October 12, 2020

Longleaf Partners Global Fund Commentary

3Q20

Longleaf Partners Global Fund added 4.40% in the third quarter, while the MSCI World returned 7.93%. The majority of the companies in the portfolio produced positive returns in the quarter, with some of those given back in September against a month of broad market declines. Several companies reported double-digit returns, driven by stronger-than-expected results in the quarter. Our overweight to Hong Kong was the largest absolute and relative detractor in the period, accounting for the majority of the relative return gap this quarter. The three Hong Kong-listed companies we own declined in the quarter, but we believe these businesses offer some of the most compelling future upside from today's overly discounted prices. Our cash weighting, which averaged 20% but came down towards the latter end of the quarter as we initiated three new positions and added to several of our most discounted companies, was also a relative drag on performance in the quarter. The Fund's lack of exposure to

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Average Annual Total Returns (9/30/20): Longleaf Partners Global Fund: Since Inception (12/27/12): 4.52%, Ten Year: na, Five Year: 7.51%, One Year: -3.15%. MSCI World Returns (9/30/20): Since Inception: 9.76%, Ten Year: na, Five Year: 10.48%, One Year: 10.41%. MSCI World Value Returns (9/30/20): Since Inception: 5.59%, Ten Year: na, Five Year: 5.01%, One Year: -8.35%.

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. ***As reported in the Prospectus dated May 1, 2020, the total expense ratio for the Longleaf Partners Global Fund is 1.32% (gross) and 1.20% (net). The expense ratio is subject to fee waiver to the extent normal annual operating expenses exceed 1.20% of average annual net assets.*** *Southeastern has contractually committed to limit operating expenses (excluding interest, taxes, brokerage commissions and extraordinary expenses) to 1.20% of average net assets per year. This agreement is in effect through at least May 1, 2020 and may not be terminated before that date without Board approval.*

the MSCI World's top-performing Information Technology sector remains the largest drag on relative returns for the year, while the Fund has benefitted YTD from our superior stock selection within the Energy sector (the MSCI World's worst-performing sector by a long shot), which has been a positive contributor to the Fund, thanks to strong performance by CNX Resources and better relative performance by Williams. Although the Global Fund trails the momentum-driven MSCI World, the Fund is ahead of the MSCI World Value Index on a trailing 1 and 5-year basis.

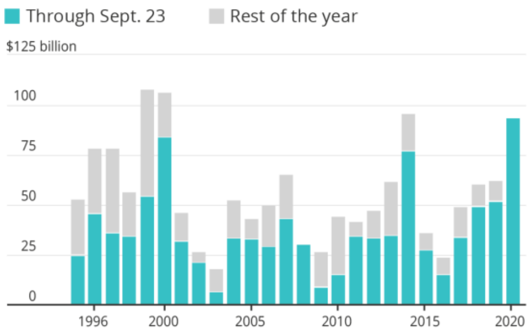
Market Review

Last quarter, we wrote about the two different categories of bear markets we have seen seven times over the last 50+ years – those that were started by an external macro shock (from which value has historically bounced back better than the market after a period of initial underperformance) and those that were started by the popping of a speculative stock market bubble. Over the last three months, we began to see early signs of both our style of investing bouncing back and the speculative bubble popping, or at least letting some air out. While we will highlight strong stock-specific results at the companies we own later, we saw some promising signs that momentum will not drive markets forever. While our previous letter focused more on the quantitative signs of market excess, we thought it might be helpful in this letter to highlight some other, more qualitative reasons things could soon turn our way.

The first sign of market excess to discuss has been the dramatic rise in initial public offerings (IPOs), as the market has continued to first thaw from and then quickly overheat after the initial COVID-19 shock. After seeing sentiment measures reach Global Financial Crisis (GFC)-levels in March, it is pretty amazing to consider that 1999-2000's IPO issuance record is now within reach only six months later, as shown in chart 1 below.

