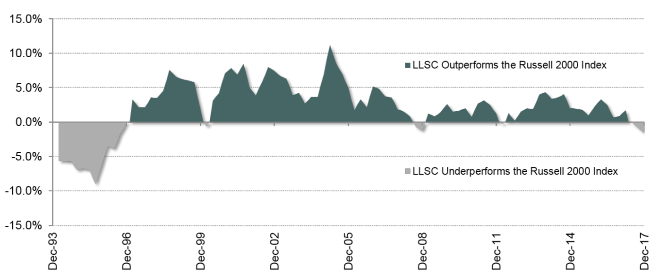
Longleaf Partners Small-Cap Fund Commentary

December 31, 2017

4Q17

Longleaf Partners Small-Cap Fund delivered 8.99% in 2017 and 1.74% in the fourth quarter. These results fell short of our annual absolute goal of inflation plus 10% and the Russell 2000's 14.65% and 3.34% for the same periods. The Fund's 26% average cash position was a drag on the absolute return and accounted for approximately half of the shortfall against the index. The Russell 2000's gains were powered by Healthcare and Information Technology (IT). Our discipline requires a material margin of safety between stock price and intrinsic worth and kept us out of most of the companies in these two sectors. The Fund's longer term 12.60% five year return exceeded our absolute return goal, but because of 2017 results, fell below the index for one of the few times in the Fund's history, as shown in the following chart.

LLSC vs. Russell 2000 Index - Rolling Annualized 5 Year Return Difference



past performance does not guarantee future results.

Most of our businesses produced positive returns in 2017, and only one investment, Kodak, was a notable detractor. Investments that our management partners made in the last few years that were non-earning assets (NEAs) began to show anticipated returns including Wynn's Palace Resort in Macau and OCI's Iowa nitrogen fertilizer plant. Acquisitions, real and rumored, as well as other transactions added to performance. Scripps Networks sold at a solid price to Discovery Communications; Deltic Timber sold to Potlatch near our appraisal; Graham Holdings entered into a unique transaction with Purdue University to strengthen its Kaplan education business; Mattel was rumored to have been approached by Hasbro; at the end of November, CONSOL Energy completed the split of its coal and gas businesses; and on the final day of the year, Hopewell announced the sale of its Hopewell Highway Infrastructure toll road company for 20% above our appraisal, which did not impact 2017 results but was a good way to start 2018.

We focus on the fundamentals of the businesses we own rather than the stock market. In 2017, however, a few broad drivers had enough impact on the index strength that they are worth highlighting. As noted above, Healthcare and IT comprised over half of the index's return and far more than any other sector. We rarely find a qualifier in these two industries, particularly in smaller companies. Their lower diversification, greater business risks and shorter track records make it difficult to have a high degree of confidence in any competitive advantage five years out, which leads to uncertainty about the terminal value. IT momentum chasing contributed to stocks that others define as "growth" far surpassing those categorized as "value" in the Russell 2000, 22% versus 8%.In the last four months, the market also rose with renewed optimism around the tax bill. The two-thirds of Russell 2000 companies with current tax rates over 25% gained an average 12.5% since the end of August, compared to 9.9% for the third with already lower tax rates.

We spent a good deal of time looking at the impact of the tax changes on our companies as well as how lower rates might affect other investment opportunities. In some cases, lower rates will benefit shareholders, but we believe the widespread earnings optimism is overblown. Companies in more competitive industries likely will give up more of any tax savings to customers through better pricing and/or to employees via higher wages and benefits, which was already demonstrated late in the year. Some of the Fund's holdings already pay lower rates because of the global nature of their businesses or, in the case of CenturyLink (CTL), net operating loss (NOLs) that offset taxes. Those that we believe will reap the biggest benefits for shareholders from the new tax law are Graham Holdings and ViaSat.

