

January 2023

Longleaf Partners Small-Cap Fund Commentary 4Q22

Longleaf Partners
Funds

Fund Characteristics

P/V Ratio	High-50s%
Cash	5.9%
# of Holdings	18

	Annualized Total Return					
	4Q (%)	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)	Since Inception (%)
Small-Cap Fund	4.74	-19.27	-2.23	0.89	6.59	9.46
Russell 2000	6.23	-20.44	3.10	4.13	9.01	8.94
Russell 2000 Value	8.42	-14.48	4.70	4.13	8.48	9.82

*Inception date 2/21/1989

Longleaf Partners Small-Cap Fund added 4.74% in the fourth quarter and ended the year down 19.27%. The Fund's year-to-date returns were narrowly ahead of the Russell 2000, which was down 20.44% for the year after adding 6.23% in the quarter. Multiple companies rebounded in the fourth quarter, delivering strong double-digit returns and positive relative performance across sectors. These solid results continued into the first part of 2023 as we are writing this letter. While we recognize that more near-term volatility may be in store, we believe this is only the beginning of better performance.

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 0.97%. Southeastern has contractually committed to limit operating expenses (excluding interest, taxes, brokerage commissions and extraordinary expenses) to 0.95% of average net assets per year. This agreement is in effect through at least April 30, 2023 and may not be terminated before that date without Board approval.

Our 2022 annual returns were subpar and lagged our expectations, driven primarily by declines at a handful of detractors – Lumen and Oscar Health – which were the top absolute and relative detractors in the quarter and among the top detractors for the year, along with Vimeo and Anywhere Real Estate. We discuss the specific positive and negative return drivers in more detail below.

Last month we were talking with a long-time Southeastern observer. He said that with the two macro themes laid out in our 2021 annual letter – 1) no more free money / interest rates going up; 2) more market sanity after years of growth at all costs beating everything – he would have expected a better year for Southeastern in 2022. We agreed with him. In this talk and others like it, we spent the most time going stock-by-stock, detailing how we own high-quality companies that we believe will deliver more free cash flow (FCF) per share than current results and market expectations, leading to better future returns.

We have demonstrated long-term skill as bottom-up stock pickers, but partly because of this deep, micro research focus, it has taken us too long to learn some larger lessons. Our approach remains neither purely statistical value (which has done better this year after being out of favor for the last 15) nor compounders-at-any-cost (which has done much worse this year, after dominating for more than a decade). We believe seeking out the best of both served us well for our first three decades and will again serve us well from here.

Southeastern is at its best when we find temporarily unloved but high-quality companies with short-term earnings per share below long-term free cash per share. We have picked many good stocks that fit this description. But we have held ourselves back by making certain portfolio management decisions and investing too early in certain types of stocks. We have done internal and external analysis to better quantify these mistakes, and the impact is large. While you should be wary if we were about to say that there is one magic thing or 10 minor tweaks that will take the next several years back up to our standards, we believe that the following three guidelines will make us much better. As Charlie Munger said: “All I want to know is where I’m going to die, so I won’t go there.” We have been wounded at these three places too often, so we will avoid them in the future.

1) Overweights: The numbers show that we are more often than not good stock pickers, but we have not done well with our overweighting decisions for a long time. After trying for years to qualitatively fix this problem, we are now limiting our discretion on this matter by not allowing stocks to get above 6.5% weightings in the portfolio for any extended period of time. Sometimes we will have companies temporarily pop over this level on good news, but the longer stocks have stayed at weightings like this, the worse they have done for us. As we have been putting this rule into practice recently, there remained one temporary outlier as of 12/31/2022.

2) Leverage: Southeastern has made good investments in companies that have net debt on the balance sheet, but some of our more disappointing investments have had excessive leverage. Previously, we have given ourselves too much leeway on these kinds of investments because we were too attracted by a low price-to-value ratio on equity value (P/V), when we should have focused more on the price to enterprise value ratio (P/EV) that better accounts for a company's balance sheet. Going forward, once a prospective or existing investment crosses over 3x Net Debt to EBITDA (earnings before interest, taxes, depreciation and amortization), P/EV will become the key factor, not P/V or price to free cash flow (P/FCF). Often a P/V of 65% on a levered company can be closer to 80% on P/EV, leading to less margin of safety. It is also true that not all Net Debt to EBITDA ratios are created equal. 4x of long-term, non-recourse debt on a company with contracted, stable EBITDA that converts into free cash flow at a high rate can be better than 3.5x of short-term bank debt on a more volatile company (especially if it is not at the trough of a cycle) with less attractive free cash flow generation. The public markets start to differentiate on companies once they get over 3x and are harshest over 4x. Private equity, meanwhile, has benefitted from getting to mark their own prices on investments levered at well over 4x. We are now in the early stages of this coming home to roost, and we look forward to seeing private equity price marks catch up to public market peers. Back to what we can do about things, we will use a grid of P/EVs to pay ranging from the 70s for stable, high-quality companies levered closer to 3x to sub-60 (often equating to P/Vs in the 40s or below) for more volatile companies levered over 4x. If there are excessive financial liabilities that put the company's future at significant risk, we won't play at all.

