January 2025

Longleaf Partners Small-Cap 2024 Annual Commentary

All data as of December 31, 2024

Longleaf Partners Funds

Fund Characteristics

P/V Ratio	High-60s%
Cash	12.6%
# of Holdings	18

			Annualized Total Return			
	4Q (%)	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)	Since Inception (%)
Small-Cap Fund	-1.58	9.69	2.09	4.26	5.45	9.75
Russell 3000	2.63	23.81	8.01	13.86	12.55	10.88
Russell 2000	0.33	11.54	1.24	7.40	7.82	9.23

Inception date 2/21/1989.

Longleaf Partners Small-Cap Fund returned -1.58% in the fourth quarter while the Russell 3000 returned 2.63%. This compared to the more relevant Russell 2000 and 2000 Value's returns of 0.33% and -1.06%. For the year, we returned 9.69% vs. another large-cap-growth-driven Russell 3000 return year at 23.81%, 11.54% for the Russell 2000 and 8.05% for the most appropriate Russell 2000 Value.

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 1.07%. The Small-Cap 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 0.95% 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 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 11x 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 75%. Examples include CNX, where value per share roughly doubled since early 2022, and Gruma, which has continued to compound its value per share at a double-digit rate since our purchase in 2019.

- 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. Westrock is one such company, and we discuss it in more detail below. Currently this group makes up less than 15% of the portfolio.

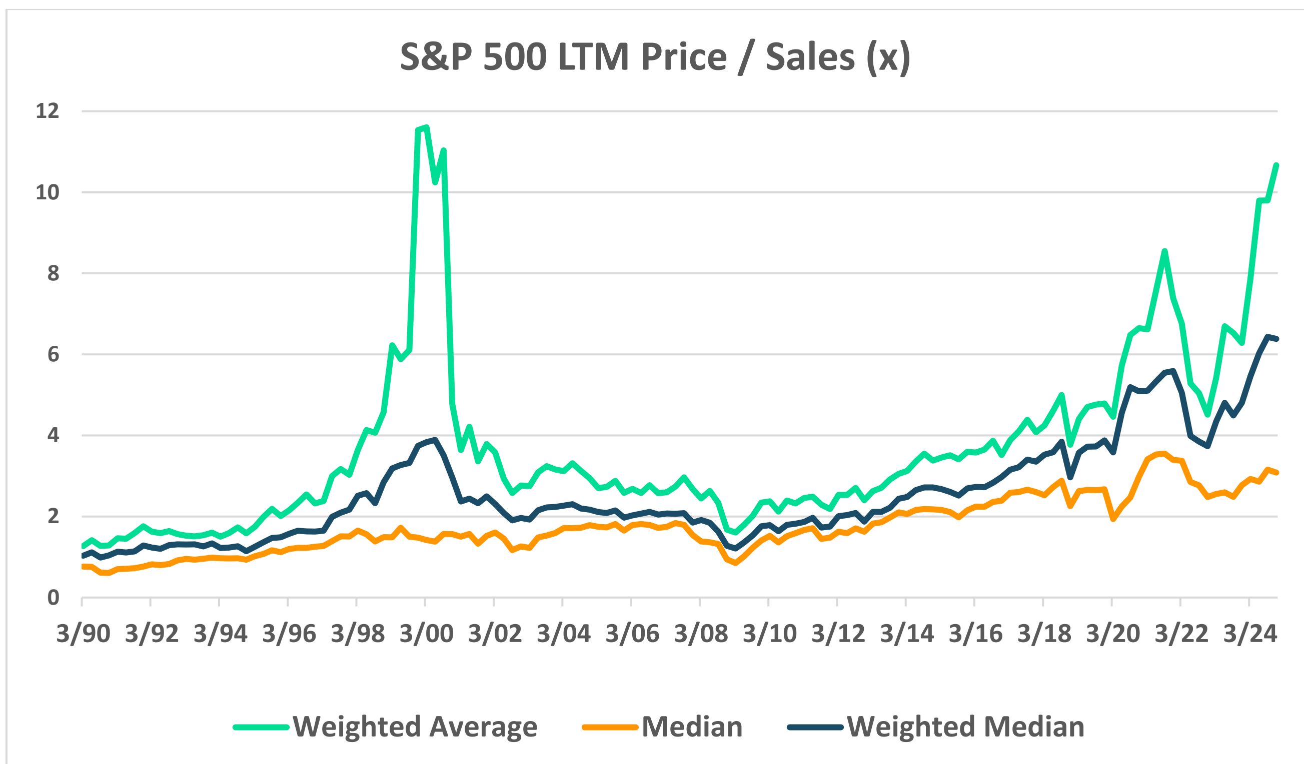
- The final group of companies includes those we have owned for less than 18 months and are not yet clearly in either of the other groups. Because we are long-term, concentrated investors, this group will be a minority of the portfolio, as it is today.

