October 2021

Longleaf Partners Fund Commentary

3Q21

Longleaf Partners Fund fell 5.70% in the third quarter, while the S&P 500 Index returned 0.58%. The Fund remains ahead of the index year-to-date (YTD), up 16.38% vs. the S&P's 15.92%. In the quarter, a handful of our stocks declined double-digits - each for different reasons, which we discuss in more detail below. The majority of our investments reported flat to low-single digit + or - returns. Although our stocks' performance was disappointing in the period, most of the portfolio's companies grew their values. This compounding force should drive material future returns.

The bottom-up progress is far better than market sentiment would indicate, and our corporate management partners are acting on this disconnect. We have also acted on the disconnect in the US large cap market, as declining interest rates, a cooling of COVID reopening excitement in the face of the delta variant and top-down China fear caused many investors to flee into "safe haven" stocks. This created compelling opportunities within our sweet spot of high – and improving, but not yet consensus recognized – quality businesses that have been generally overlooked this year. We have bought three new companies in the portfolio this year, two of which we initiated in the third quarter.

Average Annual Total Returns for the Longleaf Partners Fund (09/30/2021): Since Inception (4/8/87): 9.99%, Ten Year: 9.37%, Five Year: 7.38%, One Year: 42.86%. Average Annual Total Returns for the S&P 500 (09/30/2021): Since Inception (4/8/87): 10.53%, Ten Year: 16.63%, Five Year: 16.90%, One Year: 30.01%. Average Annual Total Returns for the Russell 1000 Value (09/30/2021): Since Inception (4/8/87): 9.94%, Ten Year: 13.51%, Five Year: 10.94%, One Year: 35.01%.

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. The prospectus expense ratio before waivers is 1.03%. The Partners Fund's expense ratio is subject to a fee waiver to the extent the Fund's normal operating expenses (excluding interest, taxes, brokerage commissions and extraordinary expenses) exceed 0.79% of average net assets per year.

These purchases improved the qualitative and quantitative positioning of our portfolio, which now trades at approximately 10x free cash flow (FCF). The top-heavy S&P 500, by contrast, trades at over 20X FCF. The Index looks even more overvalued when one considers seven of the 10 largest companies in the index (Apple, Microsoft, Alphabet, Facebook, PayPal and Nvidia) are posting all-time high after-tax margins undergirding hoped-for 2022 earnings that we believe are at risk. In comparison, we expect significant margin growth at our high quality and highly discounted businesses, like General Electric, Mattel, Hyatt, FedEx and others.

The best news and the biggest market reaction surprise in the quarter was at our largest holding Lumen. After much engagement with Southeastern following our amended 13D filed last December, the company announced that it was selling two assets – the slowest growth part of its legacy copper landline business in 21 states in the US and the Latin American (therefore highest discount rate / lowest multiple) part of its enterprise fiber business. At a time when the company was trading at 5.5x EBITDA (earnings before interest, taxes, depreciation and amortization) for all its assets, it sold the legacy landline assets (i.e., the lowest multiple part of its lowest multiple business) for that same 5.5x and the Latin American assets (i.e., the lowest multiple part of its higher multiple business) for 9x. The absolute amount of gross proceeds was almost equal to the company's market cap. We believe the remaining legacy assets are worth greater than 5.5x and the remaining fiber/enterprise assets are worth greater than 9x, especially because infrastructure funds have recently paid mid-teens multiples for similar fiber assets. Thus, we now have a higher quality, higher growth, lower leverage mix of assets at Lumen. But when this news was announced, Lumen's stock price initially went down, due to weak communications around future growth and capital allocation on the conference call. This communication failure can be fixed much more easily than a business failure, and we were encouraged that the company authorized a share repurchase to take advantage of the market's short-term misunderstanding. The stock price stabilized and increased as the quarter went on (although two annoyingly-timed, negative sellside reports hit the stock on September 30), but there is still an enormous gap between price and (growing) value.

