January 2025

Longleaf Partners Fund 2024 Annual Commentary

Longleaf Partners Funds

All data as of December 31, 2024

Fund Characteristics

P/V Ratio	High-60s%
Cash	19.6%
# of Holdings	17

			Annualized Total Return			
	4Q (%)	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)	Since Inception (%)
Partners Fund	-1.33	8.80	1.30	7.27	4.24	9.38
S&P 500	2.41	25.02	8.94	14.53	13.10	10.63
Russell 1000 Value	-1.98	14.37	5.63	8.68	8.49	9.74

Inception date 4/8/1987.

The Longleaf Partners Fund returned -1.33% in the fourth quarter, compared to the S&P 500's return of 2.41% and the Russell 1000 Value's return of -1.98%. For the year, we returned 8.80% vs. another sizable S&P 500 return at 25.02% and the Russell 1000 Value beating us this year at 14.37% after we significantly outperformed it in 2023.

Sometimes it is prudent to trail the broader market index as we were doing in 1999 and early 2000, and the last few years could turn out to be one of those times. We also firmly believe that the 3-10 Year numbers above would be much better if we had some of the general lessons in place then that we are operating by now. This is different to us than regretting specific losers and missing potential winners – that is always going to happen for any active money manager.

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 1.05%. The Partners 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 0.79% of average net assets per year. This agreement is in effect through at least April 30, 2025, and may not be terminated before that date without Board approval.

Back to 2024, we grew your money since we wrote to you last January. We delivered double-digit returns in aggregate on our investments that we still own today. Holding more cash than usual during the year was a drag on overall returns. Just like how we have adapted our price-to-value (P/V) ratios to account for balance sheet risk in our price-to-enterprise value (P/EV) calculation, we do the same when judging our returns this year. While the fourth quarter was disappointing compared to the market on the short-term scoreboard, the good news is that we improved the portfolio qualitatively and quantitatively through disciplined buying and selling. There were places we could have done better for the quarter and the year—we will talk about specific mistakes later in this letter. Looking ahead, we have confidence in our prospective returns based on the quality of each investment and the aggregate high-60s% P/V and 10x price/earnings power multiple of what we own today, which is dramatically different than the market as detailed below.

As value investors performing fundamental, appraisal-driven research, we can point to the quantitative as we did in the preceding paragraph. Others like to quantify the qualitative with measures of historical growth, margins and return on capital. These are important metrics, but future value per share growth and realization matter more to us. This growth sometimes happens steadily, but other times the turn comes when the market least expects it. We would group our holdings into three sets on this front:

- The first and largest group consists of companies where value per share growth has already turned the corner, but the market is not yet fully recognizing the progress. Ideally, this category would represent a majority of the portfolio, and today it represents approximately 60%. Examples include CNX, where value per share roughly doubled since early 2022, and Affiliated Managers Group (AMG) which, after a slow start, has seen steady value per share growth since COVID.

- The second group consists of companies that have not yet turned the value per share growth corner, but we see a path to this happening within the next 18 months. This group should be a minority of the portfolio and often includes some of our most attractive P/Vs and P/FCFs that are the most misunderstood qualitatively. IAC is one such company, and we discuss it in more detail below. Currently this group makes up less than 15% of the portfolio.

