Longleaf Partners Funds | Advised by Southeastern Asset Management, Inc.®

International Fund Management Discussion

Longleaf Partners International Fund produced strong results for the fourth quarter and the year, gaining 6.9% and 28.1%, respectively. These results outpaced the EAFE Index's 5.7% and 22.8% returns for the same periods and far exceeded our absolute annual goal of inflation plus 10%. The Fund also outperformed the benchmark for the 15+ years since inception.

Cumulative Returns at December 31, 2013

	Since Inception	15 Year	Ten Year	Five Year	One Year	4Q
International Fund (Inception 10/26/98)	**291.93%**	**259.51%**	**75.86%**	**73.38%**	**28.14%**	**6.89%**
EAFE Index	112.60	94.57	95.09	79.69	22.78	5.71

Average Annual Returns at December 31, 2013

	Since Inception	15 Year	Ten Year	Five Year	One Year
International Fund (Inception 10/26/98)	**9.41%**	**8.90%**	**5.81%**	**11.63%**	**28.14%**
EAFE Index	5.10	4.54	6.91	12.44	22.78

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.

Melco International gained 219% for the year after rising 37% in the fourth quarter. Through its joint venture in Macau casino operator Melco Crown, the company benefitted from the limited supply and large demand for Macau gaming. In the quarter, the company reported a 24% increase in overall revenue and a luck-adjusted 50% increase in year-over-year EBITDA (earnings before interest, taxes, depreciation, amortization). CEO Lawrence Ho, who is Melco's largest shareholder, has focused the business on mass-market gamblers, a much more profitable segment than VIPs whose revenues are shared with junket operators. He is using capital to benefit from the acceleration in visitor arrivals and length of stays over the coming years by building Studio City and adding to City of Dreams. While Macau does seven times more gaming volume than Las Vegas, it currently has one-eighth the hotel rooms. The opening of the Macau-Hong Kong Bridge in 2016 will allow easy access to the Hong Kong Airport and provide travelers from Chinese cities on the eastern side of the Pearl River Delta a much quicker route to Macau, bringing more customers. Despite the strong price appreciation during the year, the stock remains below our appraisal, because revenues grew significantly ahead of our expectations. We did trim the position to maintain a normal weight as the price rose.

OCI gained 33% in the fourth quarter, bringing its appreciation to 41% since we purchased the stock in the third quarter. OCI is one of the world's leading nitrogen fertilizer producers with capacity of nearly 7 million tons. The company also operates one of the leading engineering and construction firms in the Middle East and North Africa specializing in complex infrastructure projects. Chairman and CEO Nassef Sawiris controls 54% of the stock and has a strong operating and capital allocation record. He sold Orascom Cement in 2007, just before the financial crisis, and successfully listed 22% of OCI Partners in October 2013. OCI Partners, which is 78% owned by OCI, is up nearly 50% from IPO price. He has built OCI into one of the industry's lowest cost fertilizer producers through long-dated natural gas contracts at low prices (a primary ingredient in fertilizer) and newer, more efficient plants that are strategically located next to either main export hubs or major agricultural centers.

Global telecommunications giant Vodafone ended 2013 with a 55% gain after a 7% rise in the fourth quarter. Mid-year, CEO Vittorio Calao negotiated a compelling price to sell the company's 45% ownership of Verizon Wireless to Verizon. He has committed to return much of the proceeds to shareholders. In the fourth quarter, speculation that AT&T would make an offer for Vodafone helped push the stock higher. With or without a deal, management is growing value for shareholders not only through capital allocation, but also through successfully adjusting to the evolving telecom landscape in Europe, Africa, and India.

Hochtief, one of the world's leading infrastructure construction firms, was a significant contributor for the year with a 50% return. CEO Marcelino Fernandez Verdes spent his first year selling non-core assets including the company's airports and services business at prices above our carrying values while refocusing the company on its historical core capabilities. With the proceeds from the asset sales, he paid down some debt, repurchased 10% of shares, increased the dividend, and opportunistically bought more of 56%-owned Leighton at a steep discount to value. He has net cash to take advantage of additional opportunities or return it to shareholders, and just after the New Year, the company announced that it had sold an office building in Germany the first step in the eventual sale of all of the non-core real estate assets.

Philips CEO Frans Van Houten and CFO Ron Wirahadiraksa completed a €2bn stock buyback at discounted prices, as well as delivered higher margins as planned. Philips' management team is pursuing additional cost reductions and believes the company has strong revenue and margin potential over the next two to three years in all three primary businesses: medical, lighting, and consumer lifestyle. They signaled their confidence in the future value growth of the business by announcing another €1.5bn share buyback.

Brazilian iron ore company Manabi was the primary detractor for the quarter and the year, down 10% and 31%, respectively. While currency moves played a part in lowering our carrying value, broad industry dynamics, transactions, and a reduction in our mine life assumptions also caused adjustments to the price. Recent reports confirmed the quantity and quality of the iron ore reserves, and the company is moving forward to get the licenses and infrastructure in place to begin mining. We sold Brazilian oil and gas exploration company HRT early in the fourth quarter. Unsuccessful drilling results in Brazil and Namibia combined with management hubris made this a disappointing investment. Our takeaway lesson was that we will not buy an E&P company in the future if it does not have current production to provide a floor to the value. We also sold our Henderson Land position, which was down for the year after a 5% decline in the fourth quarter. Worries over higher interest rates and the Hong Kong government's housing policy regulations weighed on the price. While the company's Hong Kong real estate remained undervalued, management's decision to buy overvalued shares of Hong Kong China & Gas from its Chairman, rather than using the capital to buy its own shares at a deep discount, changed our view of our partners, and we eliminated our position.

During the year, we bought new positions in eight companies. Three of these were in the fourth quarter, including Guinness Peat, an investment holding company, Orkla, a Nordic consumer foods business, and K Wah, a real estate and casino company primarily in Shanghai and Macau. We eliminated eight positions in 2013, mostly after the gaps between prices and our appraisals closed. In addition to those previously mentioned, we sold Accor, C&C Group, and Willis Holdings in the first quarter and NIDEC and Cemex in the third quarter.

We added the building blocks for our strong results in 2013 over the last few years when many investors were avoiding the short-term uncertainty of Europe and Asia. Even though a number of our holdings have experienced solid double-digit value growth, strong performance has pushed the Fund's P/V into the high-70s%, and cash is 20% (although adjusted for swaps is more like 17%). We believe that our current holdings have much upside opportunity not captured in our conservative appraisals. We have a number of interesting names on-deck, but will maintain our deep discount discipline.

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.

The Longleaf Partners International 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 invest 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 Funds may be more volatile than those of larger companies. 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. The annual expense ratio for the Longleaf Partners International Fund is 1.27%. The expense ratio is subject to a fee waiver to the extent the Fund's normal annual operating expenses exceed 1.75% of average annual net assets.

MSCI EAFE Index (Europe, Australasia, Far East) is a broad based, unmanaged equity market index designed to measure the equity market performance of 22 developed markets, excluding the US & Canada. 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.

As of 12/31/13, the top 10 holdings in Longleaf Partners International Fund – Melco (7.3%), Cheung Kong (6.7%), Lafarge (6.7%), OCI (6.1%), Philips (5.3%), Exor (4.7%), News Corp (4.4%), Fairfax Financial (4.4%), Manabi (4.3%), Ferrovial (4.2%). Current and future holdings are subject to risk.

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