January 21, 2019

Longleaf Partners Global Fund Commentary

4Q18

Longleaf Partners Global Fund declined -17.22% in the fourth quarter, taking its 2018 return to -16.16%. The MSCI World Index fell -13.42% in the final three months and ended the year down -8.71%. Four primary challenges impacted the Fund's absolute and relative returns in 2018. First, the Fund held an average 41% in U.S. stocks, while the Index had 59%. The strong dollar was a headwind, and U.S. stocks outperformed those based elsewhere, despite the large fourth quarter U.S. decline. Second, we were too early investing in General Electric (GE), which we averaged into but is trading below our cost. Third, we owned eight companies externally categorized in the Industrials sector, including the Fund's biggest positive performer Vestas. Although these are diverse businesses with very different factors driving results, they collectively impacted the Fund's return as the Industrials sector was among the worst performing areas of the market. Fourth, the strong investor preference for momentum-driven growth stocks, where we have limited exposure, continued to negatively impact undervalued businesses' prices.

We periodically experience a year where either our geographic or sector exposure penalizes returns, our newer investments hit bottom after initial purchase or our

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Average Annual Total Returns (12/31/18): Longleaf Global Fund: Since Inception (12/27/12): 4.83%, Ten Year: na, Five Year: 0.68%, One Year: -16.16%. MSCI World: Since 12/27/12: 7.98%, Ten Year: na, Five Year: 4.56%, One Year: -8.71%.

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.

approach is out of favor. In 2018, we suffered from all of these. Companies that missed short-term expectations generated the largest declines, with the market severely punishing those that disappointed in the fourth quarter. Additionally, stocks of businesses that had meaningful economic exposure in emerging markets (EMs), including China, suffered. Emerging markets declined as the Federal Reserve began increasing interest rates and later as fear of a U.S.-China trade war developed.

We believe stock prices largely ignored the positive progress that our companies and management partners made. In our view, stronger CEOs were secured at CenturyLink, GE and CNHI. Businesses sold assets for attractive prices, including Allergan, Fairfax, CK Asset, LafargeHolcim, United Technologies and GE. United Technologies and GE announced company breakup / simplification plans. Importantly, the primary business segments at most of our core holdings grew – Enterprise at CenturyLink, Cable at Comcast, Search and YouTube at Alphabet, Aesthetics (Botox) at Allergan, Ground at FedEx, Agriculture at CNHI, North American Cement at LafargeHolcim, Aviation and Healthcare at GE, Partner Re at EXOR, Retail at CK Hutchison, North American Fertilizer at OCI, Bearings at MinebeaMitsumi and Mass Gaming at Melco.

2018 results did not reflect the progress in the portfolio. During the year, we sold seven investments, added four new qualifiers and increased the Fund's stake in seven others. Cash started the year at 13% but was below 2% by the end of December. Portfolio repositioning and value growth amid stock price declines helped the price-to-value (P/V) ratio move from the mid-70s% into the high-50s%, a somewhat rare level that has historically preceded strong absolute and relative returns in our longer-lived Funds*.

Choppy markets and the economic uncertainty that feeds them could last for a while. To manage investment risk, we incorporate conservative-to-skeptical assumptions about the future, invest in a limited number of companies, have a broad and deep research network and engage with managements. We believe that the Fund's compelling P/V, combined with the underlying strength of the businesses we own and the management teams leading them, may generate strong absolute and relative results going forward and that the payoff for 2018 company-level and portfolio-level progress is deferred but not lost.

Contributors/Detractors

(2018 Investment return; 2018 Fund contribution; Q4 Investment return; Q4 Fund contribution)

Vestas (7%, 0.58%, 12%, 0.61%), a global leader in onshore wind equipment and a provider of aftermarket services to the wind industry, rose double-digits in the fourth quarter and was the primary positive contributor for both the quarter and the year. The stock, which we bought in the first quarter, gained even more in local currency. The company reported three consecutive quarters of per megawatt pricing stabilization after eighteen months of negative pricing. Vestas continued to add new orders, particularly excelling against second-tier players. In the past, rapid market evolution, low barriers to entry and government subsidies characterized industry economics. However, the levelized cost of energy for new onshore wind (at good locations) has reached parity with traditional power providers and reduced the reliance on subsidies, making the industry more attractive. Vestas's competitive advantages include economies of scale, accumulated know-how and a global service network. Since coming aboard in 2013, our corporate partners have fixed the balance sheet and transformed the company into a stable, net cash, dividend paying, share repurchasing company. Value has grown since our purchase, and the stock remains attractively discounted.