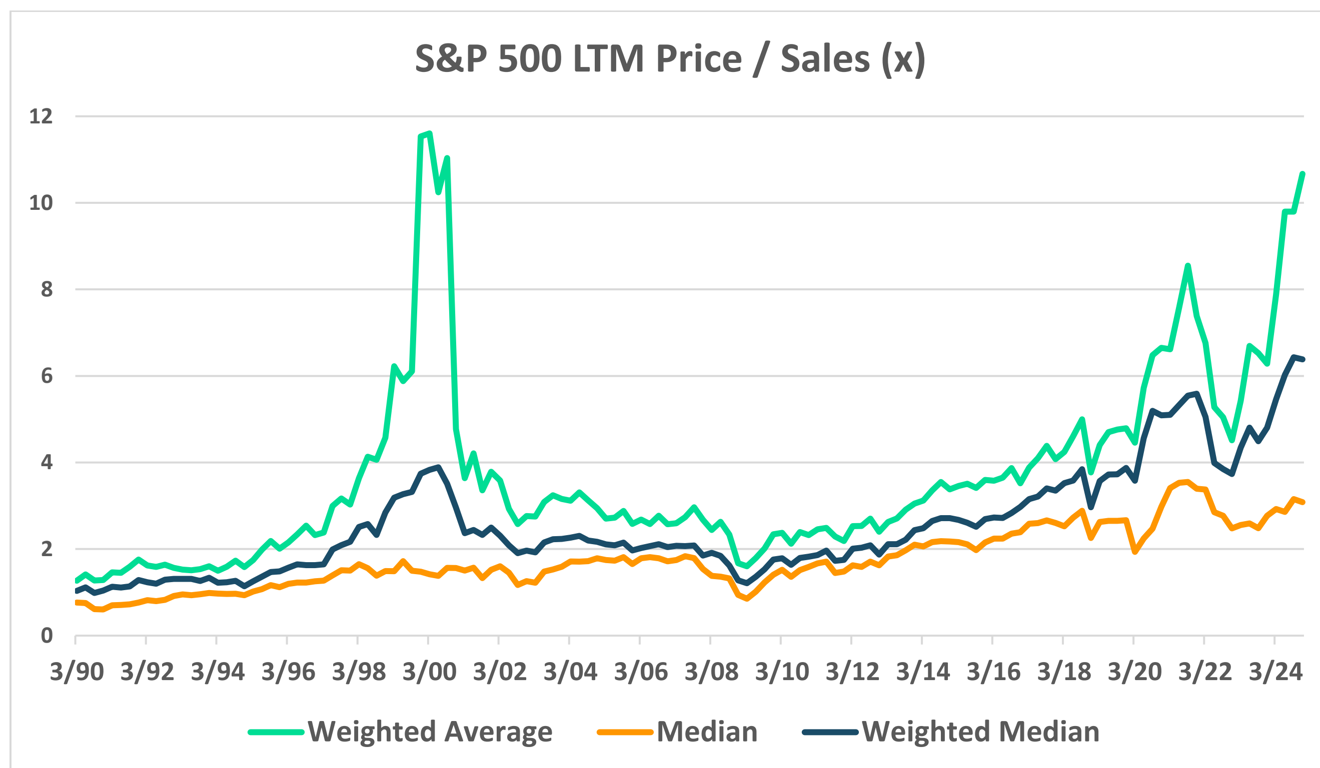
- The final group of companies includes those that we have owned for less than 18 months and are not yet clearly in either of the other groups. Because we are long-term, concentrated investors, this group will be a minority of the portfolio, as it is today.

If we are correct on our appraisals – which, based on the math, we believe we usually are – great partners with financial flexibility should eventually figure out a path to growth and improved shareholder returns (sometimes with our help). We do not want investments to be in the second group for too long, but patience is necessary at times. Said another way, we win with aligned partners when we can proactively realize value together. Along these lines, our approach benefits from surfacing companies that are acquisition and/or corporate action (spin-off, etc.) candidates. The Biden administration was much tougher on this front than Trump will likely be, so the change in administration should help companies we own over the next few years, as we believe there is more pent-up value realization activity potential in our portfolio than in the broader market.

That is one possible positive on the Trump micro front, but what about on the Trump macro? We have been asked a lot recently what to expect under the second term for Trump. Should we simply buy the same stocks that performed well during his first term? To look forward, we first need to look back to establish that things will likely be different this time around. Post-election in 2016, the S&P 500 was coming off a 5-year period in which its earnings per share only grew at a weak 2% compounded annual growth rate (CAGR). The S&P 500 index had gone up more – from 1250 to 2000 – over this time frame, driven by multiple expansion from a low-double-digit price-to-earnings ratio (P/E) to a mid-high-teens P/E. The market multiple post-Trump in late 2016/early 2017 was close to the then long-term market multiple average in the US of 16-17x, a 6% cap rate on after-tax earnings. After-tax margins on the S&P 500 had moved from the low-double-digit percentage range they had bounced around for decades to something more in the low-teens, which was understandable as the index likely had structurally higher margins with higher quality companies becoming a higher percentage weighting. Thus, after the initial Trump bump back then, we felt that the market was fairly valued to maybe even overvalued.

