December 31, 2017

4Q17

Longleaf Partners International Fund Commentary

Longleaf Partners International Fund delivered a strong 24.23% return in 2017, meaningfully exceeding our annual absolute goal of inflation plus 10% for the second consecutive year and falling just shy of MSCI EAFE's 25.03%. The Fund's sizable cash position, which posed no risk to capital, persisted throughout the year and more than accounted for the 2017 relative performance. The Fund exceeded the index for most of the year until the fourth quarter rally in interest rate sensitive industries, when the Fund declined 0.31% but the index advanced 4.23%. We seek to outperform the benchmark over the long term but were pleased that Longleaf International nearly matched the market in 2017 given high cash, limited exposure to the industries and countries that drove EAFE's return and a market bias for momentum.

Most companies positively contributed to the Fund's substantial 2017 results with over half of holdings posting double-digit gains. There was also an absence of notable performance detractors in both the fourth quarter and the full year. Investments that our management partners made in the last few years began to deliver returns. We have written previously about the market's tendency to discount non-earning assets (NEAs) until cash is flowing. Several companies benefitted from NEAs becoming profitable including Melco's Studio City resort in Macau, EXOR's purchase of PartnerRe, OCI's newly producing Iowa nitrogen plant and Fairfax's investments in Asia. Substantial multi-year cost cutting programs also yielded results, moving margins up at EXOR's holding, CNH. LafargeHolcim cut substantial costs but still has plenty of potential to optimize further under new CEO, Jan Jenisch, who was a laudable partner at the Fund's past investee, Sika. Our management partners pursued transactions to further entrench their competitive positions, focus on their core businesses or capture value recognition. Fairfax completed its acquisition of Allied World and monetized its stake in First Capital. Baidu sold its mobile games and food delivery businesses. Great Eagle took advantage of supply constrained San Francisco by selling its office property for a good price. Most recently, CK Asset sold The Center, Hong Kong's fifth tallest office building for an almost 2% cap rate — well above our carrying value.

The Fund's strong return came in spite of both the headwind of holding over 20% cash in a rising market and the minimal exposure to areas that drove the index's large return. Our investment discipline requires a business with sustainable competitive advantage as well as a material margin of safety between the stock price and intrinsic worth. This discipline resulted in cash but also in the Fund's high 100% Active Share that made our performance all the more noteworthy. The Fund had no exposure to Japan, the index's most substantial country contributor to performance. Although the Fund's return benefitted from the dollar's weakness, EAFE benefitted twice as much. In the fourth quarter, the prospect of higher global interest rates powered the stocks of natural resources, energy, and banks — commodity-type businesses that rarely meet our qualitative criteria. Momentum chasing contributed to stocks that others define as "growth" far surpassing those categorized as "value," 29% versus 21%. The broad index moved on trends and cycles that are unlikely to be durable over the long term, while the Fund's strong performance, in 2017 and normally, was primarily a function of company-specific performance driven by the quality businesses we own, the work of their managements and the discount to a growing intrinsic value.

As is typical after several years of strong returns, our investment cases worked out, and a number of stocks moved closer to our appraisals. We exited six investments, including one in the fourth quarter. More surprisingly, we bought four new companies, including one in the fourth quarter, as our on-deck list of prospective investments grew even as the market appreciated. Market dispersion benefitted our search - only three of the eleven sectors within EAFE returned as much as the overall index, and Information Technology (IT) substantially outperformed all others, gaining just under 40%. Higher dispersion helped create a more robust list of potential opportunities that we believe will make the Fund's cash a major benefit as more companies meet our strict criteria.

Contributors/Detractors

(2017 Investment return; 2017 Fund contribution; Q4 Investment return; Q4 Fund contribution)

Melco International (+116%, +5.66%, +2% +0.12%), the Macau gaming company, was the top contributor for the year and performed well in the fourth quarter as the industry gross gaming revenues (GGR) accelerated in the second half of 2017. November year-to-date GGR growth of 19.5% was substantially higher than Melco's mid-to-high single-digit full year GGR

Average Annual Total Returns (12/31/17): Since Inception (10/26/98): 7.89%, Ten Year: 1.37%, Five Year: 6.99%, One Year: 24.23%

