October 10, 2018

Longleaf Partners Global Fund Commentary

3Q18

Longleaf Partners Global Fund gained 1.61% in the third quarter, short of our absolute goal of inflation plus 10%, as well as the MSCI World Index's 4.98% return. Year-to-date (YTD) the Fund gained 1.27%, while the Index rose 5.43%. The Fund compounded at 3.95% over the last 12 months, while the Index delivered 11.24%. The Fund's relative results in the third quarter and the last year have been primarily about what has gone right for the Index, rather than poor results at the companies we own. Over the last 3 years, the Fund has delivered superior performance, resulting in a 17.79% per year return versus 13.54% for the Index.

Our ability to compound at a real double-digit rate does not depend on what happens to the Index. With around twenty holdings, performance in any given year usually comes from just a few stocks. Company-specific events and management-led outcomes drive the Fund's investment results, which generally have little to do with what drives the broader index. Stock prices often move up in a short number of days as sentiment quickly changes. For example, CenturyLink was the Fund's largest contributor for the quarter and YTD, as management delivered results that many had doubted, and the stock gained 26% over just 3 days in 2018. CNH rose 18% in less than two weeks after raising guidance, having its debt upgraded, and appointing a new CEO. OCI had several meaningful step-ups in its price over the last year, as its new plants ramped up production and nitrogen fertilizer prices rose.

Living patiently with idiosyncratic payoff patterns can be difficult but is necessary. More often investors make decisions based on stock price performance without regard to the direction of a company's underlying business value. Chasing performance puts capital at risk, with the

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Average Annual Total Returns (9/30/18): Since Inception (12/27/12): 8.55%, Ten Year: na, Five Year: 6.41%, One Year: 3.95%.

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 longleafpartners.com.

The total expense ratio for the Longleaf Partners Global Fund is 1.48% (gross) and 1.20% (net). The expense ratio is subject to fee waiver to the extent normal annual operating expenses exceed 1.20% of average annual net assets.

danger usually realized too late. We usually do not know when payoffs among our portfolio companies will occur, but most values are appreciating, and many current holdings offer significant upside potential with our management partners pursuing restructuring, substantial repurchases at deep discounts and sales of assets or entire businesses.

Additionally, although U.S. prospective investments are somewhat limited, we have a robust on-deck list outside the U.S., including stocks declining in the broad Asian correction and companies trading at a discount because of geopolitical concerns in countries, such as the U.K. and Italy. Conglomerates are a current common source of undervaluation. Companies such as EXOR, CK Hutchison, GE and United Technologies trade for substantial discounts to our sum-of-the-parts appraisals.

Contributors/Detractors

(Q3 Investment return; Q3 Fund contribution)
CenturyLink (17%,1.43%), the global fiber infrastructure company, was the Fund's largest contributor in the quarter and for YTD. Quarterly EBITDA grew 5% year-over-year (YOY) on nearly 300 basis points of margin improvement. The company's Business segment revenues showed a slight decline due to management's appropriate decision to eliminate unprofitable customers. Looking ahead, the company is improving customer service while reducing network, billing and inventory expenses. With free cash flow (FCF) ($3+/share) easily covering the dividend ($2.16/share), CenturyLink is reducing debt and expanding in select areas of enterprise and consumer broadband. Late in the quarter, CFO Sunit Patel announced his departure to oversee the merger integration at Sprint and T-Mobile. Patel has been a valued partner during our investment with Level 3 and CenturyLink. Although the stock pulled back upon the announcement, Patel's departure does not impact our appraisal of the company. Interim CFO Neel Dev is a well prepared 14-year company veteran who has worked directly under Patel for the last 6 years and overseen much of the successful merger integration.

OCI (18%, 0.91%), a leading producer of nitrogen fertilizers and natural gas-based chemicals, was a strong contributor this quarter, as new projects continued to ramp up, and commodity price strength came through. The methanol market should remain strong for the coming 4 to 5 years due to lack of supply and increasing demand. In the quarter, OCI completed its tender for the remaining shares of OCI Partners, the master limited partnership (MLP) primarily made up of a single integrated methanol and ammonia facility on the U.S. Gulf coast. The price paid is already looking good, as methanol's price has continued to increase since the deal was announced. CEO Nassef Sawiris delivered value growth through this transaction, as well as the successful completion and ramp up of major plants in Iowa and Texas in the last few years. With large capital expenditure (capex) projects complete, FCF should grow meaningfully.