Even as the market hit new highs, our buying activity increased in the latter half of the year. We built all three new positions after late June, with the anticipated tax changes directly leading to one in the fourth quarter. We also added to CTL and CNX Resources (CONSOL Energy's gas company). We sold eight investments, including two in the fourth quarter. The Fund's cash position ended the year at 23%, slightly lower than the balance held for most of 2017.

Average Annual Total Returns (12/31/17): Since Inception (2/21/89): 11.02%, Ten Year: 8.79%, Five Year: 12.60%, One Year: 8.99%

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 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.

Contributors/Detractors

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

Wynn Resorts (+98%,+3.89, +14%, +0.45%), the U.S. and Macau gaming company, was the largest contributor to the Fund's 2017 performance with strong earnings growth in Macau and Las Vegas. Industry gross gaming revenues (GGR) in Macau accelerated in the second half of 2017 well beyond full year GGR growth expectations. 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. Steve Wynn continued to create future value with the Boston resort expected to open in 2019, new development around the Las Vegas golf course, and the chance to pursue casino development in Japan. After the stock more than tripled from its lows two years ago and moved closer to our assessment of the company's value, we reduced the Fund's position.

OCI (+44%, +2.22, +8%, +0.54%), 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 in the 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 capital expenditure (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.

Scripps Networks (+24%,+1.01%, —, —), the owner of HGTV, Food Network, and other cable channels, contributed to performance when Discovery announced its acquisition at a price near our appraisal. We engaged with management throughout our six years as owners to discuss the company's multiple avenues to value recognition in a period of significant industry change. We sold the position with a 135% gain.

ViaSat (+13%,+0.90% , +16%, +1.06%) the satellite company, was the fourth quarter's largest contributor and helped 2017 results. The company launched its promising new ViaSat-2 satellite. Despite losing broadband subscribers in the Exede segment, the company raised average revenue per user (ARPU) and invested for future growth. The valuable government segment grew revenues and earnings substantially. CEO Mark Dankberg has built significant shareholder value by bringing competence and a rare long-term owner mindset to the company.

CONSOL Energy (+7%, +0.42%, +15%, +0.87%), the former natural gas and coal company based in Appalachia, was a contributor to the Fund's fourth quarter results. The company completed the long-awaited spin-off of its coal assets from its natural gas reserves, undrilled acreage, and pipelines — a move we had encouraged to enable others to fully appreciate the values of each business. The gas company now trades as CNX Resources Corporation (CNX), while the coal pure-play business retained the CONSOL Energy name. Our CNX appraisal assumes gas prices at today's depressed strip, yet the stock price implies much less value for its undrilled resources and midstream assets than comparable peers receive. The company reduced commodity risk by hedging the majority of next year's production above $3/mcf. CONSOL's Pennsylvania Mining Complex is the low-cost coal producer in the eastern U.S. Both companies announced large buybacks to address their undervalued post-spin prices. We believe our management partners will continue to take action to gain value recognition at both companies. We increased our stake in CNX after the spin-off. In spite of rampant coal divestment by institutional investors, CONSOL's stock jumped 84% after becoming a pure-play coal business, and we reduced our ownership after the stock more appropriately began to reflect the company's value.

Neiman Marcus (-0.02%, -10%, +0.64%, +14%) the luxury retailer, contributed to the Fund's fourth quarter. The distressed debt that we own rose as Neiman improved sales and stabilized gross margins after solving an inventory management problem that had weighed down profits. The company has limited exposure to retail killer Amazon because of its high end brand focus, meaningful on-line presence and high-touch service experience. Upside remains in its NEA Hudson Yards store in New York City, scheduled to open in 2019. Despite a sizable debt load from its 2013 private-equity takeover, the bonds imply an enterprise value significantly below our appraisal of the company, and we added to our position before the bonds rallied.

