Partners Fund Management Discussion

Longleaf Partners Fund produced strong absolute gains for the fourth quarter and the year, delivering 9.8% and 32.1%, respectively, and far surpassing our absolute annual goal of inflation plus 10%. The Fund's 2013 results were 27 basis points behind the S&P 500 Index because of the short-term drag that our higher-than-normal cash level had on performance. The impact was more pronounced in the fourth quarter. More importantly, the Partners Fund significantly outperformed both our absolute goal and the benchmark over the last five years.

Cumulative Returns at December 31, 2013

	Since Inception	20 Year	15 Year	Ten Year	Five Year	One Year	4Q
Partners Fund (Inception 4/8/87)	**1751.29%**	**644.70%**	**202.20%**	**79.86%**	**170.85%**	**32.12%**	**9.75%**
S&P 500 Index	1063.85	483.53	98.54	104.30	128.19	32.39	10.51

Average Annual Returns at December 31, 2013

	Since Inception	20 Year	15 Year	Ten Year	Five Year	One Year
Partners Fund (Inception 4/8/87)	**11.54%**	**10.56%**	**7.65%**	**6.05%**	**22.05%**	**32.12%**
S&P 500 Index	9.61	9.22	4.68	7.41	17.94	32.39

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.

Chesapeake Energy was the largest contributor in 2013, up 59%. Together with new CEO Doug Lawler, the board that we helped seat in 2012 is instilling financial and operating discipline into the company. Over the last 19 months, the company reduced SG&A, sold a number of non-core assets, decreased capex, and committed to living within its cash flow in 2014. The company is focusing on its strong assets in the Eagle Ford, Marcellus, and Utica plays in order to grow production profitably. Even after the stock's gains, Chesapeake's oil and gas reserves sell for a discount to our appraisal. That appraisal would grow significantly in the long-term bull case for low cost natural gas replacing coal for power generation, fostering manufacturing renewal in the U.S., displacing some oil as a transportation fuel, and becoming a major export.

FedEx was a leading performer for the fourth quarter and the year, gaining 26% and 57%, respectively. Major cost initiatives gained traction as the company's Express unit grew margins by 1.4% in its most recent quarter. The Ground unit delivered strong growth with volume increases from e-commerce and higher pricing. FedEx repurchased 7.2 million shares, a 10% annualized pace. The stock's increase in the fourth quarter followed news that the company would begin a new 32 million share repurchase program. Management's operating success and capital allocation combined to build the company's worth through the year.

The shareholder approval of Dell's management buyout generated a positive return of 31% for 2013 in spite of the disappointing investment outcome. Philips gained 44% during the year. 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.

For Aon, the world's largest insurance broker and a leading benefits manager, increasing cash flow and healthy share repurchases helped our position gain 53% for the year. As noted in our third quarter commentary, higher interest rates should improve fiduciary income and help close the pension gap. Aon's private health care exchange for corporate employees gained critical mass with the addition of Walgreens to the client base. CEO Greg Case and his management team have built value per share through their customer-focused, shareholder-oriented leadership.

Level 3 Communications was a key contributor in the fourth quarter, adding 24% and boosting 2013 gains to 44%. The company reported strong results following the appointment of Jeff Storey as CEO in April. Revenue growth and significant cost reductions improved margins. The company also refinanced $2.6 billion in debt. Large internet-based companies looking to control their customer connections highlighted the value of Level 3's dark fiber, which is not reflected in revenues. As management continues to execute, value growth should be meaningful. Growing revenues will especially benefit Level 3 given its fixed-cost asset base, lower-than-average maintenance capital spending, and minimal tax liability.

The Fund had no detractors in the fourth quarter. Only one position declined in the year - potash and phosphate producer Mosaic. We bought and exited the stock in the third quarter when potash prices collapsed and changed our case.

In the fourth quarter, we trimmed several positions but made no new purchases or full sales. During the year, we added Murphy Oil in the first quarter and Cheung Kong in the second quarter. We sold four full positions: Disney and Franklin Resources in the first quarter and Dell and Cemex in the third quarter.

Following the Fund's strong performance, the P/V ended the year in the low-80s%. Our 22% cash level (effectively under 17% considering the Aon risk reversal) is higher than we would prefer, yet we will not compromise our deep discount criteria just to be fully invested. Our research indicates that, historically, our holding cash levels over 15% has not penalized investors over subsequent five and ten year periods when compared to the indexes. In fact, holding cash has been a benefit to the extent it has permitted buying discounted names. Going forward, our patience and discipline should enable us to buy new qualifiers. In the interim, we are happy owners of a portfolio filled with many industry leaders and capable management partners who are building value per share.

The steep rise in stocks has turned the environment from one where discounts were abundant two years ago to one where more caution is warranted. Notably, the underlying leverage in the portfolio decreased in 2013. We sold Cemex and trimmed Chesapeake and Vulcan as prices rose. In addition to reducing our exposure to more levered businesses, we added strongly capitalized Cheung Kong. Within our portfolio companies, our CEO partners increased financial strength by selling assets, cutting costs, and reducing debt at Chesapeake, Level 3, and Bank of New York Mellon. In an environment priced for only good news, we believe that having lower leverage exposure is appropriate.

While we are not surprised by our strong 2013 results, we caution our partners not to expect annual 30+% performance over the next decade. With the liquidity we have to purchase the next compelling opportunities and the quality of our current holdings, we have confidence in our ability to meet our goal of inflation plus 10% over the long term.

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 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 annual expense ratios for the Longleaf Partners Fund is 0.92%. The expense ratio is subject to a fee waiver to the extent the Fund's normal annual operating expenses exceed 1.5% of average annual net assets.

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 indicating of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. 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 Fund – Loews (7.8%)Chesapeake (7.2%), FedEx (6.9%), Level 3 (5.8%), Bank of New York Mellon (5.8%),Cheung Kong (5.4%), CONSOL Energy (5.2%), DirecTV (5.0%), Mondelez (4.9%), Philips (4.9%). Fund holdings are subject to change and are not recommendations to buy or sell any security. **Current and future holdings are subject to risk.**

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