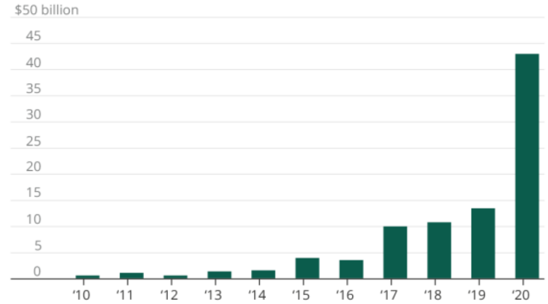
The September 4th MarketWatch headline christening 2020 as "The Year of the SPAC" (special purpose acquisition corporation) is arguably an even starker sign of excess, with the highest issuance of SPACs on record, by a lot, as shown in chart 2 below.

Chart 1:
Money Raised by US-listed IPOs



Source: Driebusch, C. (2020, September 25). IPO Market Parties Like It's 1999. *Wall Street Journal*. Retrieved from wsj.com; Dealogic

Chart 2:
Money Raised in Blank-Check Company IPOs, Annually



Source: Wursthorn, M. (2020, September 30). Blank-Check Companies Get the ETF Treatment. *Wall Street Journal*. Retrieved from wsj.com; Dealogic

In a way, this signifies an even frothier market than the kind of IPO boom that has typically been associated with traditional market peaks. At least with IPOs you know what you are buying, even if it is at a high multiple and is being sold by someone who knows a lot more about it than you do. Essentially "blank-check companies," SPACs represent shares in a company that has no operations. SPACs are a total leap of faith that markets are only open to when things feel the best, but a big leap off a high peak can lead to a painful splat. The Year of the SPAC was taken to an even greater extreme with the launch of the first SPAC ETF on October 1st. In our view, this unholy union is a sign of peak market mania.

We have also seen a sharp increase in retail stock trading forming part of the zeitgeist, which is yet another sign of a market top. In recent history, we had the great bitcoin Thanksgiving of 2017 (bitcoin trades today at $10,504 vs. its high of $19,783 in December 2017). Similarly, right before the GFC, there was a mania for building and flipping houses (housing starts even in the strong year of 2020 are still on track to be in the 1.5 million range vs. a peak of over 2 million pre-GFC). But we have to go back to 1999-2000 to see a retail frenzy for certain stocks at similar levels we are seeing today. Putting a sad 2020 twist on the old "shoeshine boy test", one of us recently lost someone close to us but was unable to attend the small funeral service due to COVID restrictions and family obligations. While texting with the family member who was able to attend, she reported back not on the details of the service, but rather on all of the questions about options trading and an electric vehicle stock from the guests in attendance! For contrarians like us, this brought some glimmers of hope to a long day in a long year.

Contributors/Detractors

(Q3 Investment return; Q3 Fund contribution)

FedEx (81%, 3.37%), the transportation and logistics company, was the top contributor after reporting outstanding quarterly performance, with earnings more than 66% above estimates and excellent FCF conversion. The disappearance of competing passenger airline capacity helped Express grow volumes 28%, while Ground proved its critical role in e-commerce logistics with a 31% volume increase. CEO Fred Smith's ambitious goal to deliver 100 million e-commerce packages per year is now on track for 2023, years ahead of schedule. FedEx has found a profitable strategy with a long growth runway by working with major e-commerce competitors like Walmart and Target, and FedEx's national retail presence offers an advantage in handling customer returns. Last October, Southeastern's Vice-Chairman Staley Cates interviewed Fred Smith and Alan Graf on the Price-to-Value Podcast, as near maximum pessimism on the company was being priced in by the market. We maintained our conviction and added to the position in 2019, and that has been rewarded. In September, Staley wrote to the research team, "We have had plenty of companies over the past few years show the folly of thinking you know where earnings will go over several quarters, often in a disappointing way. This one again shows the folly of near-term earnings estimates but happily is a radical miss on the upside." For perhaps the first time in our careers, we saw a sell side report price target more than double in a one-quarter period. Despite the stock's rapid appreciation, with the new higher earnings estimates FedEx trades at a mid-teens P/E multiple and a discount to our appraisal. There is additional upside as the company completes its long-awaited TNT integration and Ground's traditional business-to-business (B2B) volumes return from their April nadir, helping maximize utilization and expand margins.

