

January 13, 2020

Longleaf Partners Global Fund Commentary 4Q19

Longleaf/
Partners
Funds

Longleaf Partners Global Fund ended the year with a strong fourth quarter, returning 9.84%, beating the MSCI World Index's 8.56%. The Fund returned 20.38% for the year, ahead of our absolute return goal of inflation+10% but falling short of the Index's 27.67% return. US stocks soared to new heights, as we faced a continuation of the headwinds we discussed in last quarter's letter, and in multiple other forums over the last decade: the continued dominance of Growth stocks over Value stocks (which eased somewhat in the last four months of the year), US markets outperforming Non-US markets, US dollar strength, concerns over US interest rates and broad geopolitical uncertainty, alongside temporary, unrelated stock-specific issues. 2019 was a strong year for equity market returns broadly across North America, South America and Europe. Asian equity markets were somewhat mixed, a US-China trade war and Hong Kong unrest drove volatility, but ultimately the region also ended the year in double-digit territory. Three primary factors, which have been a relative headwind over the last

Average Annual Total Returns (12/31/19): Longleaf Partners Global Fund: Since Inception (12/27/12): 6.92%, Ten Year: na, Five Year: 5.78%, One Year: 20.38%. MSCI World: Since (12/27/12): 10.59%, Ten Year: na, Five Year: 8.74%, One Year: 27.67%.

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 southeasternasset.com. As reported in the Prospectus dated May 1, 2019, the total expense ratio for the Longleaf Partners Global Fund is 1.33% (gross) and 1.20% (net). The expense ratio is subject to fee waiver to the extent normal annual operating expenses exceed 1.20% of average annual net assets. Southeastern has contractually committed to limit operating expenses (excluding interest, taxes, brokerage commissions and extraordinary expenses) to 1.20% of average net assets per year. This agreement is in effect through at least May 1, 2020 and may not be terminated before that date without Board approval.

several years, accounted for approximately 80% of the relative shortfall in the period: no exposure to the Index's top-performing Information Technology sector, an average 17% exposure to Hong Kong-listed companies and an average 13% cash position. These three factors are interrelated and are a function of sticking to our value investment discipline, but in the face of the market headwinds described above, they have meaningfully dampened our relative results. Most companies in the portfolio were positive in the quarter and the year, with over half producing double-digit returns over the year. Two companies – CNX Resources (CNX) and CenturyLink – drove an additional -4% drag on relative returns for the year, but we believe these two businesses can be among the largest contributors on a prospective basis.

2019 saw a continuation of two key market trends, both of which are US-centric but have helped characterize global markets over the last decade. These trends have particularly played into the Fund's performance over the last six years. First is that the largest of the large capitalization companies in the US have been the top performers in the market. We noted the following in last quarter's letter:

At the last relative peak for value investing in May 2007, 16% of the S&P 500's market cap came from stocks with price-to-earnings (PE) ratios over 20x - the same level seen in mid to late 2014, when the Partners Fund's performance began to meaningfully diverge from the S&P 500's. These were both evenly distributed valuation markets relative to history and other indexes. At the end of August 2019, the percentage of >20x PE stocks was all the way up to 49%. While that is not quite the once in a lifetime 69% level seen briefly in early March 2000, we are confident that the S&P 500 is far more tilted than it has been in recent history to overvalued market favorites that have driven the last decade's returns.

Taking that analysis a step further, the current top 20 companies in the S&P 500 by market cap (excluding Amazon's high PE both then and now) have a weighted average next twelve months (NTM) PE of just over 26x vs. just over 16x at the start of 2014 and just under 17x in May 2007 (there were some seriously overestimated earnings per share (EPS) numbers for big banks and big oil at that point in 2007). Today's multiples are on after-tax margins that are near peak levels. Two-thirds of our portfolio today is comprised of single or low double-digit multiples on margins that can grow meaningfully, even without the benefit of a growing economy. The rest of the portfolio

is in better-appreciated stocks trading at mid to high teens multiples on mid-cycle margins, which can lead to solid returns as the market leaders did in 2014. It is, however, much harder to compound over the long run when your starting point is a sub-4% cap rate on high margins at companies that have already grown to hundreds of billions in market cap. We were too early in our belief that the market was overvalued and missed the huge move by many companies over the last five to ten years. Bigger has been better, and our relative results have suffered, particularly in 2019, as we had no exposure to Information Technology or big banks, which drove the strong Financials sector performance.

