

September 2022

# Longleaf Partners Small-Cap Fund Commentary 3Q22

Longleaf/Partners  
Funds

## Fund Characteristics

P/V Ratio	Low-50s%
Cash	2.0%
# of Holdings	19

September 30, 2022	Annualized Total Return						
	3Q (%)	YTD (%)	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)	Since Inception* (%)
Small-Cap Fund	-9.31	-22.93	-21.46	-0.82	0.31	6.46	9.39
Russell 2000	-2.19	-25.10	-23.50	4.29	3.55	8.55	8.81
Russell 2000 Value	-4.61	-21.12	-17.69	4.72	2.87	7.95	9.63

\*Inception date 2/21/1989

Longleaf Partners Small-Cap Fund declined 9.31% in the third quarter, while the Russell 2000 Index fell 2.19%. In a volatile year for markets globally, we have put the Fund's cash to work in high-quality businesses that we are confident will come out of the current environment stronger than before and that we believe are currently trading at incredible bargains. We do not own consensus defensive stocks – simplistically defined as American-listed consumer staples, health care and utilities. All three of these sectors in the S&P 500 currently trade well above their 15-year average

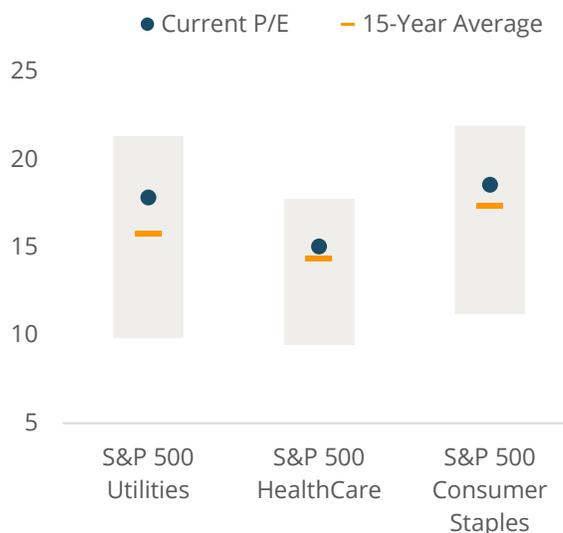
*Returns reflect reinvested capital gains and dividends but not the deduction of taxes an investor would pay on distributions or share redemptions. Performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an 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](http://southeasternasset.com). The prospectus expense ratio before waivers is 0.97%. Southeastern has contractually committed to limit operating expenses (excluding interest, taxes, brokerage commissions and extraordinary expenses) to 0.95% of average net assets per year. This agreement is in effect through at least April 30, 2023 and may not be terminated before that date without Board approval.*

price-to-earnings (P/E) ratios and, in our view, are trading at 100% or higher of valuation. In Warren Buffett's terms, the market is "paying a high price for a cheery consensus."

By comparison, the Fund is trading at a price-to-value of 50%, a level only seen five times in our history – during the dotcom crisis in 1998 and 2000, the global financial crisis in 2008-09 and briefly during COVID in March 2020. The performance rebound coming out of this historically low level has been significant and extended well beyond a one-year rebound as seen in the chart below.

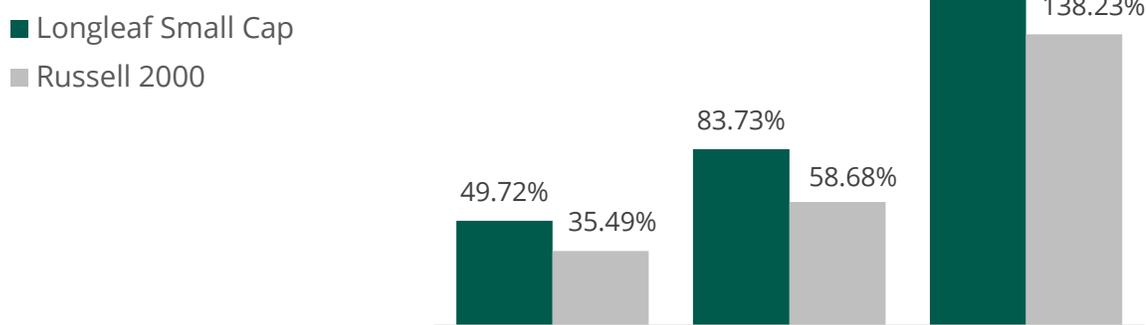
### P/E Ratios for Defensive Sectors

Next Twelve-Month P/E (Monthly)



Source: FactSet

### Average Cumulative Returns Following P/V Less Than 50%



	1 Year	3 Year	5 Year
<b>+/- Index</b>	<b>14.23%</b>	<b>25.05%</b>	<b>46.23%</b>
<b># of Monthly Observations</b>	11	10	10

Source: FactSet and Southeastern Asset Management

Past performance does not guarantee future results. Please see disclosure at end of document for exact time periods.

If our portfolio companies were privately owned, any objective view on progress made in the year and expected over the next twelve months – in book value per share, free

cash flow per share and/or earnings per share growth – would be overwhelmingly positive. However, the positive developments in a challenging environment are not yet being reflected in public stock price performance. Our companies are in strong financial positions, and management teams are going on offense with self-help measures, such as spinning or selling assets, buying back heavily discounted shares and/or considering mergers and acquisitions for whole businesses. Additionally, insiders are investing personally at an elevated level, indicating a high level of management confidence. The benefit of owning public equities is that we can take advantage of overblown price discounts in businesses whose management teams are actively taking steps to close the valuation gap in the coming months.

We encourage you to watch our [video](#) with Portfolio Managers Ross Glotzbach and Staley Cates for a more detailed review of the quarter.