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 the quarter and the top performer for 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.

Oscar Health – Health insurance and software company Oscar was a top detractor for the quarter while remaining a top contributor for the year. The company delivered another strong quarter operationally, achieving over 60% year-over-year revenue and membership growth, while advancing toward its publicly stated goal of 5% operating income margins. Despite the operational progress, the Trump presidential win weighed on the stock price in the quarter due to added uncertainty around the future of the enhanced ACA subsidies set to expire at the end of 2025 and broader implications for the ACA itself. Oscar still has underappreciated non-earning assets in various regions at different stages of ramp-up, transitioning from investment mode in some areas to higher-margin operations in others. We view this as a long-term positive, highlighting the embedded long-term growth potential at Oscar. While election-related news contributed to stock volatility in the second half of the year, we capitalized on the volatility by strategically trimming and adding to our position. It was powerful to see both co-founder Josh Kushner and CEO Mark Bertolini (via his foundation) each purchase more than $10 million worth of stock in the wake of the election selloff.

Liberty Live – A live entertainment global leader via its 30% holding in Live Nation, Liberty Live was a top contributor for the quarter and year. We purchased the company in the second quarter, when Live Nation was out of favor and the market thought a combination of Live Nation and Liberty Live was many years away. This investment has turned out to be a quick winner, driven by both great operational results and strong value realization actions by management. The company continued to grow revenues double digits, and margins improved as well. The positive results were punctuated by relaxed antitrust optimism post-Trump's election win. It was announced in the fourth quarter that Liberty Media plans to reattribute Quint (an events-related asset) from Formula One to Liberty Live in exchange for other assets. There are opportunities between the two companies to enhance both offerings and provide more value to clients, and most importantly this is likely a prelude to Live Nation and Liberty Live continuing to close the value gap between the two companies.

Eastman Kodak – Licensing, imaging and technology company Kodak contributed for the quarter and the year. As a reminder, we hold a convertible preferred security which acts more like a bond than a common stock. Our security performed well, driven by

Kodak's significantly overfunded pension. This asset, long evident on the company's balance sheet but ignored by the market, gained attention earlier this year after Kodak announced it was exploring changes to its structure. In the fourth quarter, the company filed an 8K detailing the next steps of a process that will ensure promises to pensioners are kept while lenders and owners will benefit from the company being in a strong financial position for the future. These moves should generate sufficient cash and borrowing power to repay our security on or before its maturity in 2026, thus we are viewing this security today as more of a current asset than a long-term equity holding like our other investments.

Graham Holdings (GHC) – Diversified education, healthcare and media (to name a few of their assets) company Graham Holdings was a top contributor for the year. The company reported a strong quarter and year across multiple segments. Substantial FCF once again went to meaningful share repurchase. GHC's shares trade at a compelling single-digit multiple of FCF when adjusting for the company's material non-earning assets, offering significant value growth through repurchases at these discounted prices. In the quarter, the company made a significant move to de-risk its pension obligations, purchasing an annuity to transfer liabilities and getting the company closer to unlocking this hidden asset. 2024 also saw the company's Healthcare division continue to grow its value strongly in the double digits and likely pass the TV segment to become the second most valuable part of the company after the Kaplan education business. Management's disciplined approach to capital allocation and long-term thinking support our confidence in future shareholder returns.

