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

Small-Cap Fund Management Discussion

Longleaf Partners Small-Cap Fund delivered strong absolute performance for the fourth quarter and the year, advancing 5.7% and 30.5%, respectively, and far surpassing our absolute annual goal of inflation plus 10%. In spite of the solid absolute results, our higher-than-normal cash level caused the Fund to lag the Russell 2000 Index, which returned 8.7% for the fourth quarter and 38.8% for the year. The Fund consistently outperformed the Index for all longer time periods and almost doubled our absolute goal over the last five years.

Cumulative Returns at December 31, 2013

	Since Inception	20 Year	15 Year	Ten Year	Five Year	One Year	4Q
Small-Cap Fund (Inception 2/21/89)	**1371.59%**	**970.43%**	**358.26%**	**167.41%**	**198.20%**	**30.45%**	**5.65%**
Russell 2000 Index	963.63	489.14	236.29	138.31	149.69	38.82	8.72

Average Annual Returns at December 31, 2013

	Since Inception	20 Year	15 Year	Ten Year	Five Year	One Year
Small-Cap Fund (Inception 2/21/89)	**11.42%**	**12.58%**	**10.68%**	**10.34%**	**24.42%**	**30.45%**
Russell 2000 Index	9.98	9.27	8.42	9.07	20.08	38.82

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.

Texas Industries (TXI) led the Fund's performance for the year with the combination of its 35% gain and overweight position. This cement producer posted improved results as the economy in Texas gained steam, driving higher volumes and prices. The company opened its new Hunter 2 plant, which also helped drive higher revenues. TXI will have additional Texas capacity available in 2014 and has upside when California demand turns.

Graham Holdings (the renamed Washington Post) gained 82% for the year after a 9% rise in the fourth quarter. The company sold *The Washington Post* at a premium to our appraisal in the third quarter, demonstrating the Graham family's commitment to shareholder value and highlighting the company's remaining education and media assets. Cost cutting at the Kaplan Higher Education unit and price increases at Cable One improved profitability throughout the year. In the fourth quarter, the company announced the sale of its headquarters building at an attractive price.

Wendy's made substantial gains during the year, appreciating 91%. The company sold company owned stores, freeing up capital and cash flow. Additionally, management successfully introduced menu innovations and began to see the results from store revitalizations. As the stock rose closer to our appraisal, we scaled back the position.

Level 3 Communications was the largest contributor in the fourth quarter, adding 24% and boosting 2013 gains to 43%. 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.

Global asset manager Legg Mason gained 31% in the fourth quarter and 71% for the year. The company experienced improved flows and grew assets under management with strong market appreciation. Legg Mason also repurchased a significant amount of stock during the year.

We bought Empire State Realty Trust in the fourth quarter, and it soon became a large contributor, rising 18%. The company has a strong portfolio of office buildings located primarily in Manhattan, with the Empire State Building being its flagship property. The building is one of several properties that are poised to increase occupancy and rents over the next several years. CEO Tony Malkin and his family are significant owners with a focus on building value per share.

We began buying Nuance Communications, a voice and imaging software company, in the fourth quarter but sold our small position after the company reported disappointing quarterly results with lower revenue and margins than we had anticipated. The name's 15% decline made it the primary detractor in the quarter and one of only two holdings that were down in the year. Oil and gas exploration company Quicksilver, which we sold in the third quarter, was the other detractor in 2013. Uncertainty regarding how and at what price Quicksilver would monetize its non-cash-flowing assets altered our view of the company's potential.

During 2013, the strong run up in stock prices led to more sales and trims in the Fund than buys. We bought five new positions and sold nine holdings. We initiated a position in Hopewell Holdings and OCI N.V. in the third quarter, and as discussed earlier, we bought Empire State Realty Trust and Nuance in the fourth quarter as well as Rayonier. Most sales were a result of stock prices approaching our appraisal values, including Willis and Potlatch in the first quarter, Lamar Advertising and Madison Square Garden in the second quarter, and Saks, Service Corp., and Tribune in the third quarter.

The combination of transactions resulted in a 35% cash level at year-end. As large Fund owners, we would prefer to be more fully invested, but we will not compromise our deep discount criteria. 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, we anticipate converting low-returning cash reserves into higher return opportunities as we identify companies that meet our criteria. In the interim, we own strong businesses with capable management partners who are building value per share. With a P/V in the mid-80s%, the portfolio trades at a discount to our conservative appraisals.

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 inflation plus 10% goal 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 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 invest 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 annual expense ratio for the Longleaf Small-Cap Fund 0.91%. 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 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. 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 Small-Cap Fund - Texas Industries (12.5%), Level 3 (7.0%), Graham Holdings (6.9%), Everest Re (5.5%), Empire State Realty Trust(4.5%), Vail Resorts (4.5%), Fairfax Financial (4.4%), Scripps (4.3%), tw telecom (4.0%), Legg Mason (3.3%). **Current and future holdings are subject to risk.**

Funds distributed by Rafferty Capital Markets, LLC.