The most surprising thing to us about the 2017-2019 era in retrospect is how little happened that moved markets. This nothingness was a big deal because the tranquility allowed a big US tax cut to coincide with low interest rates and low regulations. Thus, we were wrong about the resulting earnings per share (EPS) growth at both what we owned (we should have held investments longer) and what the S&P 500 owned, as the index's EPS grew at a massive 14% CAGR from December 2016 to 2019. Margins went up even higher and multiples followed with the S&P 500 around 3250 right before COVID in January 2020. Then COVID hit and the world had to print a lot of money to make it through. Post-COVID, the world finally learned that inflation and higher interest

rates can exist. Today there is a strange dynamic where the world has learned once again how much voters hate inflation, but many Trump policies like tariffs are inflationary, all while the stock market is implying inflation and high interest rates are under control. S&P 500 margins are literally off the charts in the high-teens, and the market is expecting a re-run of 2017-2019 and pricing one in at 6000 for the index, which is a P/E multiple in the mid-20s, which is also off the charts except for 1999-2000 era. Combining both margin and multiple dynamics into one chart really shows how elevated large parts of the US market are at the moment.



Source: FactSet

It is not a bold prediction that there will be at least a normal amount of global macro volatility in the next few years, and this will affect the US economy. This time, however, there will be less ability to lower tax rates and interest rates to juice the US stock market when volatility hits. It might not feel that way because the same market themes of recent years have been turned up to even louder volumes. It is a sign of the times when these themes seem never-ending. Stories about compulsive stock traders literally showing up at Gambler's Anonymous meetings in growing numbers get a shrug these days. In the trailing short term, this has hurt our relative returns differential. It is encouraging that we are starting to see more undervalued companies that are out of step with what is most popular. This speaks to a better on-deck list than our cash level

would suggest and reminds us of when 1999/2000 also saw a shift away from the boring yet good. In the coming years – which could come sooner than it might feel – this will help our prospective returns. As we have written before, Southeastern has done well in times of higher rates because individual stock picking is more important when discount rates in discounted cash flows (DCFs) matter more – look at our relative returns in the 1970s, 1980s and 2000s vs. the 1990s and 2010s.

Back to what we own and have owned, while there are a lot of positives, there are two themes of mistakes worth calling out. One is an error of omission: we should have looked harder at high-quality banks during the brief Silicon Valley Bank (SVB) turmoil in 2023. We got close, but we did not see how benign the macro environment would be for banks over the just-ended 18 months. This has led to a relative headwind for us vs. the value indices that we can be judged against. We see arguments today that banks still have more room to run. That could be the case, but we are wary of relative-valuation-driven arguments at a time when overall market multiples are elevated.

Our second error was one of commission, which hurts more. We did not move on at the right times from some of our legacy Three Rules violators that we grandfathered into the portfolio because of both their 2022 undervaluation and what we thought could be coming improvements in their leverage and complexity. While we discuss the specifics below, the good news for the go forward is that we have a higher-quality portfolio with great partners on offense.

Notable Contributors & Detractors

CNX Resources – Natural gas company CNX Resources was a top performer for both the quarter and the year. The company consistently delivered solid operational results throughout the year, maintaining continued focus on growing value per share. CNX came into 2024 more hedged than peers and with a strong balance sheet that has funded continued share repurchases at a double-digit annualized pace. The company continues to focus on what is within their control, leveraging its low-cost structure and disciplined hedging strategy to deliver free cash flow (FCF) in a variety of price environments. The company also announced an asset purchase in the fourth quarter that both strategically helps its existing assets in the Deep Utica and grows the company's value per share. CNX remains discounted and one of our stronger value growers over the last few years. Our partners CEO Nick DeIuliis and Chairman Will Thorndike continue focusing on growing long term FCF and value per share. If you would like to learn more about CNX, we hosted a podcast in September with CEO Nick DeIuliis that covers a range of topics.

Kellanova – Packaged food company Kellanova was a top contributor for the year. In the third quarter, it was announced that the company would be acquired by Mars at a slight premium to our appraisal. This outcome was one of multiple potential paths to value recognition when we first invested. The company's portfolio of strong brands had been undervalued by the market. However, the strategic spin-off of its less attractive cereal business allowed the snacks division to showcase its strengths. While we would have liked to own it longer, the company delivered strong results throughout the year, ultimately attracting a full and fair price by Mars. We exited our position in the third quarter on the price strength after the acquisition announcement.

Fidelity National Information Services (FIS) – Technology solutions provider for financial institutions FIS was a top contributor for the year. We first started buying this company in 2023 when its bank customers were going through stock market turmoil following the failure of Silicon Valley Bank. As we have written previously, we have seen how resilient the financial technology industry tends to be, even through crises, and FIS has demonstrated this once again with the company's core bank software business reporting solid growth this year. CEO Stephanie Ferris is proving to be a great partner since she was elevated to the role with FIS making notable strides this year. FIS monetized a non-core business this year at an attractive valuation and used the proceeds to repurchase 10% of its outstanding shares. These actions led to strong double-digit value per share growth in 2024. FIS is a stable company that is on offense yet still trading at a reasonable multiple of FCF – an increasingly rare attribute in today's market.

