (previously named Fiat Industrial), was a more discounted way to own this global agriculture equipment company. During the quarter, through Vodafone's sale of Verizon Wireless and Exor's sale of SGS Testing, our management partners created and realized substantial value by striking deals well above our appraisal values.

In addition to closing out the Dell options, we fully exited Nidec when the stock approached our appraisal after a major restructuring helped the company achieve sales and margin targets. We sold our Cemex convertible bonds as they appreciated significantly. We trimmed some of our stronger performers during the quarter, including ACS, Hochtief, and Philips.

The strong quarter increased the Fund's P/V to the low-70s%. While the market appreciation has

made it harder to find new qualifying ideas, macro factors, such as low economic expectations in Europe and concern over a hard landing in China, have created some discounts. We have identified several interesting investment opportunities but are maintaining our discount discipline as we patiently wait for prices to cooperate.

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