3) Holding Companies: Value has been created at complex holding companies (holdcos) operating across multiple businesses. Berkshire Hathaway, Liberty Media and

EXOR are prime examples that we have invested in at Southeastern. Companies like this can be dangerously seductive for value hounds like us. We get to dig into the footnotes and own multiple, high-quality assets when the market focuses too much on a consolidated EPS or book multiple. There have been, however, too many examples where our partners were not of the caliber of the above three and/or where we have been early before the market punishes anything complex, which often happens in a bear market. Going forward, we will do two things on these companies: 1) qualitatively, we must insist on higher quality partners who are manic about closing the price-to-value gap, since these structures magnify the pluses and minuses of the people involved; 2) quantitatively, when these companies have publicly traded parts, we need to use the lower of price or value of each sub-part when calculating the value of the entire holdco.

The Small-Cap portfolio has been most impacted by overweights and leverage, but we feel that these lessons will all be important for the future. We understand that it might take time to earn your trust that we have changed on these fronts, and we are very grateful for our long-term and new clients who are with us today. The changes are in place, and the analysis supports our view that they can make a big difference. By the time this is obvious, the greatest opportunity to invest with us will be gone.

Contribution To Return

4Q Top Five

Company Name	Total Return (%)	Contribution to Return (%)	Portfolio Weight (%) (12/31/22)
GRUMA	41	1.95	6.2
MSG Sports	41	1.87	5.8
Westrock Coffee	34	1.81	7.9
Lanxess	39	1.64	6.3
Liberty Braves Group	17	1.13	6.5

4Q Bottom Five

Company Name	Total Return (%)	Contribution to Return (%)	Portfolio Weight (%) (12/31/22)
Lumen	-29	-3.12	6.2
Oscar	-50	-2.37	3.1
Anywhere	-21	-0.93	3.5
Vimeo	-15	-0.62	3.0
Eastman Kodak	-7	-0.40	5.6

2022 Top Five

Company Name	Total Return (%)	Contribution to Return (%)	Portfolio Weight (%) (12/31/22)
White Mountains	41	1.83	6.2
Westrock Coffee	37	1.73	7.9
CNX Resources	22	1.46	5.8
Liberty Braves Group	15	0.91	6.5
MSG Sports	10	0.57	5.8

2022 Bottom Five

Company Name	Total Return (%)	Contribution to Return (%)	Portfolio Weight (%) (12/31/22)
Lumen	-56	-7.94	6.2
Vimeo	-80	-4.62	3.0
Anywhere	-62	-3.93	3.5
Oscar	-68	-3.82	3.0
Empire State Realty	-23	-1.11	4.7

- White Mountains Insurance Group – Insurance conglomerate White Mountains was the top contributor for the year. We have great partners who have gone on offense this year with an intelligent asset sale of NSM Insurance Group to private equity and using their resulting strong net cash position to buy back discounted shares. We believe there is significant additional upside from here.
- Westrock Coffee Company – Westrock Coffee, which is the “brand behind the brand” producing and distributing coffee, tea and extracts for larger entities, was another top performer this year. We first bought this company in the form of a SPAC called Riverview Acquisition Corp. Unlike the overall SPAC market, which was in full meltdown this year, the market properly differentiated profitable Westrock from unprofitable concept company insanity. We have successfully partnered at prior investments with both Chairman Brad Martin and Founder and CEO Scott Ford, and we expect both to continue their strong track records of value creation at Westrock.
- 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 (environmental, social and governance) 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.

