

January 2026

Longleaf Partners Small-Cap Fund 2025 Annual Commentary

Longleaf/
Partners
Funds

Fund Characteristics

P/V Ratio	Low-60s%
Cash	15.8%
# of Holdings	17

All data as of December 31, 2025

	Annualized Total Return (%)					
	4Q	1 Year	3 Year	5 Year	10 Year	Since Inception
Small-Cap Fund	1.13	7.56	12.34	4.94	6.89	9.69
Russell 3000	2.40	17.15	22.25	13.15	14.29	11.05
Russell 2000	2.19	12.81	13.73	6.09	9.62	9.32
Russell 2000 Value	3.26	12.59	11.73	8.88	9.27	9.97

Effective May 1, 2024, the Fund changed its broad-based securities market index to the Russell 3000 Index due to regulatory requirements. The Fund retained the Russell 2000 Index and the Russell 2000 Value Index as performance benchmarks because they more closely align with the Fund's investment strategies and restrictions.

Southeastern turned 50 this year. While the small-cap strategy at Southeastern has not been around for all 50 years, we have seen plenty of different types of environments in small-cap investing over that time. This year was one of those years where the underlying developments at our holdings were better than the stock price returns vs. our absolute goal of inflation plus 10% and a strange Russell 2000. To explain this, let's break the returns of the Russell 2000 into the following buckets: 20%+ winners, middle ground, 20%+ decliners.

Inception date 2/21/1989. 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 1.04%. 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, 2026, and may not be terminated before that date without Board approval.

The starkest difference this year between our portfolio and the market was in the big winners bucket, where over 35% of the Russell 2000 was up an average of 70%+ this year vs. only 15% of our portfolio up an average of 30%. As we wrote last quarter, since the market lows of April/May, lower quality, unprofitable companies in the index have been on a tear. This continued in the fourth quarter with unprofitable vs. profitable company average outperformance of just over 500 basis points. The good news is that “lower quality rallies” can revert swiftly and strongly (see Fund Evaluation Group’s [3Q25 Portfolio Insights](#)), which will work in our favor during the inevitable turn.

The second bucket worth discussing includes those investments that returned between -20% to +20% this year. The Small-Cap Fund had 75% of its portfolio in this group vs. the Russell 2000’s mid-40s%, and the Fund’s average performance in this group was better than the index’s 0% return. Not much else to say here, other than that we had multiple positive developments in this group that includes key holdings on offense such as White Mountains, CNX and the soon-to-merge pair of Rayonier and PotlatchDeltic.

The final bucket consists of 20%+ decliners. The Fund did well here with only 10% of the portfolio in this category with an average loss of 30% vs. the index at 15-20% and 40-50%. We have not lost permanent capital in our holdings here in aggregate and look forward to better years ahead for those we discuss below.

Along these lines, in the first half of the year, it was good to hold cash and a relatively stable Kodak position. As the year went on, these two parts of the portfolio became relative performance headwinds. There is great news for the go forward on both fronts for a couple reasons. First, we were able to get fair value for our Kodak convertible preferred holding when we sold it in the fourth quarter. Do not expect us to make other investments like this going forward. Second, while cash ended up having an immaterial impact on the portfolio for the year, we like having some dry powder to allocate as we go into 2026 with market multiples much higher than they were earlier in 2025.

Since it has now been three years since we first wrote about the [“3 Rules” process improvements](#) we made in 2022, it is time for an update. A key lesson is how much these rules help us when going into a new name, and therefore how much better positioned we are now regarding subsequent buy or sale decisions on that name. Along these lines, the leverage rule remains the most important. Adherence to this rule has protected us from leverage pitfalls, but it should have been in place earlier so that

we could better navigate situations on some of the more economically sensitive and leveraged stocks that delivered positive returns this year for the overall market, such as Kodak and Anywhere Real Estate. The holding company rule also remains helpful for our process, and we do not have anything new to add on it.

On the other hand, it is unlikely we would have gotten all three rules exactly right three years ago, so we do have a change to the overweight rule. We are moving our limit from the initial 6.5% to 8% for a few reasons:

- 1) We have more data on the current research team's historical picks and do not see material differences in performance between 6% weights and 8% weights. Furthermore, there have not been any new materially detrimental overweights in the last three years with the current team.
- 2) We have had investment success with our unique style of engagement for decades and hope to be able to speak more on this as 2026 progresses; this change gives us more engagement heft going forward.
- 3) An 8% max will also help on tax efficiency, with fewer trims of performing stocks that are growing their value per share and getting recognized for it.