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, 2017, the total expense ratio for the Longleaf Partners International Fund is 1.33%. The expense ratio is subject to fee waiver to the extent normal annual operating expenses exceed 1.75% of average annual net assets.

growth expectation. With major infrastructure projects moving closer to completion, mass visits and spending increasing, and VIPs returning, concerns about potential over-supply from significant capacity additions in Macau turned into confidence that additional hotel and gaming properties will be well absorbed by the market. Melco Resorts is on schedule to open phase 3 (Morpheus) of City of Dreams (COD) in the first half of 2018, which will almost double the number of five star hotel rooms at COD. Upon the completion of Morpheus, we expect free cash flow (FCF) –and distributions to shareholders – to increase significantly with growth in industry GGR and the completion of significant growth capital expenditures (capex). Melco's price remained below our appraisal, but we reduced the Fund's exposure as the discount shrunk after the stock more than tripled in the last 18 months.

EXOR (+44%, +3.35%, -3%, -0.39%), one of Europe's leading investment holding companies, was the Fund's largest position and a strong performer in 2017. The component pieces of our appraisal are Fiat Chrysler Automobiles (FCA) (32%), PartnerRe (26%), CNH Industrial (21%), and Ferrari (16%). FCA's profits increased substantially, and takeover speculation also pushed its stock up. CNH rose during the year as its agricultural equipment sales and margins grew, and the company received an investment grade rating. Ferrari's stock reflected its stellar year operationally, if still not living up to hopes on the Formula 1 Circuit. In spite of EXOR's appreciation, at year end the stock traded at a near 40% discount to the market value of its component pieces. European holding companies that are generally held up as EXOR peers tend to cluster around a 10% net asset value (NAV) discount, whereas some North American ones with substantial track records of value creation trade at NAV or even a premium. We believe EXOR's extreme discount is unwarranted as CEO John Elkann and his management team can produce additional double-digit value growth on top of the significant value creation over the last decade. Attractive upside optionality remains in the underlying pieces of EXOR.

Yum China (+54%, +2.80%, +1%, +0.16%), the operator of KFC and Pizza Hut restaurants in China, was a significant contributor to performance during the year and continued to rise in the fourth quarter. Since its November 2016 spin out from Yum Brands!, YUM China (YUMC) has delivered strong results including KFC's 7% same store sales growth year-over-year in Q3 2017. The company returned much of its growing FCF to shareholders, initiating a cash dividend of $0.10/share, buying back stock, and expanding its buyback program from $300mm to $550mm. The announcement that COO Joey Wat will become CEO and current CEO Micky Pant will become Vice-Chairman in March 2018 created additional optimism. Wat has been instrumental in KFC's success, and we believe she will continue to create significant value. With the stock's rapid appreciation more closely reflecting the company's worth, we reduced the portfolio weight of YUMC.

OCI (+44%, +2.54%, +8%, +0.63%), a leading producer of nitrogen fertilizers and natural gas-based chemicals, added to the Fund's 2017 and fourth quarter results. The stock's strong performance last year closed much of the gap between price and our appraisal value, and we reduced the Fund's stake in the fourth quarter. The company's earnings grew as its new Iowa plant, a particularly large NEA, ramped production and fertilizer commodity prices recovered from 2016 lows. OCI has six production facilities located in the Netherlands, the United States, Egypt and Algeria, and its new U.S. methanol plant will ramp up in 2018. As its major capex projects come to completion, cash flows should accelerate meaningfully. CEO Nassef Sawiris is aligned with shareholders and remains focused on value creation and recognition.

CK Asset (+46%, +2.15%, +6%, +0.38%), the Hong Kong based asset holding company, was among the top contributors for the fourth quarter and year. The company achieved strong volumes of residential property sales in both Hong Kong and mainland China, and in the first half of 2017, sold the highest volume of residential property in Hong Kong. Rather than pay elevated prices for land, CK Asset (CKA) diverted sales proceeds to value accretive share buybacks at prices substantially below our appraisal. CKA spent HK$6.9 billion to buy over 3.3% of its shares, making it one of the top three repurchasers on the Hong Kong stock exchange for the year. To mitigate the cyclical nature of cash flows associated with property development, CKA diversified into stable infrastructure type assets around the globe, including gas pipeline and electric distribution company DUET in Australia, building equipment services provider Reliance Home Comfort in Canada, and fully integrated sub-metering company Ista International GmbH in Germany. To reflect this strategy, the company changed its name from Cheung Kong Property to CK Asset. In November, CKA sold The Center, a prime office building in HK for HK$33,000 per square foot and a capitalization rate of less than 2.5%. This price far exceeded our appraisal of the property and once again confirmed what great partners we have in Li Ka-shing, his son Victor Li and their team.

