For Professional Investors Only

Longleaf Partners Asia Pacific UCITS Fund Commentary

During the third quarter of 2015, the Asia Pacific Fund's performance suffered from dramatic volatility in the Asian capital markets, resulting in a negative 15.98% return for the quarter. A collapse in the China A-share market, coupled with an unexpected RMB devaluation, created a ripple effect of fear and contagion across Asian markets. The negative sentiment against China and commodities broadly impacted most of our holdings, ranging from our Australian resources companies to our Hong Kong, Japanese, and Singapore-based businesses with Chinese exposure.

Once a decade or so, Mr. Market has a panic attack and offers long-term investors exceptional businesses at bargain prices. The third quarter was a busy time as we jumped on the rare opportunity to buy world-class companies with wide moats, attractive value growth potential, and strong management but that historically have not qualified on our deeply discounted price criteria. Consider the following observations:

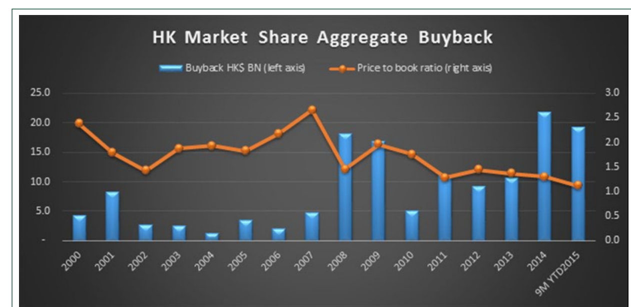
- The Australian resources sector was broadly punished, despite a recovery in iron ore prices from their July low (in Australian dollars). Our two holdings in the resource space, Mineral Resources and Seven Group, have volume-based service businesses that are beneficiaries of increased production volume of Australian commodities, but the market is currently pricing them at multiples similar to pure mining companies.

- After strong performance across our Japanese holdings earlier in the year, prices at many Japanese companies with Chinese exposure pulled back in more recent weeks. SoftBank, with its 30% stake in Alibaba, was affected by the broad sell-off of Chinese internet stocks. Both SoftBank and Alibaba took advantage of the dislocation and announced share buyback plans during the quarter.

- Hong Kong real estate developers' share prices also pulled back in the quarter after strong performance in the first half, as volatility and liquidity demands spilled over from China into Hong Kong and Singapore. Most companies, however, benefitted from significantly increased property sales in the period, both in Hong Kong and China. In China, interest rate cuts, relaxation of mortgage requirements, and reduction of transfer taxes for properties helped boost property sales, particularly in Tier 1 cities. Property sales benefited as a safe haven from volatility in equity markets and RMB devaluation, as investors reallocated funds towards Chinese real estate and Hong Kong dollar denominated real estate assets. Significant fund flows into Hong Kong from China forced the Hong Kong Monetary Authority to defend the peg from appreciation of the HK dollar.

- Valuations in the region reached levels last seen during the Global Financial Crisis (GFC), driven largely by panicked sellers in the Chinese stock markets. The Hong Kong market and Chinese shares listed overseas served as a liquidity source for leveraged investors forced to raise capital and for those unable to sell their holdings in the China A-share market, where trading was restricted for a significant part of the market.

- Share repurchases over the last two years in Hong Kong have exceeded the GFC peak of 2008, as Price/Book (P/B) valuations have reached levels lower than during the GFC. The exhibit below shows the P/B ratio of the Hong Kong market and share buyback volumes going back fifteen years. In July, amidst the heightened volatility, buyback volumes jumped to HK$8.5 billion and remains at elevated levels. Given that a large proportion of Hong Kong listed companies are led by owner-managers, buyback activity levels are highly relevant indicators of value to us. Share repurchase activity in Singapore similarly jumped since the market decline in July.