RTX – Aerospace and defense company RTX was a top contributor for the year. Our appraisal value has grown nicely since we first purchased the company just over a year ago. While the issues for Pratt & Whitney's (P&W) Geared Turbofan engine are still not yet fully fixed, they have gotten better and given us another reminder that the point of maximum pessimism is only obvious in retrospect. We continue to have a conservative valuation on P&W so view this as a source of future value upside. The Raytheon segment has also performed better as the year has gone on, with recent signs of margin improvement. Strong industry tailwinds, prudent capital allocation and a solid balance sheet provide a foundation for sustained growth and eventual full value recognition.

PayPal – Digital payments platform PayPal was a contributor for the quarter and the year. The company delivered strong results, with gross margin dollars continuing to grow in the mid-high single digits for the last few quarters. Effective cost management

further contributed to double-digit FCF growth, a key metric in our analysis. PayPal also demonstrated its commitment to enhancing shareholder value by repurchasing shares at a 10% annualized basis in the most recent quarter, leading to even stronger FCF per share growth. Much of what we envisioned at our initial investment has materialized quicker than anticipated. This strong performance has been driven by the improved leadership of relatively new CEO Alex Chriss.

Warner Bros. Discovery (WBD) – Media conglomerate WBD was a detractor in the quarter and the year. We exited our position during the quarter to reallocate capital to opportunities with stronger qualitative and quantitative characteristics. In retrospect, WBD represents an error of commission as noted above. Our original thesis did not fully account for the company's leverage and growth challenges in its linear TV and studio businesses. Adding insult to injury, the stock price has gone up since our exit, fueled by rumours of a potential linear TV business deal with Comcast. While this development offers some validation of WBD's strategic assets, it is tempered by significant insider selling following the recent stock price increase. Time will tell if our decision to sell was the right one, but our focus remains on seeking investments that are growing and on offense.

Liberty Broadband (LBRDK/A) – Time has told us that our decision to move on from internet and video distribution holding company Liberty Broadband was premature. We misjudged the business quality at our initial purchase in 2021, underestimating competition from fiber and wireless broadband providers. These challenges forced Charter Communications (of which Liberty Broadband owns 26%) to adjust its capital expenditures and share repurchases significantly while calling into question the business's pricing power. After we sold, we were proven wrong in our belief that Liberty Media would not be able to quickly combine Liberty Broadband with Charter. While this merger will take time (likely into 2027), the announcement of the combination's framework caused LBRDK/A's stock price to increase. This was an example of excessive debt both influencing our initial buy decision (before we implemented our focus on P/EV) and then limiting our patience for a thesis to play out. These are important lessons that have made our portfolio better today.

MGM Resorts – Hospitality and gaming company MGM Resorts was a top detractor for the quarter and the year. Despite relatively strong execution by the company and opportunistic repurchases of discounted shares, the market did not like the company's quarter-to-quarter volatility, especially in the second half of the year. When making the necessary adjustments, MGM's core Las Vegas properties continued to grow nicely if

boringly in the low-mid-single digit range during the year. MGM remains one of our larger share repurchasers in the portfolio, demonstrating its commitment to shareholder returns. The company's hidden assets in online gaming and Asia also showed progress as the year went on. We remain confident in the management team, led by CEO Bill Hornbuckle, as they navigate these challenges and focus on long-term value creation.

IAC – Digital holding company IAC was a top detractor for the quarter and year. Operationally, the company delivered strong results, with the key Dotdash Meredith segment achieving accelerating double-digit cash flow growth as the year progressed. Unfortunately, IAC's stock price remains overly influenced by Angi's stock price performance, despite Angi representing only a single-digit percentage of IAC's overall value. This will change this year, however, as in the fourth quarter IAC announced the spin-off of its ownership of Angi. The market took this to mean more short-term stock price pressure for both companies, but we think Angi without the IAC overhang will ultimately trade better, and IAC without Angi will allow the market to focus on high-quality assets like Dotdash Meredith and MGM (discussed above). IAC is also closer to recognizing the value of its other assets, like Care.com and Turo. With a net cash balance sheet at the parent level, IAC is well positioned to go on offense in any market environment and will likely provide more capital allocation clarity in 2025 post-spin of Angi.

