January 2023

# Longleaf Partners International Fund Commentary

# 4Q22

Longleaf Partners Funds

## Fund Characteristics

| | |
|---|---|
| P/V Ratio | High-50s% |
| Cash | 3.0% |
| # of Holdings | 24 |

| | | | Annualized Total Return | | | |
|---|---|---|---|---|---|---|
| | 4Q (%) | 1 Year (%) | 3 Year (%) | 5 Year (%) | 10 Year (%) | Since Inception (%)* |
| International Fund | 18.40 | -18.69 | -7.32 | -2.36 | 2.21 | 5.68 |
| MSCI EAFE | 17.34 | -14.45 | 0.87 | 1.54 | 4.67 | 4.25 |
| MSCI EAFE Value | 19.64 | -5.58 | 0.65 | 0.17 | 3.51 | 4.86 |

*Inception date 10/26/1998

Longleaf Partners International Fund added 18.4% in the fourth quarter, outpacing the MSCI EAFE's hefty 17.34% in the period. The Fund ended the year down 18.69%, while MSCI EAFE closed out the year down 14.45% in a particularly challenging year for most asset classes. Multiple companies rebounded in the fourth quarter, delivering strong double-digit returns that continued into the first part of 2023 as we are writing this

*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. The prospectus expense ratio before waivers is 1.17%. The International Fund's expense ratio is subject to a contractual fee waiver to the extent the Fund's normal operating expenses (excluding interest, taxes, brokerage commissions and extraordinary expenses) exceed 1.15% of average net assets per year. Holdings subject to change. Unless otherwise indicated, data is as of December 31, 2022.*

letter. While we recognize that more near-term volatility may be in store, we believe this is only the beginning of better performance.

Asian and European markets began what we believe will be the initial stages of a rebound in the fourth quarter, after an extended period of persistent macro headwinds – ranging from the war in Ukraine, soaring energy costs, rising inflation and fears of a recession in Europe, currency weakness versus the US dollar, a slump in the Asia property sector driven by higher interest rates, Chinese consumer weakness and the ongoing pressure of China's zero-COVID policy.

The Fund's strong fourth-quarter performance doesn't reflect the tremendous volatility experienced during the quarter. The quarter began amid extreme pessimism as Chinese leader Xi Jinping cemented a third term in office, continuing the draconian zero-Covid strategy. While we underestimated the duration of China's zero-Covid policy, China's exit from dynamic zero-Covid was faster than anyone expected. China and Hong Kong rebounded sharply as the Chinese policy environment turned more supportive for the battered property and tech sectors and in the wake of US President Joe Biden and Xi Jinping's meeting in which they expressed a willingness to engage over issues constructively. European equity markets also saw gains as inflation appeared to peak in October, UK gilt yields and currency stabilized with the appointment of new Prime Minister Rishi Sunak and Chancellor Jeremy Hunt, the European Central Bank slowed its rate hikes and gas prices fell, helping to alleviate consumer price pressure.

While US dollar strength compounded local-denominated losses in 2022, the fourth quarter brought some relief. The US dollar peaked against European and Asian currencies, especially the Japanese yen, which appreciated about 10% during the fourth quarter against the US dollar. We believe the US dollar is expensive and could provide a multi-year tailwind to European and Asian currencies if conditions reverse.

The top contributors in the fourth quarter were among the top detractors in the prior nine months, and we believe we are still in the early stages of these businesses rebounding from overly discounted levels. In addition to the positive macro tailwinds that have persisted in early January, our management teams are taking action across the board, including spinning-off or selling assets, buying back heavily discounted shares and/or considering mergers and acquisitions for whole businesses. Even in the likely case that we see continued volatility in 2023, we believe the companies we own can close the price-to-value gap.

## Contribution To Return

### 4Q Top Five

| Company Name | Total Return (%) | Contribution to Return (%) | Portfolio Weight (%) (12/31/22) |
|---|---|---|---|
| GRUMA | 41 | 2.09 | 6.1 |
| LANXESS | 39 | 1.57 | 4.7 |
| Richemont | 39 | 1.57 | 4.9 |
| Domino's Pizza Group (UK) | 43 | 1.51 | 4.4 |
| Prosus | 33 | 1.45 | 5.0 |

### 4Q Bottom Five

| Company Name | Total Return (%) | Contribution to Return (%) | Portfolio Weight (%) (12/31/22) |
|---|---|---|---|
| WH Group | -8 | -0.42 | 3.9 |
| flatexDEGIRO | -20 | -0.18 | 0.0 |
| Undisclosed | 7 | 0.02 | 0.2 |
| GREE | 2 | 0.02 | 2.2 |
| Jollibee | 6 | 0.29 | 4.1 |