- Madison Square Garden Sports Corp – MSG, the owner of the Knicks and the Rangers, contributed as the market for sports teams remained strong and if anything got better as the year went on. If the Phoenix Suns are worth anywhere near the \$4 billion that they transacted at to end the year, then the Knicks are worth much more. Yet, with the Rangers at a Forbes or Sportico valuation, the Knicks are priced way below that \$4 billion. The company also used its strong financial position to pay a dividend and repurchase shares.
- Lumen – Global fiber company Lumen was the top absolute and relative detractor for both periods. This long-term position had a history of managing costs and producing steady free cash flow under the leadership of former CEO Jeff Storey, but its organic revenue growth has been disappointing for a few years and its cash flow began to disappoint recently. In September, the company announced a new CEO, Kate Johnson, would take over. Although her experience at Microsoft and proven track record of delivering organic growth make her a good fit for the role, the communication of her hire was mishandled. The stock price declined on the initial news and fell further as a previously feared dividend cut was announced in November. Lumen also announced in November the positive news of the planned sale of its Europe business for 11x EBITDA (when the whole company is now selling at 5x EBITDA) and a \$1.5 billion share repurchase authorization, on top of closing on the previously announced sale of part of its consumer business to Apollo in October. The recent moves are creating a clearer business mix and stronger balance sheet, and we believe we could see additional positive moves to finally separate the legacy Level 3/Qwest business from the remaining quality local market assets.
- Vimeo and Oscar – Digital software company Vimeo and US health insurance and software platform Oscar Health were both unduly punished this year alongside most tech-related businesses. We were too early at both companies, and our partners have not yet gone on offense to the degree we initially

expected. Oscar grew too much, while Vimeo didn't grow enough. Both still have key differentiating factors and the ability to control their own destiny, but we have been hesitant to take them back to full positions as our initial thesis has yet to play out. We are engaged with management teams at both companies to encourage proactive steps to close the value gap.

- Anywhere Real Estate – Real Estate brokerage franchisor Anywhere declined this year in the face of broad concerns over the housing market and rising mortgage rates. We were wrong about the severity of the housing market downturn, further compounded at Anywhere by leverage. CEO Ryan Schneider has taken steps within his power to position the company to weather a tough environment. The company now trades at a single-digit multiple of 2023 extremely depressed FCF/share based on 4 million existing home sales and about 2.5x our estimate of long-term FCF/share based on a long-term average number of existing home sales of around 5.5 million units. Anywhere successfully navigated a much more challenging market during the GFC with even higher leverage, so we are confident the company will make it to the other side once again.

Portfolio Activity

We sold three companies and bought two new businesses this year as persistent market volatility threw out a number of compelling new opportunities. In the fourth quarter, we exited our small position in RenaissanceRe as it approached value. We added opportunistically to heavily discounted businesses and trimmed several positions, including companies like White Mountains, Gruma and Liberty Media Braves, whose strong performance drove them over the 6.5% position limit. We also trimmed our largest position, Lumen, to bring it below the 6.5% position limit.

Outlook

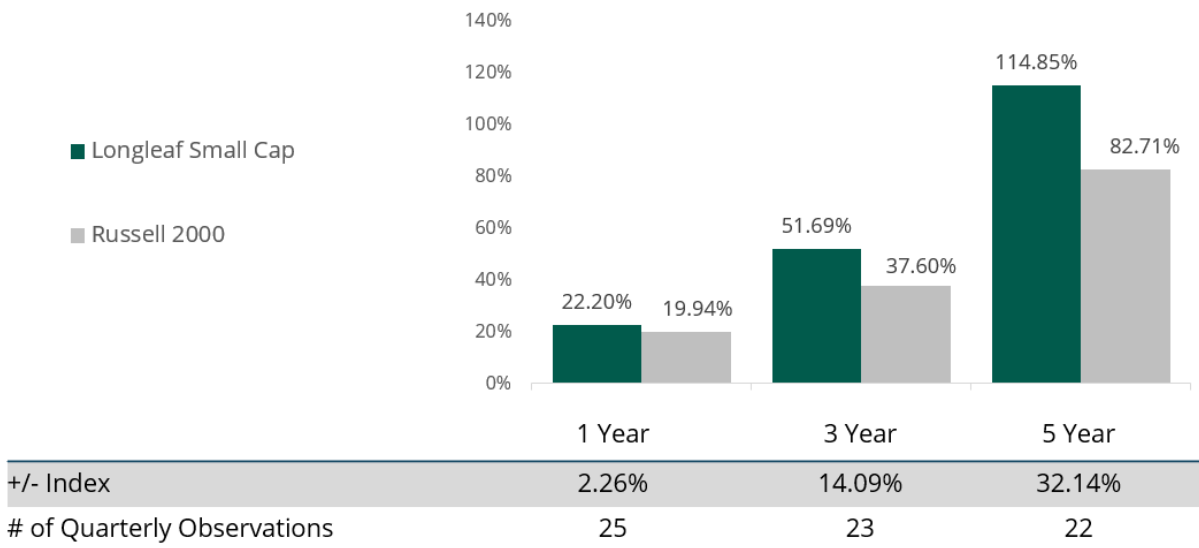
Some of our overall market views remain similar to previous years: the S&P 500 still looks elevated or fairly valued on potentially too-high earnings assumptions, but the median multiple is more attractive than the average multiple in this top-heavy index; the Russell 2000 looks better on its reported multiple, but this ignores many unprofitable companies; Non-US markets are statistically cheaper than US markets.