Source: Bloomberg / www.webb-site.com

Average Annual Total Returns (9/30/15): Since Inception (2/12/14): -13.80%, Ten Year: na, Five Year: na, One Year: na

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We likewise have seen share repurchase activity increase significantly among our portfolio companies reflecting the cheap valuations of their shares:

- Hyundai MOBIS announced a 1% share buyback in September.
- Baidu announced a $1 billion dollar share buyback — their first since November 2008.
- SoftBank completed a JPY120 billion yen share repurchase in August, and President Nikesh Arora announced that he will buy 60bn yen ($483 million) worth of SoftBank in one of the largest insider purchases in the world. It is difficult to think of a more bullish statement than that. CEO Masayoshi Son recently said the following about the buyback:

"So with the SoftBank share price actually now undervalued – that's how I feel personally. Number of shares –value of number of shares – only the listed securities that we have, about some ¥10 trillion equivalent. Market capital of SoftBank, about ¥8 trillion something. Isn't there something wrong? That's why that we come to the conclusion of buying back our shares, own shares....but as our feeling goes, we believe that our share price is undervalued, we will keep investing. But thinking about all those, probably we can get the best return from SoftBank's share investment. So that is why that we're announcing this share buyback program" CEO Masayoshi Son, Aug 6, 2015, Q1 2016 Earnings Call

- SoftBank holding Alibaba announced a $4 billion share repurchase program in August.
- Global Logistic Properties commenced a share buyback program for the first time in August and has repurchased 2.1% of the company as of the end of September.
- The CEOs of both Australian resource companies, Mineral Resources and Seven Group, bought shares in the last quarter.
- Other portfolio companies Seven Group, USHIO, Fujitec, LIXIL Group, Great Eagle, and Genting Singapore have also repurchased shares this year.

This volatility in Asia allowed us to buy two full positions – Baidu and Global Logistics Properties – and to initiate two smaller positions in Genting Singapore and WH Group. We highlight the case for the new names below.

Baidu is the dominant online search business in China, with 71% share of search by page view, and an even larger 80% share by industry revenue. Baidu's leading position in search strengthened after Google exited China in 2010. Baidu focuses solely on Chinese language search, mastering the subtleties of the domestic market. Microsoft's recent announcement that it would replace its own search engine Bing with Baidu as the default search and homepage in China for its new Windows 10 version underscores Baidu's dominant position in Chinese online search. Baidu is also a leader in maps and has partnered with UBER China to monetize its leadership position.

In addition to the China sell-down, Baidu's stock price fell also because of company-specific reasons. Baidu announced higher-than-expected spending on its online to offline (O2O) business, which aims to drive offline commerce through online transactions. This investment in the o2o business has temporarily depressed company margins. The market is still valuing the business on PE multiples, even though Baidu has expanded beyond just an online search business into a number of businesses in the beginning stages of the investment lifecycle. The near-term margin drag from o2o investments has masked the strength in the company's core search business. In the latest quarter, Baidu disclosed that their core search business does better than 50% operating profit margins. We see O2O initiatives as promising growth areas, especially in high transaction frequency segments, such as transportation (UBER), hotels (Qunar), food delivery (Baidu Takeout), and group buy (Nuomi). Monetizing these platforms will take time, as Baidu is focused on growing its user base, but we think the longer-term payoff could be rewarding.

If you exclude Baidu's significant net cash, the value of its stake in online hotel booking site Qunar, and its non-earning o2o business, the core online search business —the dominant provider, with 50%+ margins and 30% annual growth — trades at single-digit Free Cash Flow multiples. As discussed above, the company has taken advantage of recent weakness in the stock price and announced a $1bn stock buyback.

Global Logistic Properties (GLP)is a Singapore listed developer, owner, operator, and fund manager of modern warehouses, with dominant market positions in China, Japan, Brazil and the U.S. The company is over 7X bigger than its next competitor in China, over 1.5X bigger in Japan, and over 4X bigger in Brazil. CEO Ming Mei and his late partner Jeffrey Schwartz teamed with the Government of Singapore Investment Corporation (GIC) to buy the crown jewel Asian business from Prologis during the depth of the GFC in December 2008. GLP went public in 2010, and GIC currently owns 36% of the company. The recent warehouse explosion disaster in Tianjin highlights the need for modern, well-maintained warehouses with relevant safety systems, including fire safety clearances. The modern logistics facilities segment, which GLP dominates, represents less than 20% of total warehouse space in China.

GLP's early mover advantage and opportunistic acquisitions have allowed it to establish its presence in strategically located sites across key gateway cities in China, Japan, U.S., and Brazil. The dominant position and scale generate powerful network effects for GLP. We have followed GLP closely since its IPO and have always liked the business and its exposure to Chinese domestic consumption, but its valuation has not

provided us with our desired margin of safety until now. This latest dislocation in the Asian capital markets, as well as company specific reasons – a downgrade in its 2016 targeted development starts for China – allowed us to buy the dominant Chinese warehouse operator at almost double digit-cap rates. The slowdown in development starts in China will not affect GLP's earnings and underlying cash flows in China for the next two years because development starts typically only contribute to earnings two years later. Despite the negative sentiment around China, leasing activity for GLP in 3Q has been stronger than last year, with around 4 million square feet of leasing each month. Notably, two-thirds of new leasing comes from existing customers.

