December 31, 2016

4Q16

Longleaf Partners Small-Cap Fund Commentary

Longleaf Partners Small-Cap Fund delivered a substantial return of 20.48% in 2016, following a 3.88% gain in the fourth quarter. The Fund far outpaced the Russell 2000 Index throughout the year until the November presidential election sent the index soaring over 13%, catching up with the Small-Cap Fund to deliver 8.83% in the fourth quarter and 21.31% for the year. Our 2016 risk adjusted absolute and relative returns were impressive given that our cash balance averaged 23% throughout the year. The Fund's longer-term results have materially outpaced the index.

Results at our companies drove the Fund's return, with a large part of our success coming at the hands of our corporate partners' moves to build shareholder value. Four holdings, including DreamWorks Animation, Chemtura, Liberty Media, and Level 3 Communications, were involved in attractive mergers or acquisitions. A number of other companies sold or bought assets to focus more heavily on their core businesses. Even at OCI, our primary detractor in 2016, the company was in the process of being acquired before the U.S. government removed tax inversion benefits. The year highlighted the importance of value additive capital allocation by our CEOs and boards. In large measure because of our capable management partners, we believe the Fund will continue to benefit from not only their operating skills, but their abilities to successfully integrate merged businesses and make value accretive capital decisions. The competitive strength of our businesses and our collaborative engagement with our partners make us confident in the Fund's future returns.

Annual Contributors/Detractors

(2016 investment return; 2016 Fund contribution)

DreamWorks Animation (+55%, 5.06%), the film studio and multimedia company, was the Fund's largest contributor for the year. We sold the position in the second quarter after Comcast announced an all cash acquisition for $41 per share. We started buying DreamWorks in the third quarter of 2014 at $19 per share following disappointing new movie releases. Our appraisal hinged on the valuable film library and DreamWorks' growing success in TV and web content, as well as licensing. We partnered with a strong board led by Chairman Mellody Hobson and owner-operator CEO Jeffrey Katzenberg, who built the company's brands, developed a presence in China, managed costs, and ultimately monetized the company at full value with a 104% return for the Fund during our two year holding period.

CONSOL Energy (+131%; +3.55%), the natural gas and Appalachian coal company also contributed large gains over the year. CEO Nick Deluliis, management, and the board, led by Chairman Will Thorndike, monetized assets and continued to cut costs in the pursuit of separating the coal and gas businesses which is expected to happen in 2017. Following the disposition of its metallurgical coal assets in the first half of the year, CONSOL sold its high cost Miller Creek and Fola thermal coal mines to a private buyer at a price above our appraisal. The company also delivered positive free cash flow (FCF) for the year, which many thought very unlikely at the start of 2016. In the fourth quarter, CONSOL announced the unwinding of a joint venture with Noble Energy in which the company received $205 million in cash from Noble while maintaining ownership of valuable earnings before interest, taxes, depreciation, and amortization (EBITDA) producing properties. Recent transactions involving other companies' gas assets in Appalachia, as well as CONSOL's own midstream master limited partnerships' (MLP) prices, support our appraisal of CONSOL which is much higher than the stock price.

Liberty Media Corp. (+79%; +3.36%), a holding company for a broad range of entertainment businesses, was an additional large contributor to the Fund's return in 2016 and rose 11% in the fourth quarter. We initiated the position in the second quarter when "old Liberty Media" spun out three tracking stocks, including Liberty Media Corp. (LMCK). LMCK's main asset immediately post-spin was 34% of Live Nation Entertainment, the largest ticketing and live entertainment company in the world. Live Nation reported solid results throughout the year. Shortly after our purchase of Liberty Media, the company announced its acquisition of a controlling interest in Formula One Group, which is now LMCK's most important asset. Formula One adds to LMCK's properties a global, live sports brand with over 400 million unique viewers, and its worldwide races generate long-term contracted revenue from broadcasting, event fees, and advertising. A key part of the acquisition was the appointment of Chase Carey as Formula One Group Chairman. Southeastern successfully partnered with Carey previously, and we are thrilled to partner with him again, as his experience as one of the smartest

Average Annual Total Returns (12/31/16): Since Inception (2/21/89): 11.09%, Ten Year: 8.15%, Five Year: 15.35%, One Year: 20.48%

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.