Holcim, FedEx and CNX Resources detracted for various reasons in the quarter that are out of whack versus their positive value development this year and likely future actions. At Holcim, old headlines about (now closed) operations in certain Middle

Eastern countries rose up again. The fact is that this problem is much more behind the company than in front of it, given the issues arose under former management, none of whom are still in place today. Holcim is now in the capable hands of CEO Jan Jenisch, who bought shares personally, alongside other executives at Holcim, after the stock dropped due to these headlines. The company also announced yet another divestiture at a solid price when Holcim exited its non-core position in Brazil. Management will continue to focus on the markets where Holcim is strongest (sustainable products in Americas, Europe and India), while tilting its business mix away from less sustainable emerging market cement. FedEx reported a slightly disappointing quarter, as margins decreased due to cost inflation. We wonder if this could be a preview of what happens with other S&P 500 companies in the months to come (FedEx reports late in the quarter). What those companies don't have is the incredible pricing power of FedEx to eventually pass through those costs, and we also still see a path to improved FCF conversion both in absolute terms and vs. core competitor UPS, leading to various ways that the multiple gap between these two companies can close. Finally, had you told us two years ago that CNX would 1) accretively buy in its pipeline assets to be the low-cost player in the basin; 2) further lock in FCF with hedges; 3) buy back a material amount of shares to grow FCF/share power above $2; 4) finally see more E&P industry consolidation, we would not have expected a sub-$12 stock price. But now that gas prices are up, hedges are viewed by the market as a negative, and sellsiders struggle for a short-term "catalyst." We expect CNX to create more catalysts and continue to take advantage of its dramatically undervalued stock price.

Contributors and Detractors

(Q3 Investment return; Q3 Fund contribution)

CNH Industrial (2%, 0.11%), a leading farm equipment and commercial vehicle manufacturer globally, was the top contributor for the quarter. CNH reported strong first half results and meaningfully upgraded its sales and FCF guidance for the year. After years of serving as a headwind, the ag cycle is now firmly in CNH's favor, driven by commodity price strength, healthy farm balance sheets, advanced technology adoption and aging fleet feeding replacement demand. CNH is in the process of spinning off its on-highway business (which includes its IVECO commercial vehicles and FPT powertrain segments), which will create a pure play off-highway company (comprised of the agricultural, construction and specialty vehicles businesses). The spin-off is expected to be completed by early 2022 and should lead to a narrowing of the discount to net asset value once we have two focused companies valued at peer multiples.

MGM (1%, 0.09%), the casino and iGaming company, was a top contributor. With Vegas and regional casinos open, results in the quarter were strong and above 2019 cash flow levels at many properties. Revenues remain around 70% of 2019 levels and should reach new highs when large conventions return in a year. BetMGM is now the #2 mobile app in its category nationally and has exceeded all our expectations. CEO Bill Hornbuckle also grew MGM's value by selling the real estate of several casinos at great prices and repurchasing shares at a 7% annualized pace. His excellent work over the last two years pulled the company through lockdowns and positioned it to be stronger than ever in 2022 and the years to come.

FedEx (-25%, -1.32%), the B2B and e-commerce global logistics company, was our largest detractor for the quarter. Revenues continued to grow very well across all three segments, with Freight standing out at +23% year-over-year. Yet Ground margins declined by 1.6 percentage points due to the labor shortage and associated wage cost inflation, as FedEx is hiring over 80,000 employees this year. The company therefore cut its full-year earnings guidance by 5% and now trades around 11x earnings per share (EPS). UPS with less growth and much more dangerous Amazon dependence trades at 17x, implying a FedEx value similar to our appraisal. Despite the stock's significant appreciation over the last year, we believe it remains very cheap. We also expect to see capital allocation contribute going forward as the gap between EPS and FCF closes while the company has an outstanding repurchase authorization.

Holcim (-19%, -0.93%), the global cement and aggregates company, detracted despite strong first half results, as discussed above.