In addition to buying a good business at a discount to stated book (which is under-stated because land bank and construction in progress are reflected at cost), we also get for free a $32 billion fund management business that earns annually recurring management fees of around 50 basis points with significant performance upside (typically 20% over a 10% hurdle rate). GLP's fund management has a stable of blue chip sovereign wealth funds and pension funds whose appetite for quality industrial real estate remains strong. GLP's Chinese business also has re-development potential as a number of GLP's warehouses are surrounded by residential and commercial projects whose plot ratios and capital values are multiples that of their warehouses. GLP has started to explore re-development of some of its urban warehouses.

We are partnering with management who act like owners. Since our initial discussion with them on capital allocation this August, they have repurchased more than 2% of the company. Ming Mei recently talked about GLP's stock price: "Yeah, so that's why we're buying back our shares as well and I wouldn't be surprised someone in some room is charting GLP on the drawing board, to privatize as well. So but I would say, at our current share price, – the way I look at this is that if you liquidate our asset one by one and you sell the land and the project under construction at original costs, you get 2.50 and we're trading at below 2.10. So you get a 20% discount to liquidation value. And then you get the growth, the future development profit for free and then you get a [fund management] platform that managing 27 billion of AUM for free. So that's the current price." CEO Ming Mei, BAML 2015 Global Real Estate Conference, September 16 2015

Genting Singapore is one of the two duopoly casinos in Singapore. The company is cheap today, due to a slowdown in Chinese VIP visitors as a result of the Chinese anti-corruption campaign. The company has reported four quarters of unusually poor hold (2.0%- 2.5%) in its gaming business, as well as some mark-to-market losses from equity investments. Since opening the casino, however, the cumulative win rate at Genting Singapore has been close to the industry average of 2.85%, and we believe win rates should normalize over time. Genting's core mass market business has been steady. We are very familiar with Genting Singapore, given our investment in parent Genting Berhad, and have always liked its duopoly position in a stable jurisdiction like Singapore. We respect CEO Hee Teck Tan who has repurchased discounted shares almost every day since November 2014.

WH Group is the largest pork company in the world, with dominant positions in China, the world's largest pork market, and the United States. Its 73%-owned listed subsidiary Shuanghui is China's largest pork supplier, controlling approximately 40% market share in branded packaged meat in modern channels. WH Groups acquired Smithfield, the largest pork product supplier in the U.S., in 2013 and is now in a unique position to export cheap, high quality U.S. pork to China, where prices are typically double that of the U.S. This export strategy helps reduce excess inventory in the U.S. and lower cost of goods in China. WH Group is well placed to benefit from the secular rise of the middle class and preference for quality food in China. WH Group is a branded consumer goods company (100% of its 1H operating profit came from the packaged meat segment), but it is being valued in the market like a commodity hog producer. WH Group is trading at a cheap 9X underlying earnings and 35% below its Aug 2014 IPO price of HK$6.2/share. Chairman and CEO Wan Long is purchasing discounted shares at current price levels.

We have tracked the price-to-value ratio (P/V) of Southeastern's portfolios over time as an indicator of the margin of safety in the portfolio. Over time, across our various strategies, we have produced superior absolute and relative performance following periods when the entire portfolio P/V dips below 60%. The P/V of our Asia Pacific strategy is currently in the high 50s%, our cash levels are almost zero, and we believe now is the time to add assets to this strategy.

We also believe not all P/V's are created equal. The portfolio's current P/V reflects companies with stronger-than-average value growth potential and balance sheets. In addition, our values are based on average appraisal discount rates of 9% vs. 10-year US Treasuries yielding 2%; this gap is at historically high levels.

Baron Rothschild is credited with the now famous saying that "the time to buy is when there's blood in the streets." It is said the original quote is, "Buy when there's blood in the streets, even if the blood is your own." As managers of the Asia Pacific Fund, we are investing alongside our clients and increased our stake during the quarter.

See following page for important disclosures.

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