General Electric (-54%, -3.12%, -32%, -1.88%), the aviation, healthcare and power company, fell throughout the year, making it the Fund's largest detractor. GE's former leadership and business model are dramatically different from what is in place today. The management team is new, plus the board has been reduced in size and upgraded in quality. The "business" and "price" parts of our investment case boil down to three main assumptions:

1) The best-in-class Aviation and Healthcare businesses continue to deliver strong profit growth, could be severed from the rest of GE and, we believe, are worth a combined $16+/share.

2) GE's holdings in transportation and industrial services businesses Wabtec and Baker Hughes GE are solid, liquid and have self-help ability to grow earnings. Other smaller business like Renewables have demonstrably positive value. This group of assets is worth more than the net industrial debt/share of GE.

3) We believe the currently struggling Power business will recover over several years as the company and the industry rightsize capacity and headwinds abate. GE Capital's issues will continue to be addressed aggressively and will be smaller in the years to come. Even a negative value for GE Capital gets to an appraisal for the company that is over 2X the current stock price.

We slowly initiated our position in GE in late 2017 and bought most shares in the first seven months of 2018, after the unexpected increase in reserves for long-term care insurance at GE Capital. Nonetheless, we were too early, with an average cost basis in the low teens. Our adjusted appraisal approaches three times the current stock price, leaving ample margin of safety for a solid return even if some of our investment case assumptions above are wrong. Larry Culp, a legend given his record at Danaher, took the GE CEO job in September after doing deep diligence into the company's challenges and prospects as a new board member earlier in 2018. GE stock must return to the high teens within four years for half of Culp's long-term incentive shares to vest and generate the kind of CEO-level pay he could have easily secured elsewhere, and he receives additional shares only if the stock reaches $31 in that period. This degree of out-of-the-money alignment is both extremely rare and highly encouraging.

FedEx (-35%, -1.96%, -33%, -1.91%), the transportation and logistics company, fell in the fourth quarter and for the year. Express revenues missed expectations after weakness in all the major Euro economies and what CEO Fred Smith called "bad political choices" weighed down international trade. These headwinds caused the company to lower earnings per share (EPS) guidance by 8%. The stock's sharp decline ignored that the Ground segment, the largest part of our appraisal, reported strong high-teens earnings growth. FedEx's Freight segment also performed very well with EBITDA (earnings before interest, taxes, depreciation, and amortization) up over 20% in 2018. If the weakness in international trade persists, Ground should still grow revenues and margins. Because Amazon, another perceived risk to FedEx, constitutes less than 5% of company revenue, Amazon's internal delivery development will have minimal effect on results. The company has a solid balance sheet and the potential to go on offense with share repurchase at these prices.

Melco (-30%, -1.30%, 2%, 0.31%), the Macau-based gaming company, declined for the year over concerns about decelerating growth with ongoing U.S.-China trade war issues, a slower Chinese economy and weakening Renminbi. The decline in China's A-share markets and slow-down in neighboring province Guangdong (export hub of China) are likely to impact gross gaming revenues, but we believe most of the impact will be on the lower-margin VIP business. Increased profits from growing, higher-margin Mass visitors should compensate for any VIP decline over time, as infrastructure improvements (HK-Zhuhai-Macau bridge, high speed rail, etc.) and additional hotel room supply make Macau more accessible. Despite the stock's decline, during 2018, our appraisal grew as reported earnings doubled. CEO Lawrence Ho created value for shareholders via buying out minorities at Melco Resorts Philippines at attractive multiples, IPOing Studio City to create opportunity for an ownership increase in 2019 and repurchasing discounted shares.

CK Hutchison (-21%, -1.18%, -17%, -1.04%), a Hong Kong based conglomerate of telecommunications, health & beauty, infrastructure, global ports and energy, fell during the final quarter and the year. While a trade war between China and the U.S. will pressure less than 5% of its Ports business, concerns of this trade tension generated broad negative sentiment around Asian stocks. In Italy, the company's Telecommunications business struggled as a tough macro environment and increased competition from a new entrant pressured prices. In the second half of the year, declining oil prices impacted Husky Energy, the Canadian energy associate of CK Hutchison. These short-term headwinds negatively impacted sentiment, but the overall company's cash flow, as well as management's capital allocation decisions, helped our appraisal grow in the mid-single digits for the year. Chairman Victor Li sold CK Hutchison's interests in several infrastructure projects at 12X EBITDA and redeployed the proceeds to acquire the Italian telecom joint venture at 5x EBITDA. The company also repurchased its discounted shares for the first time in almost two years.