As reported in the Prospectus dated May 1, 2016, the total expense ratios for the Longleaf Partners Small-Cap Fund is 0.91% The expense ratio is subject to fee waiver to the extent normal annual operating expenses exceed 1.50% of average annual net assets.

people in sports media directly relates to the Formula One opportunity. Upon the anticipated first quarter 2017 closing of the acquisition, Liberty Media Corp. will be renamed Formula One Group. Our past investments with Chairman John Malone and CEO Greg Maffei have been rewarding, and we expect this opportunity to partner with these superior capital allocators to continue to benefit the Fund.

Wynn Resorts (+27%; +1.67%), the luxury gaming and hotel operator with prime real estate in Las Vegas, Macau, and Boston, was another significant contributor during the year despite a slight retreat in the fourth quarter. The total Macau market reported higher gross gaming revenues year-over-year in most months of the second half, indicating stabilization and a return to growth. In August, the company opened the Wynn Palace in Cotai (Macau). The property has ramped up more slowly than some analysts had hoped, but Wynn has a history of careful openings and eventual success. During the fourth quarter, sentiment shifted up and down, as some positive industry level data points were offset by concerns over Chinese policy changes that could potentially impact Macau indirectly. In the U.S., Las Vegas had solid results, and the company received the final licenses necessary to begin construction of Wynn Boston Harbor, which is expected to open in 2019. Wynn also announced plans to develop part of its Las Vegas golf course property into a hotel, restaurants, and other attractions. In December, the company sold 49% of its retail assets in Las Vegas for over twenty times EBITDA, which was accretive to our value and well above where the stock trades. The sale was also further evidence of how our heavily-aligned partner, Steve Wynn, continues to build value per share and pursue value recognition for shareholders.

Scripps Networks (+31%,+1.51%), the media company whose three main brands are HGTV, Food Network and Travel Channel, had solid advertising revenue gains during the year, and the stock continued its rise in the fourth quarter, gaining 13%. Ratings were strong overall in 2016, and HGTV ended up as the third most watched U.S. cable channel behind ESPN and Fox News. The company's advertising has more exposure to stable categories than most competitors and also earns premiums per viewer over the competition. The year did see a decline in distributor fees paid to Scripps, but this was due to one-time items that will be lapped next year. Part of the stock's discount is related to international expansion which has not yet produced profits but has created startup costs and non-cash amortization. Scripps' high-profile lifestyle channels could be valuable content for other media and entertainment companies, as evidenced by AT&T's recent bid for Time Warner at an attractive multiple relative to Scripps' stock price.

Level 3 Communications (+4%, +0.19%), a global fiber and integrated communications network company was the primary contributor to the Fund's fourth quarter return with a 22% gain. The stock rose with the announcement of a merger with CenturyLink, Inc., equating to $66.50 per Level 3 share, a 42% premium to the closing price prior to the announcement. This deal offers numerous benefits for shareholders. The combined company will increase the capacity and reach of CenturyLink's domestic and Level 3's global high-bandwidth fiber networks. Although CenturyLink has been tainted by the performance of its legacy landline business, its Qwest fiber network is a high quality asset. Projected synergies total $975 million, with $125 million in reduced capital expenditures and the remaining $850 million split in half between operating expense reductions and moving data usage onto the company's own network. Additionally, Level 3 will get four directors on the new board. CenturyLink CEO Glen Post has announced that the new CFO will be Sunit Patel who has successfully integrated large acquisitions and managed balance sheets well in his tenure at Level 3.