During the year, most portfolio holdings rose, and the couple of stocks that did not had minimal impact on performance. Similarly, in the fourth quarter, no individual stock declines meaningfully hurt the Fund's results.

Portfolio Activity

It may seem odd that we made purchases given new market highs. We do not require a market correction to find qualifiers, just individual business value mispricing. And while the overall market had strikingly low volatility, a few good businesses' stocks declined enough to enable us to buy three new investments in the first half and Hikma in the fourth quarter. Hikma, the pharmaceutical company, is an example of how complexity often leads Southeastern to investments. Industry-wide pressure over the last 18 months on the company's smallest segment, Generics, took the stock to a multiple similar to generics peers. The company's Injectables and Branded units, however, comprise the bulk of our appraisal. In particular, the complexity and sterility requirements of the Injectables business create high barriers to entry in a global industry expected to grow at double-digit annual rates. Chairman and CEO Said Darwazah and his family own nearly 25% of the company, and the share price under his leadership has compounded at 13% per year since its 2005 initial public offering. The market's overemphasis on the Generics industry challenges provided an opportunity to partner with a strong management team focused on growing and realizing value.

We sold six businesses during the year and trimmed some of the Fund's strongest performers whose discounts to intrinsic value had diminished. Sika, Genting Singapore, and the Cemex bonds reached our appraisal values; Stada was acquired above our appraisal; we sold K Wah with Hong Kong real estate's strength after our view of management changed; and in the fourth quarter, we sold the Fund's small stake in Applus as it moved closer to our appraisal.

Outlook

The Fund's last two years' 39% cumulative return outperformed the index and substantially beat our absolute goal of real double-digit returns. Holding 20+% cash, which posed no risk of loss, more than accounted for the Fund's 80 basis point shortfall versus the index in 2017. We are confident we can outperform over the next 5+ years. First, as was true in 2017, what we own – not what drives the index – will produce our returns going forward, and the Fund's portfolio contains discounted strong businesses with growing values selling at an average P/V in the mid-70s% - a striking contrast to what we believe is an overvalued index increasingly driven by momentum in a narrower group of companies. We expect our differentiation from the index to be a source of strength. Second, the Fund's cash is temporary until we find qualifiers, and with lower equity market correlations and the prospect of more volatility among stocks, we expect undervaluation opportunities will increase, as they did in late 2017, providing us additional investments that should drive future compounding.

It is our strong view that with most asset classes selling at full prices and many areas within the stock market trading at high multiples, the inflated index is more vulnerable to downside surprises than likely to continue double-digit gains. Ben Graham's definition of an investment from *Security Analysis* written in 1934 has never been more relevant: "An **investment** operation is one which, upon thorough analysis, promises safety of principal and a satisfactory return." We aim to preserve capital and compound at a real double-digit rate of return by owning a limited number of undervalued, high quality, competitively advantaged businesses where we are engaged with capable and aligned management partners. We have no doubt that we can deliver good performance because of our understanding of the drivers of each company's value growth versus the associated risks, our ongoing dialogue with management, and our discipline to hold cash when businesses do not meet our stringent criteria.

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 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 invests in 15 to 25 companies, share value could fluctuate more than if a greater number of securities were held. 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.

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.

Active Share measures how much an equity portfolio's holdings differ from those of the benchmark index.

IPO is an initial public offering.

"Margin of Safety" is a reference to the difference between a stock's market price and Southeastern's calculated appraisal value. It is not a guarantee of investment performance or returns.

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.

As of December 31, 2017, the top ten holdings for the Longleaf Partners International Fund: EXOR, 9.0%; LafargeHolcim, 7.4%; OCI, 6.9%; CK Hutchison, 6.5%; Fairfax, 6.2%; Hikma Pharmaceuticals, 5.9%; CK Asset, 5.3%; Baidu, 4.8%; Great Eagle, 4.7%; Ferrovial, 4.3%. 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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