On the other end of the spectrum, we have noticed an increasing amount of “rule-out” behavior by active managers. In a decade where US large cap has dominated everything, many investors choose to ignore great global values, particularly when they are domiciled in markets with greater macro uncertainty today, like Asia or Europe, so they choose instead to buy more familiar, US-based comparables at much higher multiples. Additionally, companies with an above market amount of trailing volatility or dividend uncertainty are ignored or actively bet against by the market. Many of our holdings don't pass some or all of these “tests”, but that doesn't necessarily mean they are “low quality” or make them bad investments prospectively. We define a high-quality business as one with a long-term growth tailwind in its industry, pricing power or gross profit royalties, network effect benefits, a lack of technological and/or regulatory risks and an ability to grow FCF higher than revenue with a high incremental return on capital (ROC). High-quality partners are honorable people, think long term instead of quarter to quarter, are preferably large owners of their stock relative to their net worth and are incentivized on ROC, free cash flow (FCF) per share and/or total shareholder return (TSR). We find that the market tends to focus more on business rather than people quality, but our history has shown that good partners can achieve excess returns beyond what the business quality alone may suggest. This becomes even more evident in cases where we engage with management to bring our expertise and/or our network to bear to help drive superior outcomes. While a narrow band of traditional high-quality companies have ruled markets as of late, we have found compellingly discounted investment opportunities that have been temporarily passed over.

We go down the list of both what we own and what we don't own each day, keeping an open mind on how to build the best portfolio possible. When we rule things out, it is

after careful analysis of Business, People and Price. We have learned not to focus too much on cheapness at the expense of quality. That said, we also do not believe that “quality at any price” is a strategy that works over the long run. We love owning reasonably priced companies in more defensive, understandable industries at this point in the market cycle. We have historically owned multiple companies in this “defensive” bucket over the last 10 years. With hindsight, our mistake in each case was selling them too early, but we are mildly comforted by the fact that after we sold, performance was driven by multiple expansion, not earnings growth. In a year when our portfolio returned greater than inflation+10% but still lagged the index, it has been difficult to find any new investment that qualifies on Business and People and is trading at a reasonable Price. If history is a guide, we will own global companies like these again, and we will look back and be amazed that the stocks we own today were ever available at the levels that we have paid for them.

Far more important to us than what we *don't* own, or what we may have missed out on, is how the companies we *do* own are performing. As we noted above, most companies were positive this year, but CNX and CenturyLink were notable underperformers in the year. CNX Resources faced strong headwinds in 2019, as the entire natural gas industry declined. Since we filed our 13D in 2015, CNX outperformed its Southwest Appalachian peers on average by over 50%, but the macro storm has overshadowed the strong progress made in improving its asset mix quality and leadership, including a new CEO, new Chairman and two additional board members that we recommended to the company. CNX has been a leader within the industry in capital allocation: spinning out its legacy coal business, selling non-core assets at great prices, cutting costs and buying back over 7% shares outstanding in the past year. CNX has \$5-10+ per share of quality midstream assets, which includes high growth cash flows from their general partner interest, in addition to over \$1 per share of FCF power from its E&P operations with strong reinvestment opportunities, all vs. its \$8 per share stock price. The board and management team have been battle-tested and now stand in a position of relative strength in this industry's nadir. CenturyLink has been a global leader in consolidating the fragmented fiber and telecom industry through value-accretive acquisitions and mergers over time. CenturyLink is a prime example of a “rule-out” stock, as its price has been severely punished due to uncertainty over its dividend, which became a self-fulfilling prophecy, as management ultimately cut it earlier in 2019. We filed a 13D to discuss strategic options with the company, and we

recently suggested a new board member, Hal Jones, who we believe brings unique industry insight and capital allocation discipline. Today, over 75% of CenturyLink's value is in fiber, which is a growing, high margin infrastructure asset with high barriers to entry. We expect to see management and the board explore ways to monetize this value in the near term.