Allergan (15%, 0.79%), the pharmaceutical company, added to the Fund's results in the quarter. Allergan's Medical Aesthetics portfolio, consisting of Botox, Juvederm and Coolsculpting, grew revenues 12%. Despite the stock's recent performance, the price ascribes little-to-no value for Allergan's promising late-stage mental health, migraine and macular degeneration research and development pipeline projects. During the quarter, CEO Brent Saunders sold the company's dermatology drug portfolio to Almirall for a good price and increased the share repurchase program by $2billion. The stock trades at a low-double-digit multiple of next year's FCF, despite Botox's growing consumer franchise, insulation from systemic healthcare cost pressures and large non-earning assets in the pipeline.

CK Hutchison (10%, 0.58%), a conglomerate of telecommunications, health & beauty, infrastructure, global ports and energy, was a contributor in the quarter. CK Hutchison reported strong first half results, with YOY revenue and EBITDA up +16% and +19%, respectively. Interim dividend per share grew by 11.5%, the first double-digit increase in the past decade. The company highlighted the strength of its Retail segment, which is the largest health and beauty retailer in the world with over 14,000 stores, 12 brands and 130 million loyalty members that contribute over 62% of sales. Oil price recovery added to Husky results. In the first half, revenue increased by 37% YOY and EBITDA by 47%. In the quarter, CK Hutchison announced the sale of its interests in several infrastructure projects at a 12X earnings and redeployed the proceeds to acquire an Italian telecom joint venture at 5x earnings. Management also repurchased the company's discounted shares in the quarter for the first time in almost 2 years.

Melco (-34%, -2.17%), the Macau based gaming company, was the largest detractor in the quarter. Investor sentiment soured on Macau due to concerns that growth will decelerate with ongoing U.S.-China trade war issues, a slower Chinese economy and weakening Renminbi. Following analyst downgrades, stock prices for most Macau peers were down 40-50% in the last few months. While we agree that the decline in A-share markets and the slow-down in neighboring province Guangdong (export hub of China) will impact gross gaming revenues, we believe most of the impact will be on the lower-margin VIP business. Increased profits from the growth in the higher-margin Mass business should compensate for any VIP decline over time, as ongoing improvements in infrastructure (HK-Zhuhai-Macau bridge, high speed rail, etc.) and additional supply of hotel rooms make Macau more accessible. Melco is facing additional pressure, as the company looks to take its Studio City joint venture public in this tough market to fund phase two of this property. On a more positive note, Melco's new Morpheus hotel tower near its City of Dreams casino opened in June this year and is ramping up in line with expectations.

CNX Resources (-19%, -0.96%), the Appalachian natural gas exploration and production (E&P) company, declined after being a notable positive contributor in the second quarter. The company disappointed the market on a few metrics – some that the company can do better on itself, some outside of its control – that did not impact our long-term appraisal. To the positive, the company closed the sale of a Utica joint venture for $400 million. Additionally, former partner Noble finally sold the last of its ownership of CNX's midstream master limited partnership (MLP), removing an overhang and enabling CNX to operate the business more flexibly. CEO Nick DeIuliis and CFO Don Rush continued repurchasing discounted shares at an annualized double-digit pace, which is very rare in the E&P world.