CK Hutchison (-13%, -0.63%), a conglomerate of telecommunications, health & beauty, infrastructure and global ports, was a detractor. The stock was impacted by market fear in reaction to various events in China in the last six months, sending Chinese and Hong Kong markets tumbling. CK Hutchison's reported results in the first half demonstrated an overall steady recovery from the pandemic last year and the fact that this is not really a "100% China" company. The retail division achieved +35% EBITDA growth. All regions have shown a good rebound year over year, but the segment hasn't recovered back to the pre-COVID level yet. The telecom division's muted results were driven by intensified competition in Italy as well as the decline of wholesale revenue from Iliad Italia. The merger between Husky Energy and Cenovus was completed in January 2021, and this combined company is now benefitting from commodity price strength. In September, CK Hutchison reached an agreement for another value accretive transaction. Merging the Indonesia telecom business with Indosat elevates the company's local business from a sub-scale player to now the second-largest player in the market with better competitive advantages. The massively value accretive tower sale to Cellnex, first announced in November 2020, is progressing. CK Hutchison has completed five out of the six tower asset disposals and received aggregate proceeds of €6.3 billion so far, nearly 30% of CK Hutchison's market cap. We are encouraged that the board has been deploying a portion of the proceeds for share buyback to take advantage of the current mispricing opportunity, but we think they could do even more.

Portfolio Activity

We added two new holdings in the quarter. We have profitably owned Discovery Communications and Scripps Networks (which merged into Discovery in 2017) multiple times before. We have followed Discovery closely for the last few years and waited to see how the company's high-quality assets would fit into an increasingly confusing video marketplace. We immediately got more interested in the second quarter of this year when Discovery announced its merger with AT&T's Warner Media. Warner has top-notch, highly differentiated media assets including the Warner Bros. library, HBO and CNN. When joined together with Discovery's more niche yet more global assets like Discovery, HGTV and Food, the new company will be a powerful participant in "traditional" media with a much stronger streaming option to compete with Disney and Netflix. We have great confidence that CEO David Zaslav and long-time owner/board member John Malone will navigate this new company to a great position in the years ahead. John Malone is giving up his supervotes to accommodate the merger, a decision benefitting other shareholders and indicating his belief in the deal. Our other addition in the quarter is media and internet holding company IAC. We have followed IAC for years with growing admiration for the capital allocation abilities of the Joey Levin and Barry Diller team. After the spinoffs of Vimeo and Match over the last year plus, we find that the remaining assets of Angi, Dotdash, Care.com, Turo, MGM and other smaller investments are a compelling mix of high quality, understandable and underpriced businesses. We are still building our position and look forward to talking about this one more in the future. We trimmed some Comcast in the quarter as its price approached value and we found these two new holdings to be more attractive qualitatively and quantitatively. Our on-deck list grew with companies in branded industrials, technology, health care, distribution and consumer products.

Outlook

The Partners Fund in aggregate is more attractive than it was last quarter and also more attractive than it has been post "Pfizer day" almost 11 months ago. The price to value (P/V) is in the mid-60s%, and as mentioned above it is rare to have a portfolio trading at 10x FCF when the S&P 500 is 20x+. While we remain focused on the bottom-up fundamental value of our portfolio holdings, the team has spent a lot of time this year analyzing the much-debated topic of inflation and interest rates, and we will include a more detailed review in our year-end letter.

We are beginning our search for our next North American junior analyst, as Luke Willert has been making strong progress behind the scenes and will be moving up to analyst status next year. We always value input from our shareholders and client partners, who are one of the most important groups within our extensive global network, and we welcome references for this position. We have already gotten some strong applicants and look forward to adding to our talented team.

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 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.

The S&P 500 Index is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. S&P 500 Value Index constituents are drawn from the S&P 500 and are based on three factors: the ratios of book value, earnings, and sales to price. 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.

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.

A 13D filing is generally required for any beneficial owner of more than 5% of any class of registered equity securities, and who are not able to claim an exemption for more limited filings due to an intent to change or influence control of the issuer.

Earnings per share (EPS) is the portion of a company's net income allocated to each share of common stock.

As of September 30, 2021, the top ten holdings for the Longleaf Partners Fund: Lumen, 11.0%; Affiliated Managers Group, 6.3%; Mattel, 6.0%; MGM Resorts, 5.6%; Hyatt, 5.3%; Fairfax Financial, 5.2%; Douglas Emmett, 5.1%; CNH Industrial, 4.9%; CNX Resources, 4.8% and General Electric, 4.7%. Fund holdings are subject to change and holdings discussions are not recommendations to buy or sell any security. Current and future holdings are subject to risk.

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