We have been heartened to see the top detractor in 2018 – General Electric (GE) – begin to rebound in 2019, even after a rocky period earlier in the year. CEO Larry Culp is taking the right steps to increase value per share and to improve the overall quality of the business. GE returned over 20% in the quarter and over 50% for the year, but it is in the very early days of its transformation and trades well below our conservative appraisal still today. As GE continues to slim down and generate cash, it will be harder to ignore the power of the Aviation and Healthcare businesses or the prowess of Culp. The top four contributors in 2019 – EXOR, GE, Melco, LafargeHolcim - were all among the top detractors discussed in our 2018 year-end letter, highlighting how quickly the most hated companies can revert to drive strong future performance.

Contributors/Detractors

(2019 Investment return; 2019 Fund contribution; Q4 Investment return; Q4 Fund contribution)

EXOR (43%, 3.34%, 16%, 1.35%), the European holding company of the Agnelli family, was the top contributor for the year and among the top two in the fourth quarter. Chairman and CEO John Elkann continues to apply an admirable approach to capital allocation and portfolio management with a proven willingness to realize value through M&A, asset sales and spin-offs. In the fourth quarter, Exor announced an agreement with Groupe PSA to pursue a merger of EXOR's underlying holding Fiat Chrysler (FCA) and PSA's Peugeot. The merger will create the world's fourth-largest carmaker and reshape the automotive sector. Annual run-rate synergies are forecast at ~€3.7 billion derived principally from a more efficient allocation of resources for large-scale investments in vehicle platforms, powertrain and technology and from the enhanced purchasing capability inherent in the combined group's new scale. FCA will pay a special dividend prior to the merger, and EXOR will receive ~€1.5 billion, which we expect management to intelligently allocate at the holding company level. Earlier in the year, the company also announced its plan to split its underlying holding CNH

Industrial by spinning out the non-core commercial vehicle business, IVECO, from the core agriculture equipment business, Case New Holland. This move should allow the market to more accurately value both businesses going forward. EXOR management has multiple levers to pull to continually grow and recognize value, and the company remains attractively discounted with significant upside today.

General Electric (53%, 3.02%, 25%, 1.53%), the Aviation, Healthcare and Power business, was the top contributor in the fourth quarter and among the top three for the year, after having been the Fund's largest detractor in the third quarter and for the full year in 2018. Last quarter, the stock was overly punished after fraud investigator Harry Markopolos, working together with an undisclosed short seller, released a report alleging the company was concealing financial problems. GE management quickly dispelled the report as being flawed and outdated, and CEO Larry Culp and several other directors took advantage of the depressed share price to buy several million dollars' worth of shares personally. Once it became clear that the report was inaccurate and brought no new information to light, the share price rebounded to finally begin to reflect the strength of the business and the progress made over the course of the year. GE announced the sale of its biopharmaceuticals unit to Danaher for \$21.4 billion. GE's remaining Healthcare businesses (primarily imaging and ultrasound equipment and services) have increased revenues moderately and margins significantly this year. Aviation grew a strong 8% in the third quarter due to solid demand for its leading-edge aviation propulsion (LEAP) engines, though this rate will slow in the year ahead as a result of Boeing's 737 Max problems. After several years of challenged results under prior management, Larry Culp's turnaround of GE Power showed major signs of progress this year, as the unit approached breakeven profitability. The company also announced a \$1 billion long-term care insurance reserve charge in early November, which was lower than feared and will not pose a threat to its ongoing deleveraging plan. The stock trades at a low multiple of the earnings achievable within the next several years. We believe the world class Aviation and Healthcare businesses alone are conservatively worth over \$15 per share, and the rest of the businesses have a meaningfully positive net value and are getting stronger under Culp's leadership.