Carrier (23%, 0.82%), the heating, ventilation and air conditioning (HVAC) and security company, was also a top performer. We added to our position in Carrier when it spun out of United Technologies early last quarter, as it traded at less than half of our appraisal and a 7x trailing P/E against similar competitors that were trading at 13-17x.

Carrier CEO David Gitlin and the rest of the management team have done great work in a very difficult situation to preserve cash, deleverage and position the business for a strong rebound as lockdowns eased. Carrier's share price almost doubled over a period of months, and we exited the position in the quarter as it traded through our appraisal.

Comcast (18%, 0.69%), the cable and entertainment company, added to the strong absolute results in the quarter. Cable delivered one of its best quarters of net subscriber additions ever and grew EBITDA 5.5%, while losses from closed small business customers have moderated during reopening from the COVID lockdown. Sky, the European TV and broadband business acquired in 2018, retained subscribers at a high rate despite the extended absence of live sports. CEO Brian Roberts stated that Sky remains on pace to double its EBITDA over the next several years. Comcast's new Peacock streaming service and Universal theme parks are ramping up revenues gradually, presenting more opportunities for Comcast to improve earnings significantly over the next several years. Despite the double-digit returns in the quarter, the company remains discounted. We were encouraged by Roberts's statement in the quarter that he was committed to repurchasing shares again in the near future.

CNX (9%, 0.47%), the Appalachian natural gas company, was also a positive contributor in the quarter. In July, the company bought the rest of its midstream subsidiary for a great price under 8x EBITDA, far cheaper than comparable pipeline asset sales. CNX also improved its debt profile such that it has no debt maturities until 2024. CNX enjoys one of the strongest financial positions in the industry and the best profitability among peers. The company FCF guidance for the next two years is in the $400-500m+ per year range, which results in a strong teens+ yield on the company's market cap. CNX's completion of its midstream acquisition both solidifies its consolidated low cost versus peers and creates a severable asset that could be worth more than today's stock price in the future.

CK Asset (-17%, -0.71%), the Hong Kong and China real estate company, was the top detractor in the quarter. As mentioned above, our Hong Kong-listed companies declined in the period, as the Hang Seng Index has been among the worst-performing stock exchanges in North Asia. CK Asset has been impacted by negative sentiment in

Hong Kong, while COVID has created disruptions in several segments within the company. Investment property and hotel profits were down year-over-year (yoy). The aircraft leasing division profits were up in the first half, primarily due to some disposal gains, but the industry is facing headwinds. CK Asset's UK pub operation booked losses due to pub closure during the lockdown, as well as a write down of assets. The company announced a reduction in the interim dividend, which we felt was overly conservative given the strong financial position of the business. However, management continues to take strategic steps to create value during the pandemic. In May, CK Asset won a site on Anderson Road, Hong Kong at a material discount to comparable transactions nearby and disposed of the entire remaining mixed-use development in Chengdu, China at three times the book value in July. Given the macro environment this year, we have adjusted our appraisal assumptions to incorporate a worst-case scenario. Even with these lower assumptions, CK Asset is still trading at a severe discount. It is encouraging to see that the KS Li family, the largest shareholder in the company, has continuously increased their stake via open market purchases, spending about HK dollar 3.8 billion (US$485 million) since last August, an unparalleled level of insider buying.

Melco International (-10%, -0.58%), the Macau casino and resort holding company, was also a detractor in the quarter. Its operating subsidiary Melco Resorts recorded property level earnings before interest, taxes, depreciation and amortization (EBITDA) loss of US$156 million, ahead of consensus expectations, thanks to stringent cost controls. The company has been negatively impacted in the near term by the closing of the borders in Macau, with visitation down 80-90%+ yoy in the early months of the pandemic lockdown. However, travel restrictions between Macau and Mainland China began to ease in August, with the issuance of IVS visas in China resuming in late September. These are critical steps towards a normalization of the Macau operating environment, but they have not lead to an immediate recovery in visitations or gross gaming revenue (GGR) due to inconvenient logistics, including a manual processing of visa applications, required COVID testing and increased scrutiny over cross-border capital flows and junkets leading to weak VIP numbers. However, in this tough operating environment, we are encouraged that Melco has shown impressive cost controls and liquidity management. Melco cut its daily operating expenses by over 40%

in just a few short months. The company expects to reach EBITDA breakeven when GGR reaches 30-35% of historical levels. Melco has enough balance sheet liquidity to sustain two years of a zero-revenue scenario, while still funding its growth capital expenditure. We are not expecting a V-shaped recovery in the near term, but we believe Melco's mid-to-long term growth prospects remain intact with Lawrence Ho’s strong execution and the company’s solid position in the premium mass segment.

