Longleaf Partners Global Fund Commentary

Longleaf Partners Global Fund declined 15.20% in the third quarter, taking year-to-date (YTD) results to a 18.71% decline and trailing the MSCI World Index's declines of 8.45% and 6.04% in the same periods. The Fund's disappointing results over the last year negatively impacted relative performance from its inception over two years ago.

Over the last three months, several of our companies' stocks suffered from the broad angst that China's slower economic growth would negatively impact parts of their underlying businesses, and our energy investments continued to be a primary driver of underperformance. Oil prices fell over 50% over the last year—something that has happened less than 2% of the time in the last 115 years.[1]

The Fund's largest contributor during the quarter, Google, rose 17% on the back of strong operating results and an announced new corporate structure. The company's core search and display business demonstrated healthy, accelerating organic revenue growth. The move to mobile search is helping Google rather than hurting it as some bears had feared. YouTube is also performing well, as its average viewing session per user on a mobile device is over 40 minutes, up more than 50% year-over-year. Beginning in the fourth quarter, Alphabet Inc. will replace Google Inc. as the publicly-traded entity. Google will become a wholly-owned subsidiary of Alphabet, and all outstanding Google shares will convert into the same number of shares of Alphabet. This means the company will report two segments—the search and YouTube core business and all other business lines. Management believes the new structure will allow for more management scale and accountability as each Alphabet subsidiary will have its own CEO. Larry Page, Sergey Brin, and Ruth Porat will remain in their same roles as CEO and Co-Founder, Co-Founder, and Chief Financial Officer.

German-based global sportswear and equipment brand adidas returned 5% after reporting a strong quarter of organic growth for its core adidas brand. This growth is being driven by adidas' incredibly strong positions in Europe, China, and Latin America. We have had ongoing constructive engagement with management and believe the managerial changes in the U.S. business will lead to the brand regaining market share over time. The company has spent €750 million repurchasing nearly 5% of the company this year and is authorized to repurchase another €750 million over the coming year. After selling its non-core Rockport brand at a price above our appraisal value earlier this year, adidas recently announced that it is exploring strategic options for its golfing brands, including TaylorMade.

Another top contributor in the Fund, McDonald's stock gained 5% in the quarter, demonstrating the resiliency we saw in 2008 when it was one of two stocks with a positive return in the Dow Jones. Since taking the helm of the company, CEO Steve Easterbrook has announced initial plans to reshape and turn around the business. Comparable store sales are showing broad signs of improvement in key international markets such as Germany and China. On the capital allocation front, the company continued to repurchase shares at a strong pace (7% annualized) and indicated that pace should continue. The company is also undergoing a review of its capital structure and working to re-franchise stores at attractive values.

Global fertilizer and methanol producer OCI also added 2% after announcing plans to merge its European, North American, and global distribution business with CF Industries in a transaction valued at $8 billion. The newly combined entity will hold a 45% interest in OCI's Natgasoline project in Texas with the option to acquire the remaining 55%. OCI will receive an initial 25.6% interest in the new business plus $1.2 billion in cash and shares. The merger is expected to be completed by June 2016, and CEO Nassef Sawiris intends to distribute the majority of OCI's shares in the new company to shareholders. On a look-through basis, we own the remaining OCI assets outside of the CF deal at a significant discount, with a management partner in Sawiris who has produced a 40% internal rate of return (IRR) for shareholders over the past 15 years.

As one of our energy holdings, Murphy Oil, an exploration and production company with a portfolio of global offshore and onshore assets, was a primary performance detractor, down 41% in the quarter, with about one-third of the impact coming from the equity we hold and two-thirds from the options. This happened despite beating estimates on production and operating cash flow (OCF) and raising production estimates for the rest of the year. Murphy management is focused on driving costs lower and shortening drill times while improving

1 Source: globalfinancialdata.com

Average Annual Total Returns (9/30/15): Since Inception (12/27/12): -0.68%, Ten Year: na, Five Year: na%, One Year: -21.36%

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 longleafpartners.com.

The total expense ratio for the Longleaf Partners Global Fund is 1.58%. The Funds' expense ratio is subject to fee waiver to the extent normal annual operating expenses exceed 1.65% of average annual net assets.

production efficiency to reduce capex to cash flow levels. Furthermore, after disappointing international drilling results in recent years, the company will not invest in higher risk, higher cost wells at this time; instead, management plans to focus rig commitments and to allocate capital to higher return opportunities near lower-risk existing infrastructure where the company has had prior exploration success. Murphy remains well capitalized with diverse cash flow sources and an investment grade rating. It also has non-core pieces that could be monetized to unlock value. CEO Roger Jenkins continues to repurchase shares at the company level and invest personally.