Melco International (39%, 3.07%, 18%, 1.23%), the Asian casino and resort holding company, was another top contributor for the year and in the fourth quarter. Melco

was the top performer within the Macau gaming sector. Its flagship property, City of Dreams, has been gaining market share in both mass and VIP segments thanks to Morpheus's ramp-up. Melco opened a new premium mass gaming area in October and is in the process of adding more villas, which should further drive mass growth at City of Dreams. We believe Melco will continue to be a beneficiary of the mass gaming growth, driven by growing disposable income per capita in China and the ongoing consumption upgrade that is bringing more overseas travel and infrastructure development. The recent Hong Kong turmoil has not had a significant impact on Macau visitation numbers. Melco has a strong balance sheet and is led by Chairman and CEO, Lawrence Ho, an owner-operator and adept capital allocator focused on building value per share. In the last 18 months, he has used the group's financial strength to repurchase close to 10% of Melco Resort's free float, privatize its Philippine subsidiary at cheap multiples and purchase 20% of Crown Resorts from former partner James Packer. Melco International also sold its Cyprus project stake to subsidiary Melco Resorts for \$375 million, significantly reducing Melco International capex and enabling the company to focus aggressively on increasing shareholder returns. We would encourage you to listen to our podcast interview of Lawrence Ho to learn more about the history of Melco and his outlook for the business and the broader Macau gaming industry at <https://southeasternasset.com/podcasts/melco-lawrence-ho-on-geopolitics-volatility-and-opportunity-in-asia/>.

LafargeHolcim (39%, 1.68%, 12%, 0.50%), the world's largest cement producer, added to the Fund's strong returns for the quarter and the year. Lafarge benefitted as North American cement pricing grew modestly, while volumes surged 11% in the last quarter. Lafarge's European and Latin American operations also delivered excellent results. 2019 was also a good year for accretive asset sales, and as the year progressed, the market became more comfortable with the prospect of additional sales. Since assuming control two years ago, CEO Jan Jenisch has improved the company's operational and capital allocation discipline. He still has more levers to pull that are not dependent on global macro conditions. Our appraisal of Lafarge's value increased alongside the stock price throughout the year, and we trimmed our position as price appreciated in the first quarter and second half of the year.

United Technologies (UTX) (43%, 1.59%, 10%, 0.41%), the industrial conglomerate scheduled to separate into Otis (elevators), Carrier (climate and fire control) and

Raytheon Technologies (aviation and defense) during the first half of 2020, was a strong contributor to the Fund's quarterly and annual results. Otis grew revenues 4% and profits 6% during its last reported quarter. The turnaround at this business is taking hold. Carrier organic sales declined, but its management took steps towards reducing overhead costs and selling assets. Meanwhile, each of UTX's three Aviation and Defense businesses - Pratt & Whitney, Collins Aerospace and Raytheon - delivered solid results. Our appraisal increased this year, but not as much as the stock's 43% annual performance. We believe the sum-of-the-parts value of the business could be recognized or exceeded within months as the spin offs are completed.

MinebeaMitsumi (46%, 1.60%, 32%, 1.20%), the Japanese manufacturer of high-precision equipment and components, was among the top contributors for the fourth quarter and the year. The stock declined in the first half due to market concerns over US-China trade friction, a slowdown in the data center industry that negatively impacted its dominant ball bearings business and a decreased earnings forecast in the first half. However, its automotive applications business is benefitting from a structural move into electrification, and monthly ball bearing shipments are back on track since the third quarter. In December, MinebeaMitsumi announced plans to acquire semiconductor business ABLIC at approximately 7x EBITDA pre-synergies. We visited MinebeaMitsumi's factories in Cambodia and Thailand in December and had good discussions with CEO Yoshihisa Kainuma on shareholder return and capital allocation. We are confident that Mr. Kainuma will continue to create value for all shareholders, as he has done over the past decade for the company.