HF Sinclair – Energy infrastructure company HF Sinclair, which owns refining, midstream, specialty chemicals, marketing and renewable fuels assets, detracted in the quarter and for the year. The company owns unique assets that are protected from competition and has a great culture focused on value per share growth and realization. We had the opportunity to purchase this strong company in the quarter due to the recent refining downcycle and oil price volatility. We know HF Sinclair well having owned it before in 2015 in the Small-Cap Fund and having followed it since we first visited the company in 2009. As is typical in this industry, quarterly volatility in spread pricing can weigh on the share price in the short term, which is what happened this quarter. We were encouraged to see significant insider buying throughout the quarter as we were buying alongside them.

Portfolio Activity

During the quarter we purchased two new positions in the portfolio. HF Sinclair, discussed in more detail above, was one of these additions. The second is a consumer packaged goods company we have followed for years, and we look forward to discussing it in more detail later this year. We also exited three positions in the quarter, Live Nation Entertainment, Warner Music Group and Warner Bros. Discovery. Live Nation was sold on price strength after it traded through our appraisal value. This followed renewed optimism about reduced regulatory risk post-Trump's election. We exited Warner Music Group as the margin of safety was not enough to continue holding at its elevated P/V level, especially as value per share growth had been lacking during our holding period. Our Warner Bros. Discovery exit is discussed in more detail above.

For the year we purchased five new holdings: PayPal, Albertsons, EXOR (which was a tax-efficient partial swap with CNH), HF Sinclair and the undisclosed consumer packaged goods business noted for this quarter. We exited eight holdings: Fairfax Financial, Fortune Brands, Liberty Broadband, Fiserv, Kellanova, Live Nation, Warner Music Group and Warner Bros. Discovery.

Outlook

As mentioned earlier, we are excited about the opportunities in 2025 and beyond. The businesses we own made solid progress this quarter and year. With the Fund's price-to-value ratio in the high-60s%, we believe there is substantial opportunity in the portfolio today. While our cash position ended the quarter higher than usual, we have multiple investments on-deck that could quickly bring the cash balance back to lower levels while improving our margin of safety.

Staley Cates completed his retirement from Southeastern in the fourth quarter, as we wrote about in our last quarterly letter. We wish him the best and are grateful as Memphians for his civic work. He has stayed a part of our network and has already heard from us on a stock-specific question or two where he could help. We also continue to work through applicants for our next US Junior Analyst. Additionally, we recently posted a new Data Analyst role that will work with multiple departments at Southeastern.

While we are excited to look ahead, 2025 will also be a year of looking back. Southeastern turns 50 in August. Our strong constitution has gotten us this far, and we are ready to go farther. All constitutions need amendments, and we have been

through more change than usual over the last two-plus years. We think our next 10 years will be more like our first 30-35 years. We would expect less change going forward, with the caveat that we will always look to do what is best in the spirit of partnership with you. One communication change for 2025 will be a new note we will send intra-quarter. It will be brief and talk about specific stocks we own and what we are seeing in the market. This idea was inspired by some year-end cleaning when we found a Southeastern pamphlet from the 1980s. What was true then about the principles of alignment and value investing remains true now. We look forward to talking with you soon and remain grateful for your long-term partnership.

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://connect.rightprospectus.com/Longleaf/TADF/543069108/SP***. Please read the Prospectus and Summary Prospectus carefully before investing.***

RISKS
The Longleaf Partners 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. Mid-cap stocks held by the Fund may be more volatile than those of larger companies.

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. S&P 500 Value Index constituents are drawn from the S&P 500 and are based on three factors: the ratios of book value, earnings, and sales to price. An index is unmanaged, does not reflect the deduction of fees or expenses, and cannot be invested in directly.

The Russell 1000 Index measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 90% of the total market capitalization of the Russell 3000 Index. The Russell 1000 Value index is drawn from the constituents of the Russell 1000 based on book-to-price (B/P) ratio. An index is unmanaged, does not reflect the deduction of fees or expenses, and 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.

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.

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

As of December 31, 2024, the top ten holdings for the Longleaf Partners Fund: Affiliated Managers Group, 6.4%; CNX Resources, 6.0%; Fidelity National Information Services, 5.9%; FedEx, 5.9%; IAC, 5.7%; Albertsons, 5.6%; Mattel, 5.3%; Bio-Rad, 5.1%; HF Sinclair, 4.8% and EXOR, 4.3%. 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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