### 2022 Top Five

| Company Name | Total Return (%) | Contribution to Return (%) | Portfolio Weight (%) (12/31/22) |
|---|---|---|---|
| Fairfax Financial | 18 | 0.61 | 4.9 |
| GRUMA | 6 | 0.39 | 6.1 |
| Undisclosed | 18 | 0.38 | 2.3 |
| HDFC | 12 | 0.28 | 2.7 |
| Undisclosed | 7 | 0.01 | 0.2 |

### 2022 Bottom Five

| Company Name | Total Return (%) | Contribution to Return (%) | Portfolio Weight (%) (12/31/22) |
|---|---|---|---|
| flatexDEGIRO | -70 | -2.84 | 0.0 |
| Domino's Pizza Group (UK) | -41 | -2.08 | 4.4 |
| Millicom | -45 | -2.07 | 3.4 |
| LANXESS | -34 | -1.28 | 4.7 |
| EXOR | -18 | -1.26 | 6.3 |

- GRUMA – Corn flour and tortilla manufacturing company Gruma was the top performer in the fourth quarter and a solid performer for the year. This Mexican based consumer packaged goods company is a great, stable (read: boring) company that does not get the same valuation credit as inferior peers given it is headquartered in Mexico. Gruma issued its first comprehensive ESG report in

October. The company made important ethical and environmental commitments, adopting scope 1 and 2 reporting, supported by a materiality analysis, measurable goals linked to the UN Sustainable Development Goals (SDGs) and actionable next steps to achieve them. We applaud the progress made at the company and look forward to seeing how they progress from here.

- Richemont – Swiss luxury good company Richemont was a top contributor in a quarter in which our appraisal for the business grew 10%. The company announced its first set of results following the announced disposal of Yoox Net-a-Porter, and, as expected, removing this distraction focused the market on the best-in-class performance of the jewelry maisons. Richemont is benefitting from Chinese Covid lockdowns coming to an end, opening the prospect of the return of high-spending Chinese tourists. Branded jewelry benefits from several structural drivers, including the shift from unbranded to branded (only 25% of the market), the growth of the emerging market middle classes, growth in the underpenetrated US market and, increasingly, the rise of fine jewelry and watches as an investment asset class and store of wealth. With Richemont's best-in-class brands they remain well-placed to outperform.

- flatexDegiro – German-listed digital broker flatexDEGIRO was the single largest absolute and relative detractor for the year. In early December, the company announced disappointing results and lowered 2022 full year guidance. flatexDEGIRO ran into problems properly capitalizing its business in the wake of large growth over the last few years. We reduced our holding in the company in the third quarter and exited the remaining position in December. This was an especially frustrating outcome given it resulted in a permanent loss of capital, but we moved on quickly when events changed our outlook.

- Domino's Pizza Group – UK-listed Domino's Pizza Group (DPG) was among the top contributors in the fourth quarter, but still ended the year as a top detractor for the full period. DPG announced in the first half that CEO Dominic Paul was stepping down, which resulted in a steep price decline, followed by further pressure in the third quarter as macro concerns over the UK consumer and a weak pound weighed on the stock price. To the good, DPG announced that Elias Diaz, whom we helped place on the board in 2019 and who brings extensive industry experience, capital allocation discipline and an ownership mindset to the business, was taking over as CEO. In November, the company rebounded on the back of reporting positive results, increased share buybacks and improved market share. It was nice to see a solid first quarter for new CEO Diaz and new CFO Edward Jamieson. We believe they will continue to execute from here.

- Millicom - Latin American cable company Millicom was also a top detractor for the year after the company executed a poorly timed and steeply discounted rights offering to fund a strategic acquisition of the half of its Guatemala business that Millicom didn't already own. Additionally, Millicom faced competitive pressures in multiple markets. The company's stock price rebounded in the fourth quarter after French telecom investor Xavier Niel took a 7% stake in Millicom, highlighting the large price-to-value gap. After quarter end, Millicom's share price rallied 15% in a day when rumors broke that Apollo Global Management and former SoftBank executive Marcelo Claure were exploring a potential acquisition of the company.

- Lanxess – German-listed specialty chemical company Lanxess was among the top detractors in the year, led by steep declines in the first half given its perceived cyclical exposure to commodities, and specifically Russian gas. Lanxess stabilized mid-year on the back of reporting solid first quarter earnings ahead of expectations with consistent fiscal year 2022 guidance and an ability to pass through raw materials costs in the face of inflation. In May, the company announced a two-part deal to sell its DSM Engineering Materials business and enter into a joint venture with Advent/DSM in exchange for €1.1 billion in cash and a stake in the new entity. Lanxess was a top contributor in the fourth quarter on the back of solid results, increased margin targets and decreased capex and restructuring costs, all resulting in much stronger free cash flow power upside, even in a challenging environment.