Kodak (-32%,-1.97%,-18%, -0.91%), the imaging company, was a notable detractor from the Fund's results in the fourth quarter and the year. The largest challenge was the decline in its Printing Systems Division (PSD), exacerbated by a spike in aluminum prices that reduced margins. PSD was the primary driver of the stock price with its disappointing earnings, but Kodak is an example of a complex company being undervalued because of the need to unravel its parts. Most analysts simply look at the shrinking PSD segment and overall complexity of the entire company and walk away. But underlying all of that is a profitable Packaging business which is basically immune to the competitive risk of digital imaging because of the package surfaces involved, and which is growing cash flow at double-digit rates. There are also assets unrelated to Kodak's core business including tax loss carryforwards, real estate, a brand that will increasingly be monetized via royalties from others' products, earnouts from prior dispositions, and material sciences intellectual property (IP) (as distinct from the digital imaging IP which was auctioned off in bankruptcy). Kodak has no Wall Street coverage and is unlikely to get credit for its different pieces until they are monetized or start driving earnings higher. With our position primarily in preferred shares, we are less reliant on the stock price. We are confident that CEO Jeff Clarke and his board are focused on value recognition and expect to see progress in 2018.

CenturyLink (formerly Level 3) (-12%,-1.14%-, -7%, 0.71%), declined during the year and fourth quarter, even though the stock rallied over 22% from its November low after CTL's purchase of Level 3 closed. Throughout, our investment case grew more compelling. The merger of Level 3's fiber network with Qwest's assets that CTL had previously acquired created a uniquely competitive global fiber network that has particular strengths in the higher margin, growing Enterprise segment. Level 3's CEO Jeff Storey becoming COO and eventual CEO of CTL and Sunit Patel maintaining the CFO position in the combined company were critical to our support for the deal. Their leadership makes us confident that CTL management will be able to drive mid single-digit Enterprise revenue growth at high contribution margins, cut costs substantially and deliver the projected $1 billion in deal synergies, much of which will be created by moving traffic onto the company's combined network from third parties. Despite CTL's stronger positioning, the stock price fell, in part because Level 3 customers delayed new purchases until it was clear who would lead the combined company. But, the primary price pressure was due to fears that CTL would not be able to sustain its double-digit dividend yield (a valid concern without the Level 3 acquisition). This worry heightened after the stocks of two mostly unrelated and massively overleveraged regional operators which were more closely aligned with CTL's legacy landline business than the fiber business, saw their stocks collapse after dividend cuts. Storey and Patel confirm that the dividend is safe based on the combined EBITDA of the Level 3 and CTL fiber networks, the synergies from the deal, and the use of Level 3's NOLs to reduce taxes. By our estimates, once the synergies are realized, the company should deliver over $3/share of Free Cash Flow (FCF) after capex, which will amply cover the $2.16 dividend. We see material additional upside not built into our appraisal based on Patel's record of cost cutting after mergers and the multiple players that would benefit from owning this network. When the stock price dramatically disregarded the positive fundamentals and our assessment of CTL's intrinsic value, we bought more in the fourth quarter. Management and the board appeared to share our enthusiasm as demonstrated by significant December insider purchases as soon as the blackout period that prohibited purchases was lifted.

Portfolio Activity

We made three new purchases and added to some of the Fund's more discounted investments during the year. As fewer companies participated in the market's new highs, our on-deck list of qualifiers grew. 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. The undisclosed fourth quarter purchase became undervalued as investors worried about the tax law impact on its industry, but this company's fee based business, strong brands, and capable new CEO make us confident in the ability to grow value per share.

At the end of the second quarter, we began buying Park Hotels, the Hilton spin-off with 67 U.S. hotels. Park owns differentiated properties in supply-constrained markets, many of which cater to large conference business that is resistant to competition from Airbnb and a wave of travel start-ups. The company's Hawaiian Village resort is maybe the most valuable non-gaming hotel in the world. Other properties in key coastal cities have strong barriers to entry. Industry veteran CEO Tom Baltimore has several opportunities to upgrade underutilized real estate. Park has a strong balance sheet but trades at a lower multiple than inferior peers and at a price substantially below replacement cost.