CNX Resources (-23%, -0.80%, 22%, 0.99%), the Appalachian natural gas E&P and midstream company, was a strong contributor in the fourth quarter but was the largest detractor from the Fund's annual performance. With gas prices declining over 25% and the industry's capital market access disappearing, 2019 was one of the worst relative and absolute years in the history of the US natural gas industry. Despite the painful losses this year, CNX has outperformed its peers since separating from its coal business two years ago. More importantly, CNX has a manageable balance sheet at a time when numerous gas competitors are struggling with larger on- and off-balance sheet liabilities. CNX's growing FCF coupon will allow the company to retire a majority of its debt in 2022 if necessary, and the company's borrowing base increased this quarter. CNX's 2020 production is over 80% hedged at prices above the current

futures strip, which should help the company weather any additional market challenges in the near term. Management remains focused on operational improvements, and CNX recently announced a reduction in next year's capital expenditures and operating expenses to increase cash-flow projections. The company has retired over 7% of shares outstanding this year, a level that is unmatched by its natural gas peers. We believe we have some of the best partners in the industry with CEO Nick Deluliis and Chairman Will Thorndike.

Portfolio Activity

We initiated two new, undisclosed holdings in the fourth quarter. We have followed one of them for over 10 years, as it has undergone a transformation that has both grown its value per share and improved its quality. Currently though, it is in the "rule-out" box discussed above, even though it has best-in-class assets and management. The company is also far more defensive than it is perceived. The other is a company that we already owned in our Non-US strategy, but we were not able to buy as much of as we would have liked so far. Over the course of the year, we trimmed several stronger performers and fully exited Vestas, the global leader in wind turbine installation and servicing, in the fourth quarter after a 28% return in just under two years.

Outlook

The portfolio ended the quarter with a discounted price-to-value ratio (P/V) in the mid-60s% and 13% cash. We were able to purchase two new companies in the fourth quarter, and our on-deck list is longer today than we might have anticipated after the strong global market returns in the year. We began this commentary citing many of the same headwinds you have read from us for a while. The continuation of these headwinds does not mean that these trends will go on forever. Actually, it means that the opposite is more likely; and, we believe that when Mr. Market begins to "weigh" our values more efficiently, our stocks' appreciation will be dramatic. We saw signs beginning in September that things could be starting to come our way. It's hard to call a relative bottom, and it's understandably harder to remain patient after an extended period of relative underperformance. We continue to work to get better each day, while sticking to our core discipline at a time of elevated markets. We were heartened by the strong absolute returns in the fourth quarter and the solid relative results, given

our cash holdings and lack of exposure to the largest market favorites. We thank you for your long-term support and patience, which we believe will soon be rewarded.

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 <https://southeasternasset.com/account-resources>. Please read the Prospectus and Summary Prospectus carefully before investing.

RISKS

The Longleaf Partners Global 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 World Index is a broad-based, unmanaged equity market index designed to measure the equity market performance of 24 developed markets, including the United States. 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.

Price / Earnings (P/E) is the ratio of a company's share price compared to its earnings per share.

Earnings per share (EPS) is the portion of a company's net income allocated to each share of common stock.

A 13D filing is generally required for any beneficial owner of more than 5% of any class of registered equity securities, and who are not able to claim an exemption for more limited filings due to an intent to change or influence control of the issuer.

Capital Expenditure (capex) is the amount spent to acquire or upgrade productive assets in order to increase the capacity or efficiency of a company for more than one accounting period.

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.

A 13D filing is generally required for any beneficial owner of more than 5% of any class of registered equity securities, and who are not able to claim an exemption for more limited filings due to an intent to change or influence control of the issuer.

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

As of December 31, 2019, the top ten holdings for the Longleaf Partners Global Fund: EXOR, 9.0%; CenturyLink, 9.0%; Melco, 7.2%; GE, 7.1%; CK Hutchison, 6.0%; FedEx, 5.4%; CNX Resources, 4.9%; Fairfax Financial, 4.5%; MinebeaMitsumi, 4.4%; LafargeHolcim, 4.2%. 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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