Portfolio Activity

Cash built in the first two months of the quarter, as we sold and trimmed strong performers, but we began to put more money to work in September. We fully exited three investments – Alphabet, which we first bought in 2015, back when it was still called Google, Carrier, when it was part of United Technologies (UTX), as discussed above, and CNH Industrial. We sold our smaller position of CNH in order to swap into EXOR, which trades at a larger discount and includes a higher quality group of businesses in addition to its stake in CNH.

Our ownership of UTX and its spin-outs, including Carrier, was a pretty “standard” Southeastern investment – i.e., a misunderstood conglomerate with strong positions in 100+-year old industries, run by a value-per-share focused CEO, Greg Hayes. There were a few twists and turns along the way until this year, but overall, it was a boringly profitable investment until COVID hit right before the company was scheduled to split into three businesses: Otis (elevators), Raytheon Technologies (commercial aerospace and defense) and Carrier (HVAC and security). As discussed last quarter, we sold Otis after it spun out at a price above our fair value, and we sold Raytheon below our fair value, as we concluded that the business had changed for the worse. As noted above, we bought more Carrier at a steep discount and sold the company after it nearly doubled in a short period, driving a material improvement in the overall return of our UTX investment to a respectable 130% in total.

Unlike with UTX, we got many surprised looks and quite a few questions from clients when Google first showed up in our portfolio. While this investment might have looked like a “tech stock”, when it traded at a mid-teens to low double-digit core free cash flow (FCF) multiple, it was also right up our alley. Its main business of Search had - and still has - an understandable moat, with a management team that were owner operators with a proven track record, and it traded at a significant discount when we did our work to back out the then-undisclosed losses on non-core businesses. Since then, the company's primary businesses of Search, YouTube, Maps and the Play Store grew profits at double-digit rates, while newer businesses in cloud/software, autonomous driving and healthcare grew their value from very little to over $100bn. CEO Sundar Pichai and CFO Ruth Porat have been good partners. Alphabet is a good example of incorporating lessons learned from past examples of exiting a growing business too early. Our global research team worked together to continually review our case for the business, focusing on future value growth (our appraisal value grew 16% per annum over our holding period) instead of a single point in time price-to-value discount to avoid "cutting our flowers" too early, to quote Warren Buffett. However, we did not get so carried away that we were willing to hold it forever at any price or pile into other market favorites over the last few years at nosebleed multiples. Ultimately, we reluctantly sold the position after more than five years of ownership and a 207% return, as the P/FCF multiple reached a long-term high point, and the threat of economically destructive regulation seems to loom closer. We learned a lot from this investment that we look forward to putting to use in the years to come.

We initiated three new investments in the Fund, one of which we are not ready to disclose yet, as we are still building the position. The company is in an industry we know well and have invested successfully in across our strategies. We had never been able to get comfortable on the "People" side of things until a big change in the last quarter, which made the company qualify on all three Business, People, Price criteria.