Late in the third quarter, we began buying Mattel, one of the world's largest toy companies with iconic brands like Fisher-Price, Barbie and Hot Wheels. The stock had fallen almost 70% over the last few years as previous management made a number of mistakes. New CEO Margo Georgiadis, formerly President of Google Americas, took over with a plan to simplify a needlessly complex manufacturing process, focus on profitable core brands rather than dilutive growth, build a better global presence, and transform the company's digital marketing. She cut the dividend to free up cash to invest in the business, which immediately led to a sharp collapse in the stock price and gave us an opportunity to build the Fund's position. Shortly thereafter, the stock's rise on a rumored Hasbro takeover confirmed the discount, but Mattel's board appropriately dismissed any low ball offers. Mattel is similar to the Fund's previous investment in DreamWorks which faced near-term depressed earnings and had no dividend when we purchased the stock, but over time, management succeeded in monetizing the value of the company's strong brands. We are similarly confident in Mattel's plan to restore margins and do more with the company's leading franchises in a growing industry.

We sold six companies earlier in the year and Deltic Timber and SEACOR Marine (SMHI) in the fourth quarter. SMHI was a 0.2% position after being split from SEACOR (one of the six earlier sales). SMHI provides transportation to oil rigs. We sold this small holding as oil prices rose. We owned Deltic Timber with acreage in Arkansas and Louisiana for three years. During that time we became more heavily engaged with management regarding capital allocation options as timber prices moved up but the stock failed to follow. Potlach's buyout offer at a fair price ultimately helped drive our 57% gain.

Outlook

The Fund's last two years' 31% cumulative return substantially beat our absolute goal of real double-digit returns but did not meet our longer term objective of outperforming the index. We believe we can continue to provide solid absolute results that also beat the benchmark over the long run. Our 2017 relative shortfall versus the inflated index was primarily due to the combination of two decisions to avoid risk of loss: Small-Cap held between 20-30% cash throughout the year, which accounted for approximately 50% of the relative shortfall versus the index; and, we did not own more of a narrow, pricey part of the market, namely Healthcare and some IT, that far outperformed most stocks. Our notable act of commission that hurt results was a case of a single declining division at Kodak obscuring the value of a quality growing segment as well as other valuable assets that management and the board are focused on monetizing.

We are confident we can outperform over the next 5+ years. First, as was true in 2017, what we own will produce our returns going forward, and the Fund's portfolio primarily contains strong businesses with growing values selling for a P/V in the low 70s% — a striking contrast to what we believe is an overvalued Russell 2000 increasingly driven by momentum in a narrower group of companies. We expect our differentiation from the index (Active Share of 98%) to be a source of strength to relative results. Second, the Fund's cash is temporary until we find qualifiers, and with lower stock 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 will drive future compounding. Third, through our 42 years at Southeastern and in studying market history, we know that most broad trends come in cycles that can turn quietly or with unexpected force. Most of our businesses remain in the out of favor bucket. We believe the recent dominance of momentum investing, which reflects speculation at elevated prices, will likely turn back to a favorable environment for undervalued securities.

It is our strong view that after a nine year bull run and at high historic multiples, the market 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 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.

"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.

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

Operating Cash Flow (OCF) measures cash generated by a company's normal business operations.

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.

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

As of December 31, 2017, the top ten holdings for the Longleaf Partners Small-Cap Fund:ViaSat, 7.4%; OCI, 7.3%; CenturyLink, 6.5%; Graham Holdings, 6.3%; Mattel, 5.3%; Hopewell Holdings, 5.1%; CNX Resources, 4.8%; Neiman Marcus, 4.7%; Liberty Media Formula One, 4.7%; Park Hotels, 4.7%. 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.

Funds distributed by ALPS Distributors, Inc.

LLP000733

Expires 4/30/18