The S&P 500 next twelve months' EPS multiple is currently 17x, while the US 10-year treasury yield ended the year at 3.8% vs. one year ago at 1.5%. This is an interesting contrast to 10 years ago when the index was at 12x and the 10-year was at 1.8%, or 20 years ago when the numbers were 15x and 3.8%. The lesson is that there is a lot more that goes into valuation than just discount rates, but they are an important factor.

Our portfolio is at a NTM (next twelve months) P/E of 8x vs. these numbers. That remains an unusually wide gap. The portfolio reached a near all-time low P/V ratio of 50% in the second half and remains in the high-50s% today, which has historically started a great time to invest with us:

Small-Cap Fund

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



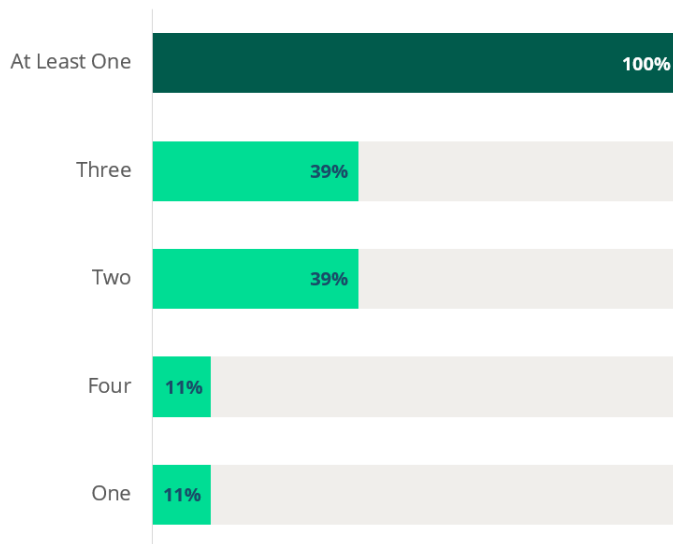
Average annual total returns for the Fund and its benchmark for the one, five, ten year and since inception periods ended December 31, 2022 are as follows: Small-Cap Fund: -19.27%, 0.89%, 6.59% and 9.46%; Russell 2000: -20.44%, 4.13%, 9.01% and 8.94%.

The chart in this presentation shows the average of the total annual returns for Longleaf Partners Small-Cap Fund since 1993 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. Past performance is not indicative of future results.

While most asset classes felt pain from higher interest rates this year, that is more priced in now, and some of the main free-money beneficiaries are significantly off their highs. The initial punch in the face has been taken by all, and now our partners are taking productive actions to differentiate themselves at an impressive rate:

of Actions

% of all firms held in the Small-Cap Fund



Types of Actions / Potential Actions

- Buybacks
- Insider Stock Purchases
- Potential Asset Sales/Spin-Offs
- Potential Whole Company Sale

We continue to believe that money costing something again is a healthy, long-term development for the capital markets in general and for Southeastern in particular. The change was abrupt, but our portfolios are positioned well for the future. Our on-deck list remains healthy. We look forward to the changes we have discussed leading to better returns. Thank you for your long-term partnership.

See following page for important disclosures.

Before investing in any Lingleaf 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 Lingleaf 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 3000 Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index. The Russell 2000 Value index is drawn from the constituents of the Russell 2000 based on book-to-price (B/P) ratio. An index cannot be invested in directly.

The S&P 500 Index is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

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.

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

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.

Enterprise value (EV) is a company's market capitalization plus debt, minority interest and preferred shares, and less total cash and cash equivalents.

"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.

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

Private equity refers to investments in firms which are not listed on a public stock exchange.

A special purpose acquisition company (SPAC) is a company with no commercial operations that is formed strictly to raise capital for the purpose of acquiring an existing company.

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 stock buyback is when a company uses cash to buy shares of its stock in the market.

Insider stock purchases are purchases of company stock by company officers and directors.

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

As of December 31, 2022, the top ten holdings for the Lingleaf Partners Small-Cap Fund: Westrock Coffee Company, 7.9%; Mattel, 6.5%; Liberty Braves Group, 6.5%; LANXESS, 6.3%; White Mountains, 6.2%; GRUMA, 6.2%; Lumen, 6.2%; MSG Sports, 5.8%; CNX Resources, 5.8% and Eastman Kodak, 5.6%. 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.

Funds distributed by ALPS Distributors, Inc.

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