CONSOL Energy fell 55% in the quarter after disappointing revenue and earnings on weaker-than-expected thermal coal production and negative natural gas differentials versus the New York Mercantile Exchange. Management is adjusting to lower commodity prices with cost controls and took steps to recognize the value of CONSOL's coal assets by offering shares in the master limited partnership (MLP) CNX Coal, which generated $200 million in proceeds. We filed a 13-D during the quarter to discuss with third parties as well as management and the board a potential monetization or separation of the valuable Marcellus and Utica gas assets. We believe these assets alone are worth demonstrably more than CONSOL's total equity capitalization. They are unique, low cost reserves given the company's fee ownership of many acres. CONSOL is exploring monetization paths for all of its assets, including thermal coal, metallurgical coal, pipelines, and the Baltimore port terminal.

Fiber and networking company Level 3 Communications declined 17% as concerns about near term top-line growth rates outweighed improvement in margins and free cash flow (FCF) generation. During the quarter, the company reported organic revenue growth across North America and EMEA in-line with expectations, while Latin America, which represents approximately 10% of consolidated revenue, had weaker growth mainly due to currency. The integration of tw telecom remains on track with synergy realizations ahead of schedule. Level 3 already has achieved approximately $115 million of annualized run-rate EBITDA synergies, and the company should achieve 70% or $140 million of its annualized synergy target by the end of the first quarter of 2016. FCF growth at Level 3 is ramping up and, we believe, marching toward explosive FCF growth on a per share basis in the next few years as a result of the business' strong incremental margins, the aforementioned tw telecom synergies, and continued debt reduction and refinancing. During the quarter, major bond rating agencies upgraded approximately $11 billion of the company's rated debt and credit commitments, further proof of Level 3's improving business and financial profile.

One of the largest producers of natural gas, natural gas liquids, and oil in the U.S., Chesapeake Energy declined 34% in the quarter. In line with our exposure, about 70% of the impact came from the options we own and the remainder from the common equity. Concerns remain over the company's liquidity profile, but management made major strides to improve realizations by successfully renegotiating two contracts with pipeline operator Williams that reduces transportation costs. Additionally, on October 1 the company announced the renewal of its $4 billion credit facility. Comparable asset sales in overlapping basins, such as Encana's sale of Haynesville assets, further confirmed our appraisal of Chesapeake. The company's shares remain more heavily discounted than its peers, yet CEO Doug Lawler is keenly focused on realizing value for shareholders even in this depressed energy price environment. Further reducing costs, including the recently announced 15% headcount reduction, coupled with asset divestitures should lead to a stock price more in line with intrinsic value, which we appraise at twice the current price assuming the underlying commodity prices remain depressed.

During the quarter, all conditions of the merger between cement makers Lafarge and Holcim were met, and the transaction was completed. Eric Olsen now serves as CEO of LafargeHolcim, and Wolfgang Reitzle and Bruno Lafont serve as Co-Chairmen of the Board. However, the stock price of the newly combined entity declined 25% in the quarter due mainly to volume and currency weakness in its emerging market and Europe. North America was strong. Olsen called out Indonesia, India, Brazil, and Egypt as markets where targeted cost reduction programs will commence as well as sixteen markets where pricing, along with lower costs, will be a focus. Management has set a total synergy goal of €1.2 billion to be realized over the next three years for the newly combined entity. Each geographic region will have accountability to meet the cost saving targets. Additionally, management has signaled that the company is open to further non-strategic asset divestitures if selling can create the most value for shareholders.

We exited no positions in the Fund in the third quarter, but we did initiate a position in FedEx after its price declined due to worries about global economic weakness. CEO and Chairman Fred Smith is an owner-operator who has built FedEx into the leading transportation and logistics company in the world. FedEx's global network, pricing power, brand recognition for reliability and service, and irreplaceable assets make it one of the highest quality businesses we own. FedEx's Ground and Express divisions drive the company's value. FedEx Ground has been a consistent growth business and should continue to increase market share in the years ahead. Over the last year, management has increased value by reducing costs, announcing a deal to buy European based TNT Express, buying in shares that are materially discounted from intrinsic value, and locking in long-term debt at very low rates.

Despite our frustration over recent returns, we believe that the positive fundamentals of the companies we own will be reflected in their stock prices. The Fund has three categories of companies that we see driving returns. Over 60% of the portfolio is a collection of what we feel are industry leading businesses that have the competitive strength and management leadership to compound value per share at potentially high rates. Based on our appraisals, as a group this category of holdings sells for under 65% of our appraisal values and on average, less than 12X after-tax free cash flow (real cash P/E). Prospects for these holdings' value growth,

especially as a diversified basket, are greatly enhanced due to their combinations of pricing power and gross profit royalty status. Their managements' track records and ownership alignment suggest strongly that these steadily growing free cash flow streams should be reinvested to build even more corporate value.