## Portfolio Activity

As market volatility expanded our universe of compelling opportunities, we bought seven new companies and sold five in the year. We initiated two new positions in the fourth quarter – a consumer staples business that we have successfully owned before and a life-sciences company we have long admired and finally had the opportunity to own at a discount. Both are currently undisclosed while we fill out the position sizes. As discussed above, we exited our position in German company flatexDEGIRO when our outlook for the business changed. We added to two heavily discounted holdings and trimmed several businesses that rebounded in the fourth quarter.

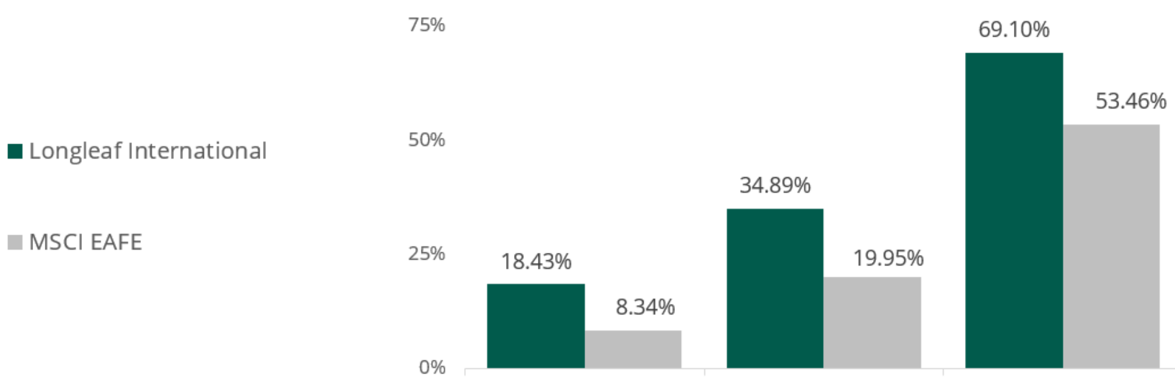
## Outlook

The International Fund remains fully invested with approximately 3% cash, and our on-deck list has continued to grow longer and broader amid market volatility. Our management teams are taking productive actions to build and recognize value across the portfolio.

We still believe that the S&P 500 looks elevated – or at best fairly valued – on potentially too-high earnings assumptions, and Non-US markets remain statistically cheaper with potentially more attractive macro tailwinds to come than US markets. The portfolio reached a near all-time low P/V ratio of 51% in the second half and ended the year in the high-50s, which has historically been a great time to invest with us.

### International Fund

Average Cumulative Total Return Following P/V Less Than 60s%




| | 1 Year | 3 Year | 5 Year |
|---|---|---|---|
| +/- Index | 10.08% | 14.94% | 15.63% |
| # of Quarterly Observations | 27 | 26 | 26 |

***Average annual total returns for the Fund and its benchmark for the one, five, ten year and since 10/26/98 inception periods ended December 31, 2022 are as follows: International Fund: -18.69%, -2.36%, 2.21% and 5.68%; MSCI EAFE: -14.45%, 1.54%, 4.67% and 4.25%.***

*The chart in this presentation shows average of the total annual returns for Southeastern's largest non-US Equity account since 1998 where the quarter-end "price-to-value ratio" (P/V) was less than 60%. P/V compares prices of stocks in a portfolio to Southeastern's appraisal of their intrinsic values. The ratio represents a single data point and should not be construed as something more.* ***P/Vs do not guarantee future results, and we caution investors not to give this calculation undue weight.*** *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.*

*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 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, Australia, 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. The MSCI EAFE Value Index captures large and mid-cap securities exhibiting overall value style characteristics across Developed Markets countries.*

*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.*

*Investing in securities that meet ESG criteria may result in a Fund forgoing otherwise attractive opportunities, which may result in underperformance when compared to funds that do not consider ESG factors.*

*The UN Sustainable Development Goals (SDGs) were adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity. The 17 SDGs recognize that development must balance social, economic and environmental sustainability.*

*A spin-off is the creation of an independent company through the sale or distribution of new shares of an existing business.*

*Total Return and Contribution to Return performance are shown gross of management fees and expenses.*

*As of December 31, 2022, the top ten holdings for the Longleaf Partners International Fund: EXOR, 6.3%; GRUMA, 6.1%; Glanbia, 5.4%; Applus Services, 5.0%; Prosus, 5.0%; Fairfax Financial, 4.9%; Richemont, 4.9%; LANXESS, 4.7%; Alibaba, 4.6% and CK Hutchison, 4.5%. Fund holdings are subject to change and holdings discussions are not recommendations to buy or sell any security. Current and future holdings are subject to risk.*

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