Anywhere Real Estate – Real estate brokerage franchisor Anywhere was a top detractor for the year and a material detractor for the quarter. The company faced the most challenging news flow this year among our holdings. First, the National Association of Realtors (NAR) settlement affecting buy-side commissions hurt market perception of the entire industry again, even if the long-term impact of this news is still debatable. Existing home sales remain well below historical averages, and interest rates have not come down. In the short term, the company's stock price is impacted most by interest rates. As the Federal Reserve started easing rates this year, optimism around mortgage rates improved, and we trimmed our position in the third quarter after strong performance. With interest rates up since that decision, our remaining position hurt us in the fourth quarter. We continue to have confidence in the management team, led by CEO Ryan Schneider, to work on what is within its control to grow value per share, but

we acknowledge that this has been a disappointing investment that had too much leverage for a housing environment like we are currently witnessing.

Westrock Coffee – The coffee "brand behind the brand" for a variety of retailers and restaurants, Westrock was a top detractor for the year. The company reported disappointing results that led to its second straight year of missing guidance. Muted near term cash flow has led to more leverage than is optimal when compared to this depressed cash flow. Some of the factors driving results are macro (coffee has faced various headwinds, as seen at industry bellwether Starbucks this year), some are Westrock-specific operational challenges and still others are decisions that take short-term pain in exchange for long-term gain (idling lines at the company's key plant in order to clear space for new customers). Despite these near-term pressures, Westrock remains focused on ramping up its new facility in Conway, Arkansas – a pivotal development for the company's financial position. FCF generation is expected to begin in 2025 before accelerating substantially in 2026 and beyond. While the market adopts a cautious "wait-and-see" stance, 2025 will be an important year for execution.

Gruma – The world leader in tortillas and corn flour, Gruma was a detractor in the quarter and the year. While the company continued its track record of double-digit value per share growth in US dollars since we invested in 2019, two external factors weighed on the stock price in the year and especially the fourth quarter. First, the weak Mexican peso and overall Mexican political developments, when combined with Trump's comments about tariffs, led to negative market sentiment. As a reminder, the company's US business (predominantly the Mission brand of tortillas), which is over 75% of the value, is entirely based in the US and does not need to worry about these issues. Second, in the fourth quarter, the Mexican competition authority (Cofece) issued initial findings that Gruma is too dominant in the Mexican corn flour market. This business is less than 10% of our Gruma value, yet the stock trades like it is much more important. While we wait to see how this will play out, we do not see any scenarios where the company is materially worse off. In fact, there are some outcomes where Gruma's overall position improves. In the meantime, we believe that the company can continue to navigate these issues from a position of financial strength.

Portfolio Activity

We did not initiate any new positions in the quarter. We exited Seaport Entertainment, the small position we received last quarter via spin-off from Howard Hughes Holdings, a diversified real estate company that is in the process of simplifying its assets.

Additionally, we opportunistically added to a few positions and trimmed others where stock prices had appreciated.

For the year we purchased four new positions: PotlatchDeltic, Liberty Live, Howard Hughes and Dole, a global fresh food, logistics and real estate company. We exited five positions for the year: Knife River, Masonite, Douglas Emmett, Ingles Markets and Seaport Entertainment.

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/543069207/SP. Please read the Prospectus and Summary Prospectus carefully before investing.

RISKS
The Longleaf Small-Cap Fund is subject to stock market risk, meaning stocks in the Fund may fluctuate in response to developments at individual companies or due to general market and economic conditions. Also, because the Fund generally invests in 15 to 25 companies, share value could fluctuate more than if a greater number of securities were held. Smaller company stocks may be more volatile with less financial resources than those of larger companies.

The Russell 2000 Index measures the performance of the 2000 smallest companies in the Russell 3000 Index. The Russell 3000 represents approximately 97% of the American public equity market and the Russell 2000 represents 10% of the Russell 3000. 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 Small-Cap Fund: Eastman Kodak, 12.9%; Oscar Health, 6.1%; GRUMA, 6.0%; Graham Holdings, 5.9%; CNX Resources, 5.9%; Mattel, 5.6%; PotlatchDeltic, 5.6%; White Mountains, 5.1%; Atlanta Braves Holdings, 4.7% and Park Hotels & Resorts, 4.7%. 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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