Southeastern performed well in 2000 (and 1987, but our data is not as clear back then), but less so in other downturn years. We will end this part of the letter with some important points about our portfolios now that make this moment more like 1999:

While we have historically done a good job of finding the right balance of companies and industries within the small-cap strategy, we have sometimes not struck the right mix of leveraged investments. The good news is that we are confident that our individual investments are much less leveraged now than they were in 2007 and 2021. Since 2022, we have been tracking the bond and debt yields of our portfolios on a weighted average basis. We are able to apply the same methodology to our portfolios from 2007 and 2021 (data before then is more limited). The difference is material, as spreads to the US 10-year treasury for our holdings today are roughly half the levels they were in 2007 and 2021. This is a strong sign that the bond market, which can often be better than the stock market at detecting early downside risk, validates the resilience of our portfolio today. When we combine a strong financial position with great partners on offense, we should win. We will detail this confidence as we now turn to our notable contributors and detractors.

Notable Contributors & Detractors

Becle – Leading manufacturer of tequila and whiskeys Becle contributed this year. The company was severely undervalued in the first quarter when we took advantage of a share price dislocation to purchase during peak US/Mexico tariff uncertainty. The company has strong brands that we know well having previously owned the company in our non-US strategy, even though most of the value now comes from the US despite the company's Mexican listing. Becle's current undervaluation is further complicated by the market's cautious outlook on the alcohol industry, which has continued throughout the year (and led to us adding to the position in the second half of the year). The company has aligned partners in the Beckmann family, and owning roughly 30% of the growing, global tequila market with 200+ year old brands at 10x or less FCF power positions us well for the long-term.

GCI Liberty – Alaskan communications company GCI Liberty was a positive contributor for the year. We purchased GCI after it spun out of Liberty Broadband in July. GCI holds the number one position in both consumer and enterprise broadband in Alaska, while also owning the second largest wireless network. Their assets are essentially irreplicable due to the location, climate, and terrain of Alaska. A combination of attractive tax attributes from the spin and a business that will be producing significant FCF in the near term which could allow GCI to be the next iteration of Liberty Media. All-time great Southeastern partner John Malone will remain Chairman at GCI despite stepping back from most other boards, and he has shown his belief in the company through both insider buys and fully backstopping a recently completed \$300 million rights offering. The stock appreciated as the market better understood it post-spin, but the company still trades at a sizable discount to Lower 48 telecom assets despite having a much better competitive position.

Graham Holdings (GHC) – Diversified conglomerate GHC performed strongly throughout the year. The company's Kaplan education segment has multiple subparts that are finally back to growth in aggregate after a multi-year turnaround has borne fruit. It is encouraging that broadcast television M&A has increased this year, which could give GHC a unique opportunity to grow and realize its value in this segment. The healthcare segment continued its strong growth and looks to be navigating a leadership change well. Overall, GHC remains on offense with its strong net cash balance sheet and overfunded pension. Our [P/V Podcast with CEO Tim O'Shaughnessy](#) from earlier this year remains a good listen if you would like to learn more on the company.

Mattel – Children’s toy, media, and consumer products creator Mattel was a contributor for the quarter and the year. The company is in its strongest position in over 10 years, and there are multiple ways to win. Over 80% of Mattel’s value comes from growing power brands like Hot Wheels, Barbie, and UNO. Mattel has a strong balance sheet which allowed material stock repurchases of \$600 million in 2025, and we believe additional share repurchase will come at these discounted prices in 2026. Fundamentally, the toy business continues to grow and gross margins remain strong at 50%. Mattel has a promising owned IP (intellectual property) outlook for 2026 with the Masters of the Universe and Matchbox movies, along with two video games, being released.

Oscar Health – Healthcare insurance company Oscar was a contributor for the year as above-market membership growth and sustained expense discipline reinforced confidence in the company’s positioning within the individual health insurance market. We exited our position in the third quarter as the P/V gap closed and industry risks became more apparent. The subsequent drama around the expiration of enhanced Affordable Care Act (ACA) subsidies underscores the ongoing policy uncertainty and challenges facing ACA-centric insurers like Oscar. Overall, the investment was successful for us, aided by management’s execution through a volatile industry backdrop.

Boston Beer – Alcoholic beverage company Boston Beer was a detractor for the year as alcohol consumption faced headwinds. Volume declines at Twisted Tea, the company’s largest brand, weighed on the stock. Twisted’s pricing had gotten a little overextended, but the company is actively working to fix this problem and has also successfully fended off numerous competitors that entered the hard tea space over the last few years. Additionally, Truly is still having difficulty returning to growth after multiple difficult years but is now a much smaller part of the company. Boston Beer has continually proven itself as one of the best innovators in the industry, as shown again by its new and successful vodka-based product Sun Cruiser, which is in the process of a national rollout and will be key to getting the company back to growth. We have been pleased by the speed at which management has corrected margin problems that arose in the aftermath of the hard seltzer boom, and we still believe there is further room for improvement. Founder Jim Koch stepped back into the CEO seat in August for the first time in almost 25 years after former CEO Michael Spillane stepped down. The company still has a net cash position and is one of our largest share repurchasers. We think repurchase is a great use of capital for a consumer

packaged goods company with quality brands that trades at 1x revenue, all at a time that it could be an acquisition target amidst industry consolidation.