In our opinion, among the holdings in this group are the best global digital fiber network in Level 3, maybe the most value-generating holding company in the world since the Global Financial Crisis in EXOR (thanks to its leaders Sergio Marchionne and John Elkann), the world's best delivery network in FedEx, the highest-quality global conglomerate in CK Hutchison, the most dominant worldwide cement oligopolist in LafargeHolcim, one of the world's two best sports brands in adidas, the world's largest and best search engine in Google, Macau's best local mass gaming company in Melco International, and the world's most compelling real estate company in Cheung Kong Property. These companies are among those that offer a combination of competitive advantages, balance sheet strength, and glaring undervaluation that gets lost in the focus on the pressures that have hurt recent results. As the dominant portion of the portfolio, however, it is this group of holdings that we look to as the primary long-term driver of potential future outperformance.

The second category of holdings includes companies being led through transitions by strong management partners who are focused on growing and unlocking values by highlighting their competitive business segments and/or reinvesting substantial cash in high-return opportunities. McDonald's has discussed capitalizing on its increasingly valuable real estate and becoming a fee company; Philips is heading toward becoming a leading healthcare company; Vivendi holds the world's largest music company, dominant French media assets, and significant cash to deploy; and OCI is merging most of its assets into CF Industries. This group comprises around one-third of the portfolio and we feel should drive performance when the gap between price and value closes as our management partners lead these transitions.

The third category contains our three energy holdings which, as a bucket, are down over 70% YTD, constituting a bona fide crash rather than a mere bear market. The momentum-driven heavy selling and shorting of this "crash bucket" has gotten so out of hand that we feel the companies' recovery is a large part of our significant potential future return. Even though qualitatively Melco resides in the first category above, its severe undervaluation—down over 40% YTD and 70% from its peak—positions the stock similarly to our energy investments for a big near-term recovery. To be clear, we do not think these stocks will do well simply because they are down. We believe their long-term fundamentals under the stewardship of their capable leaders should drive prices as contrasted to the short-term perceptions. In the case of our energy holdings, we are not reliant on an energy rebound to move the stocks higher, as our appraisals are over twice the current stock levels based on current depressed commodity futures pricing. Should oil and gas prices move back to their much higher marginal cost of production, the values of these stocks would be materially more. These energy holdings represent less than 10% of our portfolios, and while we put them in their own group, they share many of the same compelling attributes described in the second category above.

Although we cannot predict short-term prices, we believe the Global Fund has reached an attractive level for long-term investors to add capital. The Fund's price-to-value (P/V) ratio is in the low-60s%, and there has been a sharp uptick in global market volatility, which has now reached its highest level since 2011. While a useful data point, this is not the basis for our confidence in returns going forward. The competitiveness of our businesses, our extremely capable management partners, and the attractive margin of safety in our companies' stock prices make us highly confident that the companies we own can perform well and reward your patience and ours.

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 longleafpartners.com. Please read the Prospectus and Summary Prospectus carefully before investing.

RISKS

The Longleaf Partners 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. Mid-cap stocks held by the Fund may be more volatile than those of larger companies.

MSCI World Index is a broad-based, unmanaged equity market index designed to measure the equity market performance of 24 developed markets, including the United States. An index 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.

A master limited partnership (MLP) is, generally, a limited partnership that is publicly traded on a securities exchange.

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.

Internal rate of return (IRR) is the interest rate at which the net present value of all the cash flows from an investment equal zero.

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

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

Derivatives may involve certain costs and risks such as liquidity, interest rate, market, credit, management, and the risk that a position could not be closed when most advantageous. Investing in derivatives could lose more than the amount invested.

As of September 30, 2015, the holdings discussed represented the following percentages of the Longleaf Partners Global Fund: Level 3, 9.0%; EXOR, 7.1%; FedEx, 6.2%; CK Hutchison,6.0%; LafargeHolcim,5.9%; adidas, 5.8%; McDonald's,5.1%; Philips,5.1%; Google, 4.9%; Melco International, 4.4%; Loews, 4.3%; Vivendi, 4.1%; Cheung Kong Property, 4.1%; OCI, 3.9%; Chesapeake, -0.5% (held via derivative, 3.1% adjusted for close of options and purchase of underlying stock); CONSOL, 1.7%; Murphy Oil, 0.3% (held partly via derivative, 2.4% adjusted for close of options and purchase of underlying stock). Fund holdings are subject to change and holding discussions are not recommendations to buy or sell any security. Current and future holdings are subject to risk.

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