The other two new positions are both hotel companies that we have owned previously. We have had a long history of successfully investing in this industry, typically initiating our investment during times of significant industry disruption. In each case, the environment felt highly uncertain, revenue per available room (RevPAR) was declining and the near-term outlook for travel amid a potential recessionary environment felt bleak. However, in each case, we felt confident in the financial strength of each business, as well as management teams' abilities to go on offense to steer the individual businesses through a difficult period. Accor is a global hotel operator headquartered in France. We first invested in Accor in mid-2008 through March 2013. This period saw external pressure by Colony Capital, led by Sebastien Bazin, to shift to an asset-light business model of hotel operations and spin out the "hidden gem" independent voucher business, which became Edenred. We supported both of these actions and developed an appreciation for Mr. Bazin's successful approach. After we exited the position when it reached our appraisal value, he was appointed CEO of Accor. The transition from external capital allocator to operating executive was not a simple process. We kept up with him and the company in the intervening years, but the discount to value and business/people opportunity never aligned until COVID disrupted the hospitality scene. Today, Accor runs an asset-light management and franchise model on 96% of systemwide rooms. The company has an even stronger portfolio of brands post its Fairmont Raffles and Movenpick acquisitions. Our past and current experience with Mr. Bazin indicates a shareholder value-focused management. He has a history of buybacks and has returned 20% of the market cap to shareholders via buybacks and dividends over the last three years. We had also been following US-listed, global hotel company Hyatt for many years and even briefly owned shares in our Longleaf Partners Small-Cap Fund in early 2016. The business combines many of the qualities we look for in every new investment: a safe balance sheet, owner-partners with a great track record, a proven brand with loyal customers, high-margin royalty income and owned real estate with a high replacement cost. We were able to purchase shares this year as the pandemic will freeze many of the company's operations (especially its owned properties that are often trophy assets) for a large part of this year, but the business is positioned to withstand even a protracted shutdown and prosper on the other side. Like Accor, the balance sheet has lower net leverage than virtually all its competitors, and a majority of the value comes from capital-light franchise fees. Over the long term, both Accor and Hyatt could be consolidation targets.

Outlook

After another quarter of strong market returns, we were excited to see increased volatility and share prices pulling back a bit in the last month, when we were able to start putting some of our cash to work again. Our research team has been busy, and our on-deck list of potential new investments grew substantially in the last three months. We have over five ideas that are fully vetted and being closely watched across a variety of industries. These companies range from healthcare to telecom to real estate to retail to defense/aerospace to consumer-packaged goods to financial services to even technology. They have all been discounted for idiosyncratic reasons. With more market volatility, we expect we will be able to put more cash to work into at least some of these businesses at good prices.

Continuing the theme of this letter, it feels like things are closer to coming our way, mostly because it felt for the first two months of this quarter that market sentiment had rarely been worse for bottom-up, value investors like us. It will be an interesting rest of the year for all of the reasons that we are all tired of hearing about. We can imagine a grid of outcomes with the best possible (but not the most likely) “cube” being [vaccine that works well and is rolled out smoothly and swiftly over the next 6-9 months] + [“normal” (we give some leeway with those quotes) US election] + [nothing else bad happening], but we are aware that there are a lot of other cubes in this grid. Of course there are always large outcome grids like this (that’s life), but it is rare to find so many consequential and sharply divergent paths compressed into so few months, and it feels like the market is pricing in a scenario much closer to the ideal cube for a lot of market sectors that have been seemingly priced for perfection for years now. Where the market is more doubtful, we feel that the vast majority of the pain has already been taken, including in some of our portfolio holdings, like Lumen (the recently renamed CenturyLink), CK Hutchison/Asset and General Electric, to name a few. We have maintained our cash discipline as the market melted up, meaning we have cash available to be a liquidity provider in the next market downdraft, and we will not be afraid to put it to work when investments qualify. For those reasons, we are confident our portfolio will work from here in a variety of outcomes and look forward to speaking with you again after year end. Thank you for your continued partnership, and we hope you and your families remain safe and healthy.

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** https://southeasternasset.com/account-resources**. Please read the Prospectus and Summary Prospectus carefully before investing.

RISKS
The Longleaf Partners Global 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. Investing in non-U.S. securities may entail risk due to non-US economic and political developments, exposure to non-US currencies, and different accounting and financial standards. These risks may be higher when investing in emerging markets.

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.

The Global Financial Crisis (GFC) is a reference to the financial crisis of 2007-2008.

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

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.

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

As of September 30, 2020, the top ten holdings for the Longleaf Partners Global Fund: Lumen, 8.1%; EXOR, 7.9%; FedEx, 5.5%; Melco, 5.0%; Comcast, 5.0%; Prosus, 4.9%; CK Hutchison, 4.7%; Fairfax, 4.7%; CNX Resources, 4.6%, Williams, 4.5%. 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.