## Contribution To Return

### 3Q Top Five

Company Name	Total Return (%)	Contribution to Return (%)	Portfolio Weight (%) (9/30/22)
Liberty Braves Group	15	0.71	6.9
Oscar	17	0.44	4.4
Westrock Coffee	8	0.35	5.5
Hyatt	10	0.35	5.6
White Mountains	5	0.33	6.8

### 3Q Bottom Five

Company Name	Total Return (%)	Contribution to Return (%)	Portfolio Weight (%) (9/30/22)
Lumen	-32	-4.44	11.0
Mattel	-15	-1.07	6.5
Vimeo	-34	-0.89	2.0
Lanxess	-19	-0.77	4.2
Anywhere Real Estate	-18	-0.77	4.2

*Holdings are subject to change. Past performance does not guarantee future results.*

- Liberty Media Braves Group** – Liberty Media Braves Group, which owns the Atlanta Braves baseball team and real estate around the stadium, was the top contributor in the quarter. The team has had a successful year with over three million in attendance – a 20-year high. After winning the World Series in 2021, the Braves will be in the playoffs again in 2022, though our appraisal is not based on deep playoff runs every year. We believe the real estate is still not properly valued by the market

and there is strong potential for the Braves Group to be monetized – by Liberty Media converting the tracking stock to a hard spin and/or a private market deal to buy a portion or all of the team.

- **Lumen** – Global fiber company Lumen was the top detractor in the quarter. In September, the company announced a new CEO, Kate Johnson, would take over for Jeff Storey. Johnson has a strong track record of delivering organic revenue growth, the primary area where Lumen has struggled. Johnson held previous roles at GE and Microsoft, where she most recently served as head of Microsoft US and doubled her division’s revenue in only four years. Multiple checks through our network vouch for her and suggest this leadership change is a positive upgrade that will bring the discipline and focus on sales that Lumen has been missing. The market reacted negatively with concern over the potential for another dividend cut or strategy change. We are confident the stock price reaction is highly overblown versus any impact that a potential dividend cut would have on value per share. The stock now trades at 4.5x EBITDA, and we believe the best value accretive capital allocation move today is share repurchase. Shortly after quarter end, Lumen closed on the sale of part of its consumer business to Apollo, further improving its balance sheet and business mix.
- **Mattel** - Toy and IP company Mattel was also a detractor in the quarter. There was very little Mattel-specific news in the quarter beyond another solid quarter of execution. No news was bad news, however, as previous rumors of a sale of the company have not yet come to fruition. This is understandable in the current environment where deals are harder to get done. As the overall macro picture deteriorated, the market also came to doubt that Mattel can generate the \$2+/share of free cash flow that it believes is possible in the near term. The good news is that Mattel remains a historically defensive business, and there is zero in the stock price today for IP monetization success, which is closer than ever with items like a new Barbie movie in 2023 and multiple projects in the pipeline.

## Portfolio Activity

Market volatility has expanded our universe of compelling opportunities. We purchased one new company that has been called a “hidden superstar” within the housing sector. We found the business when initially researching a competitor but were more attracted to this company in the end because it was more of a pure play leader within its sub-sector. We are still building the position and look forward to discussing in more detail. We added to one heavily discounted holding in the quarter, trimmed three companies that held up relatively better and exited our small positions in Ingles Markets and Idorsia.

### **Outlook**

The Small-Cap Fund is fully invested with 2% cash, and our on-deck list is growing longer and broader amid market volatility. The portfolio ended the quarter at a near-all-time low P/V ratio of 50%, a level from which the Fund has historically rebounded in a meaningful and sustained fashion. Our businesses have pricing power in the face of inflation, strong balance sheets with the ability to put cash to work in a distressed environment and clear paths to organic growth. Our management partners are actively pursuing catalysts that could drive significant performance payoffs.

*See following page for important disclosures.*

**Before investing in any Lingleaf 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 Lingleaf Small-Cap 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. Smaller company stocks may be more volatile with less financial resources than those of larger companies.

The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3,000 Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index. The Russell 2000 Value index is drawn from the constituents of the Russell 2000 based on book-to-price (B/P) ratio. An index cannot be invested in directly.

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.

The S&P 500 Utilities comprises those companies included in the S&P 500 Index that are classified as members of the GICS utilities sector.

The S&P 500 Health Care comprises those companies included in the S&P 500 Index that are classified as members of the GICS Health Care sector.

The S&P 500 Consumer Staples comprises those companies included in the S&P 500 Index that are classified as members of the GICS Consumer Staples sector.

Average Cumulative Returns Following P/V Less than 50%: Month ends since September 1998 were identified where the Lingleaf Partners Small Cap Fund's "price-to-value ratio" (P/V) was less than 50%. These month ends were 9/30/1998, 2/29/2000, 10/31/2008, 11/30/2008, 12/31/2008, 1/31/2009, 2/28/2009, 3/31/2009, 4/30/2009, 6/30/2009 and 3/31/2020. From each month end identified, the 1, 3, and 5 year cumulative returns for the Fund and the Russell 2000 were calculated. Those returns were then averaged.

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

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.

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

*Book value per share compares a company's per-share total assets less total liabilities to the total number of outstanding shares.*

*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.*

*As of September 30, 2022, the top ten holdings for the Longleaf Partners Small-Cap Fund: Lumen, 11%; Liberty Braves Group, 6.9%; White Mountains, 6.8%; Mattel, 6.5%; Eastman Kodak, 5.7%; Hyatt, 5.6%; Westrock Coffee, 5.5%; Graham Holdings, 5.4%; Empire State Realty, 5% and CNX Resources, 5%. 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.*

*Funds distributed by ALPS Distributors, Inc.  
LLP000000  
Expires 10/31/2022*