

October 2023

# Longleaf Partners Small-Cap Fund Commentary 3Q23

Longleaf Partners  
Funds

## Fund Characteristics

P/V Ratio	Low-60s%
Cash	7.7%
# of Holdings	21

	Annualized Total Return						
	3Q (%)	YTD (%)	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)	Since Inception (%)
Small-Cap Fund	0.26	8.39	13.53	4.58	0.47	5.20	9.50
Russell 2000	-5.13	2.54	8.93	7.16	2.39	6.64	8.81
Russell 2000 Value	-2.96	-0.53	7.84	13.32	2.59	6.19	9.60

\*Inception date 2/21/1989. All data as of September 30, 2023.

Longleaf Partners Small-Cap Fund added 0.26% in the third quarter, materially outperforming the Russell 2000 and Russell 2000 Value, which fell -5.13% and -2.96% respectively in a challenging, “risk-off” period. Most of our companies saw solid operational progress, translating into positive stock performance at some of our larger positions in a quarter when only Energy and Financials were positive absolute sectors for the Russell 2000.

*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 1.01%. The expense ratio is subject to a contractual fee waiver to the extent the Fund's normal 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, 2024, and may not be terminated before that date without Board approval.*

Small-Cap stocks remained out of favor as they continue to be viewed as more volatile, cyclical businesses, while a small handful of US mega-cap stocks (that are trading at historic valuation multiples) have dominated Global markets this year.

This wide valuation gap has created a compelling opportunity to own high-quality small-cap businesses trading at a steep discount. As we wrote last quarter, we have built a unique, diversified and relatively defensive portfolio in the Small-Cap Fund, and our stable businesses have strong balance sheets and management teams that are executing across the board.

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 As Of September 30, 2023

### 3Q Top Five

Company Name	Total Return (%)	Contribution to Return (%)	Portfolio Weight (%)
CNX Resources	27	1.55	6.3
Boston Beer Company	26	1.14	4.9
Mattel	13	0.78	6.6
White Mountains	8	0.51	5.0
Empire State Realty	8	0.50	4.7

### 3Q Bottom Five

Company Name	Total Return (%)	Contribution to Return (%)	Portfolio Weight (%)
Oscar	-31	-1.98	4.9
Westrock Coffee	-19	-1.18	5.7
Lumen	-33	-0.68	1.2
Atlanta Braves Holdings	-10	-0.43	4.2
Masonite	-9	-0.32	3.6

- CNX Resources** – Natural gas company CNX Resources was the top performer in the quarter. The company benefited from rising energy prices, as well as strong operational execution. CNX remains highly discounted, as the market does not give the company credit for its longer-term undrilled assets or its “new technology investments,” which include methods to reduce carbon on a net basis. Management expects this to be a material business for CNX over the longer term,

but for now it is a high-quality hidden asset. CNX has taken advantage of the price disconnect through meaningful share repurchase.

- **Boston Beer Company** – Boston Beer Company was also a positive contributor in the quarter on the back of strong growth from underlying brand Twisted Tea, which represents the largest portion of our value for the business. Twisted Tea's growth is finally offsetting Truly Seltzer, which peaked in what turned out to be a seltzer fad in 2020 and has steadily declined over the subsequent two years but is beginning to flatten out. The company is still in the early days of rationalizing some of the Truly costs, which will further optimize margins. Boston Beer has a net cash balance sheet and Executive Chairman and Founder Jim Koch and team have been opportunistically buying back discounted shares.
- **Mattel** – Global toy and media company Mattel contributed in the quarter on the back of the success of the Barbie movie. Beyond the near-term positive financial impact, the Barbie movie is emblematic of Ynon Kreiz's plan to monetize the strong intellectual property that the company owns. When we interviewed Kreiz on the [Price-to-Value Podcast in June 2020](#), he said, "Barbie is so much more than a toy. Barbie at this point is a cultural phenomenon, and the consumers have a very strong emotional connection with our brands." We expect Mattel to continue to monetize more of its strong brands in ways beyond selling toys.
- **Oscar Health** – Health insurance and software platform Oscar Health was the top detractor in the quarter but remains the top performer for the year. Oscar declined in the quarter as venture capital investors that funded the business' early days reduced their investment. However, nothing fundamentally changed or negatively impacted the value of the business, and Oscar reiterated guidance. CEO Mark Bertolini is focused on closing the significant price-to-value gap. We had trimmed our position in Oscar on the back of strong performance in the first half but added again in the quarter as price declined.
- **Westrock Coffee** – Westrock Coffee, which is the "brand behind the brand" producing and distributing coffee, tea and extracts for larger entities, was another top detractor in the quarter. Westrock faced a challenging summer with inflation, heat waves making hot coffee less popular and high gas prices negatively impacting traffic at convenience stores and rest stops. However, our long-term case for the business is less dependent on the single serve coffee business and more predicated on the potentially transformative plant that will be operating in 2024 and will support a shift to higher value beverages that represent a tremendous

growth opportunity. In the near-term, Westrock did a capital raise to accelerate the growth of the new plant, and this also weighed on the stock price in the short term.

### **Portfolio Activity**

After a busy first half of the year, we initiated one new position in a “recycled” business we have owned previously and know well. We opportunistically trimmed and added to several positions throughout the quarter but did not have any full exits in the period.

### **Outlook**

The Fund held its own in a challenging market with investors increasingly turning to an ever-narrower group of mega-cap companies or, on the other side of the barbell, retreating to cash that now earns something. As the valuation gap between what has worked and the rest of the market stretched even wider, we have grown more confident in our outlook for the portfolio from here. We own competitively entrenched businesses with strong balance sheets and management teams that are on offense. Our portfolio holdings in aggregate have grown their values this year. The portfolio ended the quarter with a price-to-value ratio in the low-60s%, offering meaningful upside potential. As more bottom-up opportunities have qualified this year, we have improved the quality of the portfolio over the last several quarters and have a strong and growing pipeline of new investments. We are confident in the portfolio’s position for future relative outperformance in multiple market environments.

*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 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 3000 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.*

*PV ("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. PV does not guarantee future results, and we caution investors not to give this calculation undue weight.*

*As of September 30, 2023, the top ten holdings for the Longleaf Partners Small-Cap Fund: Eastman Kodak, 9%; Mattel, 6.6%; CNX Resources, 6.3%; GRUMA, 6.2%; Westrock Coffee, 5.7%; White Mountains, 5%; Boston Beer Company, 4.9%; Oscar, 4.9%; Empire State Realty, 4.7% and Graham Holdings, 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.*

*Funds distributed by ALPS Distributors, Inc.*

*LLP001470*

*Expires 1/31/2024*