OCI (-28%, -0.69%), a global fertilizer and chemical producer, was the largest detractor in the Fund for the year, even after a rebound of 18% in the fourth quarter. The two main pressures on the share price were weakness in nitrogen fertilizer prices and the cancellation of the CF Industries merger as a result of the U.S. government crackdown on tax inversions. Despite depressed fertilizer prices, nitrogen remains an essential part of global food production, and global demand is growing by around 2%, which will help deplete the current excess supply by 2018. Given the high cost and long lead time of building a new plant, it is unlikely that new capacity will be built in the medium term. OCI owns the newest and most efficient nitrogen fertilizer plants in the industry, with its large, new Iowa plant now producing. Its Texas Greenfield methanol plant comes online in late 2017. OCI recently initiated a cost savings plan over $100 million, $65 million of which is executed, and the company has completed the majority of its large capital expenditures. We expect significant earnings production in the coming two years, and CEO Nassef Sawiris and his team are working diligently to grow value per share. In early December, the company announced a 25% premium offer to acquire all publicly held shares of OCI Partners in exchange for OCI shares. The acquisition should allow for operating synergies between methanol assets and incremental free cash flow with a positive impact on the combined balance sheet in 2017.

Annual Portfolio Changes

When their prices reached our appraisals following announcements of being acquired, we exited two holdings during the year—**DreamWorks** in the second quarter and **Chemtura** in the third. We also sold our long-held investment in **Vail Resorts** in the third quarter when the stock reached our appraisal, generating a return of over 300% over our holding period. We trimmed a number of the Fund's holdings that became overweight and as their price-to-values (P/V) rose. Our sales added to our cash position, which remained above 20% for most of the year because we found a limited number of new opportunities. The four new qualifiers we did buy—**Liberty Media**, **SEACOR**, **Sonic**, and **Eastman Kodak**—were positive performers, particularly Liberty. Kodak was initiated in the fourth quarter with the negotiation and subsequent purchase of convertible preferred stock (Preferred) of Kodak. This new security issued by the company at our suggestion is an example of the benefits of our engaged, collaborative approach with boards and management teams. The proceeds from our investment will allow the company to refinance high cost debt and unlock encumbered cash. Most importantly, it will allow CEO Jeff Clarke and his team increased financial flexibility to highlight the value of a unique set of printing, imaging, and materials science technology assets. The Preferred provides an attractive risk/reward opportunity. It has an annual cash dividend of 5.5%, is convertible into shares of common stock at $17.40 per share (a substantial discount to our appraisal), and allows us to nominate directors to the board.

Outlook

The Fund's (P/V) in the mid-70s% offers attractive upside. Much uncertainty remains as to how U.S. tax, trade, and regulatory policies will change in the new administration. More volatility, lower market correlations, and higher interest rates would likely unearth new opportunities for the Fund's 19% cash position.

Most importantly, we believe our companies can grow their values substantially and have the ability to deliver good returns in a variety of scenarios. For example, our two largest holdings, Level 3 and Liberty Media, which benefitted from merger and acquisition activity in 2016, have significant revenue prospects from their combinations that are not included in projected synergies, and they have skilled leadership with experience at successful company integrations. We hold numerous other businesses that have had meaningful capital expenditure investment programs over the last few years that should begin to generate returns in 2017 and beyond. These include ViaSat's new satellites, Wynn's newly opened Palace in Macau, Hopewell's Centre II project, and OCI's new fertilizer and methanol plants. As 2016 showed, CEOs and boards who are competent and shareholder-oriented create value. Our corporate partners, as well as the quality of our businesses, give us confidence in our future prospects.

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 longleafpartners.com. 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 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.

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.

EBIT is a company's earnings before interest and taxes.

Master limited partnership (MLP) is, generally, a limited partnership that is publicly traded on a securities exchange.

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

As of December 31,2016, the holdings discussed represented the following percentages of the Longleaf Partners Small-Cap Fund: Liberty Media, 6.9%; Level 3, 8.1%; OCI, 4.8%; CONSOL, 5.7%; Wynn; 5.4%; Scripps, 4.8%; SEACOR, 1.6%; Sonic, 3.0%; Eastman Kodak, 5.1%. The following stocks discussed are not held in the Fund: DirecTV and News Corp. Fund holdings are subject to change and holding discussions are not recommendations to buy or sell any security. Current and future holdings are subject to risk.

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