General Electric (-16%, -0.93%), the reorganizing aviation, healthcare and power company, declined after announcing a technical problem with an H-series gas turbine blade. Based on management's assessment, we view this as a temporary issue that should not impact the Power segment's long-term value – much like United Technology's geared turbofan issues during our first 1-2 years of owning it. The extreme negative sentiment around the company, however, caused the stock price to overcompensate for any disappointing news. More importantly, GE Aviation and Healthcare, which constitute a large majority of our appraisal, grew on strong orders and revenues. Over the last year, GE sold nearly $18 billion of businesses for higher prices than we carried them. On October 1, the company announced that board member Larry Culp, former CEO of Danaher, would become CEO and Chairman, replacing John Flannery. We were excited when Culp joined the board in April, given his success at Danaher, and we believe he can accelerate GE's turnaround that Flannery initiated. In the next year, it is possible that GE's Healthcare segment could be spun off or sold to one of several suitors willing to pay a fair price. Energy (Baker Hughes) also is a candidate for monetizing. Transportation is slated to be a separate entity by this time next year. We believe that, as the company's structure simplifies and divestitures further strengthen the balance sheet, the stock should more properly reflect the values of these strong assets, which we believe to be worth more than $20/share.

Portfolio Activity

During the quarter, we began purchasing one new business, which we have previously owned and remains undisclosed, while we work to build the position. We sold CONSOL Energy, the coal business that spun off from gas company CNX Resources in November of 2017. Since separating, the stock gained 79%, as strong production led to increased earnings guidance. We exited Genting Berhad as more attractive investments became available and Genting's own value stagnated.

Outlook

The Global Fund is fully invested in strong businesses with capable management partners who are focused on growing value for shareholders and pursuing value recognition. The Fund's low-70%s price-to-value ratio (P/V) is based on our discounted FCF appraisals, which are growing and potentially understated, especially to the extent that our management partners are successful in their pursuit of value recognition. Many companies we own are in whole or have parts that are more valuable to others, and acquisition multiples are notably higher than our long-hand appraisal math. We have CEOs with a history of monetizing assets and selling companies at fair prices, including Jeff Storey at CenturyLink, John Elkan at EXOR, Victor Li at CK Hutchison and CK Asset, Nassef Sawiris at OCI, Prem Watsa at Fairfax, Brent Saunders at Allergan, Nick Deluliis at CNX, Greg Hayes at United Technologies and Inigo Meiras at Ferrovial. Transactions offer upside optionality not imbedded in the stock price or our appraisal.

As important, our appraisals should grow, as our management partners focus on the competitive strengths of their companies, drive higher margins and reinvest FCF prudently, including into discounted shares. Whether by internally-driven operations or externally-focused capital allocation, rising values ultimately pull stock prices higher. The timing is usually unpredictable, and big performance spikes occur regardless of the broader stock market's direction. We are confident that our CEOs can create more idiosyncratic, large payoffs to drive successful long-term results.

The outlook for what we own is compelling. The Fund is fully invested, and we are finding additional qualifiers. As we swap some of our higher P/V investees for qualifying on-deck opportunities, the Fund will become even more discounted. As the managers and largest collective investor in the Global Fund, we believe it is an attractive time to add to the Global Fund.

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 longleafpartners.com. Please read the Prospectus and Summary Prospectus carefully before investing.

RISKS

The Longleaf Partners Global Fund is subject to stock market risk, meaning stocks in the Fund may fluctuate in response to developments at individual companies or due to general market and economic conditions. Also, because the Fund generally invests in 15 to 25 companies, share value could fluctuate more than if a greater number of securities were held. Investing in non-U.S. securities may entail risk due to non-US economic and political developments, exposure to non-US currencies, and different accounting and financial standards. These risks may be higher when investing in emerging markets.

MSCI World Index is a broad-based, unmanaged equity market index designed to measure the equity market performance of 24 developed markets, including the United States. An index 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.

Brexit ("British exit") refers to the June 23, 2016 referendum by British voters to leave the European Union.

EBITDA is a company's earnings before interest, taxes, depreciation and amortization.

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

Capital Expenditure (capex) is the amount spent to acquire or upgrade productive assets in order to increase the capacity or efficiency of a company for more than one accounting period.

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.

As of September 30, 2018, the top ten holdings for the Longleaf Partners Global Fund: CenturyLink, 9.7%; EXOR, 7.7%; CK Hutchison, 6.5%; OCI, 6.1%; FedEx, 5.5%; Comcast, 5.3%; GE, 5.1%, Fairfax, 4.9%; Allergan, 4.8%; Vestas Wind Systems, 4.8%. Fund holdings are subject to change and holding discussions are not recommendations to buy or sell any security. Current and future holdings are subject to risk.

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