October 12, 2018

Longleaf Partners Small-Cap Fund Commentary

3Q18

Longleaf Partners Small-Cap Fund gained 2.76% in the third quarter, while the Russell 2000 Index rose 3.58%. The Fund's year-to-date (YTD) 10.69% return was slightly short of the Index's 11.51% but is exceeding our annual absolute goal of inflation plus 10%, as did the 1 and 3-year returns. Because it has been a challenging time for disciplined value investors to buy discounted, quality businesses, the Fund's cash has remained high.

With around twenty holdings, performance in any given quarter or year usually comes from just a few stocks. Company-specific events and management-led outcomes drive our investment results, which generally have little to do with what drives the broader index. Stock prices often spike in a short number of days as sentiment quickly changes. 100% or more of a stock's multi-year return can occur in a matter of days. For example, in the third quarter, the announcements that Forest City and Sonic were being acquired moved their stocks to fair value in less than a day. As managements delivered results that many had doubted, CenturyLink and OCI posted large returns in the quarter, as did Park Hotels and Actuant earlier in the year. In spite of their rapid stock moves, these businesses remain below our appraisals, and we believe our partners can build additional value.

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

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Average Annual Total Returns (9/30/18): Since Inception (2/21/89): 11.11%, Ten Year: 12.64%, Five Year: 10.17%, One Year: 12.61%.

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.

As reported in the Prospectus dated May 1, 2018, the total expense ratios for the Longleaf Partners Small-Cap Fund is 0.92%. The expense ratio is subject to fee waiver to the extent a fund's normal annual operating expenses exceed 1.50% of average net assets.

a company's underlying business value. Chasing performance puts capital at risk, with the danger usually realized too late. We usually do not know when payoffs among our portfolio companies will occur, but most values are appreciating. Many current holdings offer significant upside potential with our management partners pursuing restructuring/corporate actions (Mattel, Formula One Group and Neiman Marcus), substantial repurchases at deep discounts (Realogy and CNX) and sales of assets or entire businesses (Kodak, Park Hotels, Actuant and Graham Holdings). At some holdings, such as ViaSat, other shareholders are actively pursuing value recognition.

Contributors/Detractors

(Q3 Investment return; Q3 Fund contribution)

Sonic (27%, 1.45%), the drive-in quick serve restaurant (QSR) franchise, was the largest performance contributor. Following improved sales growth and a large share repurchase authorization that drove the stock up over 35% in the second quarter, the company announced in the last week of September that Inspire Brands, a private equity-backed company, is acquiring Sonic at a good price. We appreciate CEO Cliff Hudson and his team, who built value by selling company-owned stores to franchisees, improving operations and repurchasing a significant number of shares, while developing a mobile app to capitalize on the chain's unique drive-in format. The stock returned 96% during our 2-year holding period. Sonic represents several common traits in Southeastern's investments. First, the payoff was company-specific with unpredictable timing, with all the stock's 2018 return occurring across just 5 days, following a period when the shares languished. Second, our engagement with management was positive and highly productive, as we filed a 13D to talk more openly with Hudson about ways to drive value per share. Third, large ownership stakes can help our outcome without creating liquidity challenges. Our 17% ownership of Sonic played an important role in our ability to constructively engage with the company, and we sold our shares in one day upon the acquisition announcement at a tiny discount to the offer price, with some shares selling above the offer because the stock was so heavily shorted.

OCI (18%, 1.22%), 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, free cash flow (FCF) should grow meaningfully.

CenturyLink (17%,1.21%), the global fiber infrastructure company, was a large contributor. 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 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.

CNX Resources (-19%, -1.01%), the Appalachian natural gas exploration and production (E&P) company, detracted from performance in the 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 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.

Portfolio Activity

During the quarter, we began purchasing two new businesses, which remain undisclosed, as we hope to build those positions. We exited three businesses, including the Sonic sale described above. Forest City, the diversified real estate company that we purchased in the second quarter, received a bid from Brookfield near our appraisal. In our short 3-month holding period, the stock gained 26%. We previously owned Forest City and knew its assets well. The stock became discounted after the company rejected an offer in April. We believed that, following the expiration of the 5-year tax penalty for transactions after its REIT conversion, a higher offer was likely. Given the discount, prospects for value growth and capable management team, we anticipated profiting regardless of whether the company ultimately was acquired. In late July, CEO David LaRue and CFO Bob O'Brien agreed to sell the company at a premium.

We also sold CONSOL Energy, the coal business that spun off from gas company CNX Resources in November of 2017. Since separating, the stock gained 93%, as strong production led to increased earnings guidance.

Outlook

The large move in small cap stocks since the tax bill passed last year has made finding discounted high quality companies more challenging. Our third quarter sales, two of which were due to buyouts, increased the Fund's cash to 25%. Cash has been a headwind in this strong market, but we will remain disciplined buyers and seek to avoid putting capital at risk of loss.

The Fund's low-70%s price-to-value ratio (P/V) is based on our discounted FCF appraisals, but to the extent we continue to have acquisitions, our appraisals are understated. Takeout multiples are higher than our long-hand math. We believe that over the next five years, we are likely to see other businesses we own get bought at premium prices, based on the quality of the assets that others would benefit from owning and the history of many of our management partners, who previously have sold either companies or business segments and/or have stated their desire to sell their current companies. We will wait patiently for the idiosyncratic, large payoffs that have driven the Fund's successful long-term results.

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 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 3,000 Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index. 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.

A 13D filing is generally required for any beneficial owner of more than 5% of any class of registered equity securities, and who are not able to claim an exemption for more limited filings due to an intent to change or influence control of the issuer.

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.

REIT is a real estate investment trust.

As of September 30, 2018, the top ten holdings for the Longleaf Partners Small-Cap Fund: CenturyLink, 7.8%; OCI, 7.7%; Liberty Media, 6.3%; Graham Holdings, 6.2%; Mattel, 5.3%; Park Hotels, 5.2%; Realogy Holdings, 4.7%; ViaSat, 4.7%; Neiman Marcus, 4.7%; Hopewell, *4.3%. 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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LLP000808
Expires 1/31/2019