Clearwater Paper – Packaging company Clearwater Paper was a detractor for the year. We bought shares of Clearwater in April. The stock has since sold off as the already weak solid bleached sulfate (SBS) paperboard market showed few signs of improving. The market has been depressed and below mid-cycle due to oversupply problems that were exacerbated by a competitor conversion earlier this year. Clearwater continues to operate well what it can control, as evidenced by meeting synergy targets from a large and opportunistic acquisition completed last year. The clearest way the oversupply problem will be fixed is through capacity closures, but help is also coming in the form of tariffs on competing European capacity, as well as a weaker dollar that makes these imports less appealing. Management has a strong capital allocation track record and recently decided to focus on share repurchase after running an analysis on a high return but time-consuming project. We agree with this decision as the business trades at a low single-digit multiple of growing mid-cycle FCF.

Empire State Realty (ESRT) and Alexander's – In the fourth quarter of 2024, we were trimming our position in New York real estate company ESRT, as it had been a strong performer and the P/V gap had closed. This year, both ESRT and its peer Alexander's (which was a new position in 2025) faced stock market headwinds as New York real estate sentiment shifted. We have added to both at great prices. It is an interesting dynamic where the on-the-ground results are stronger than the headlines, with region-wide leasing trends far outpacing weak stock price performance. The stock market worries about Mayor Mamdani, but that fear is now in the stock prices, plus it remains to be seen how truly business-unfriendly his administration will be. New York real estate has made it through a lot (the city going broke in the 1970s, 9/11, COVID, etc.) historically. These two stocks traded at or above our appraisals during the not-great de Blasio administration and are uniquely undervalued vs. peers today. Both of our holdings are on offense with multiple ways to grow value per share and a willingness to sell assets into a more attractively priced private market.

Park Hotels & Resorts – Hotel REIT Park Hotels & Resorts was a detractor for the year. The company sold off due to worries about how an uneasy macro environment will impact a leisure-focused hotel company. The iconic Hilton Hawaiian Village, Park's most valuable property, is still recovering from both a labor strike in 2024 and reduced Japanese inbound travel as a result of the weaker yen. The company has continued down the path of selling non-core hotels and has thus far received attractive prices,

while share repurchases have also occurred. We sold our position earlier in the year due to a combination of recycling capital into better ideas and never getting our position to a normal weight.

Portfolio Activity

After a more active first nine months of the year, we had no new purchases during the quarter while we exited our Kodak position as noted above.

During the year we purchased seven new holdings: Shenandoah Telecommunications, TripAdvisor, Beale, Alexander's, Clearwater Paper, GCI Liberty and Rayonier. In addition to Kodak, we exited seven other holdings: Anywhere Real Estate, Liberty Live, Howard Hughes, Hyatt, Oscar Health, Park Hotels and Westrock Coffee.

Outlook

On the communications side of Southeastern, we have been pleased with the feedback on our Research Perspectives notes. Expect these to continue in 2026 and beyond. Our P/V Podcasts are not going away, but we only had one last year for a few company specific reasons. Expect more (but continuing our focus on quality over quantity) of these going forward along with some external podcast appearances, one of which has already been recorded this month.

2025 had many positive signs for Southeastern. The best remains the February through April volatility around Liberation Day when we kept your money safe and materially outperformed the market. We want to stress that we are not simply building a portfolio for bad times only, but there will be virtue in all markets from owning real companies on offense in a time when excessive speculation is widespread. Understandable, durable, FCF generating assets run by great partners should win when the tide goes out and today's fads like prediction markets, weird forms of crypto, and overhyped IPOs inevitably disappoint.

Thank you for your partnership. Here's to the next 50 years.

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://regdocs.blugiant.com/longleaf/#>. 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 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.

PE multiple is a financial metric that frames a company's current stock price in terms of the company's earnings per share.

REIT is a Real Estate Investment Trust which is a company that owns, operates, or finances income-producing real estate.

A Basis Point is one hundredth of one percent.

Mergers and Acquisitions (M&A) are business transactions in which the ownership of a company, business organization, or one of their operating units is transferred to or consolidated with another entity.

As of December 31, 2025, the top ten holdings for the Lingleaf Partners Small-Cap Fund: White Mountains, 7.5%; GCI Liberty, 7.2%; Bece, 6.8%; Mattel, 6.0%; CNX Resources, 5.8%; TripAdvisor, 5.7%; Gruma 5.3%; Shenandoah Telecommunications 4.7%, PotlatchDeltic, 4.7% and Graham Holdings, 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.

Funds distributed by ALPS Distributors, Inc.

LLP001621 expires 5/15/2026