LafargeHolcim (-25%, -1.13%, -17%, -0.72%), the largest global cement, aggregates and ready-mix concrete producer, was a 2018 detractor after a notable decline in the fourth quarter. Weaker cement demand in Latin America, the Middle East and Africa, as well as higher energy and transportation costs, globally impacted profits. With two thirds of consolidated revenues (but a smaller % of the net value) tied to emerging markets, broader EM concerns heavily contributed to the stock price weakness. CEO Jan Jenisch believes efficiency gains and pricing will offset cost inflation. The cost savings program is ahead of target, and Aggregates and Ready-Mix margins are improving. The company's North American business, which represents over one quarter of our appraisal, grew profits during the year. The company announced the sale of its Indonesian assets at an attractive price, and management plans for additional divestments over the next two years, providing meaningful cash proceeds to reinvest.

CNHI (-32%, -1.10%, -25%, -0.80%), the maker of Case and New Holland agriculture equipment (AG) and Iveco trucks (CV), was a detractor in the quarter and for the year. The U.S.-China trade tension threatened tariffs that would impact AG purchases by U.S. farmers. Tariffs remain uncertain and if imposed, may have less impact than anticipated because of offsetting subsidies and current equipment demand from less discretionary replacement needs after a several year downturn. CNHI is in a solid position to withstand the potential challenge with an investment grade balance sheet, balanced channel inventory and positive pricing and product mix trends. New CEO Hubertus M. Mühlhäuser sees opportunities to improve margins. The company returned excess capital to shareholders in the form of dividends and buybacks. The company also has upside from streamlining its disparate non-AG assets via either sales or spin-offs.

CNX (-22%, -1.05%, -20%, -1%), the Appalachian natural gas company, detracted for the year. The stock declined after reporting an 8.5% increase in capital expenditure guidance during the second quarter. Additionally, nearly all energy stocks had a sharp selloff following the fourth quarter's commodity price volatility. CEO Nick DeIuliis took advantage of the dislocation by repurchasing over 16% of CNX's outstanding shares in the 12 months ended in October. Our appraisal increased with the company's growth in cash flow. In June, CNX sold its Ohio Utica acreage for a good price. The company has other non-core assets to monetize in coming years. Most production is hedged several years out, helping to insulate the business's value from declines in the gas strip. The stock trades at below half of our appraisal.

EXOR (-10%, -1.04%, -19%, -1.44%), one of Europe's leading investment holding companies, fell in the fourth quarter and became a detractor for the year. Italy's economic uncertainty and EXOR's conglomerate structure impacted the stock, which is listed in Italy but has less than 5% of its value based there. Additionally, the general breakdown of global trade and frictionless borders pressured the stock since this could affect Fiat Chrysler Automobiles (FCA) brands in China and indirectly impact CNHI's AG sales. The main component pieces of our appraisal are FCA (35%), PartnerRe (24%), CNHI (19%), and Ferrari (17%). EXOR reported much good news in 2018. FCA sold Magnetti Marelli for significantly more than our appraisal with much of the proceeds to be paid out as a special dividend, giving EXOR the capital for its announced share buyback. FCA announced a new recurring dividend, doubling EXOR's free cash flow (FCF). Crown jewel Ferrari continued to perform well. CEO John Elkann is an owner-operator who has grown corporate value and seen the stock compound at nearly 20% per year since we invested in 2012, despite the 2018 return. We have an overweight position in this collection of high quality businesses and assets that have ample transformation value and are selling at a deep discount to the sum-of-the-parts value in the hands of a proven and aligned partner.

CenturyLink (2%, -0.31%, -26%, -2.71%), the telecommunications company, was a fourth quarter detractor, but ended slightly up for the year after substantial gains earlier in 2018. The stock declined after third-quarter revenues came in below expectations, but our appraisal rose with 7% yearly EBITDA growth as higher margin revenue within the Enterprise segment increased and consolidated FCF nearly doubled year-over-year. CenturyLink's FCF is more than $3.00 per share and growing, yet the stock trades around $15. Revenues declined in part because the company wisely exited unprofitable business lines, prioritizing capital efficiency and deleveraging over top line growth. The dividend moved back up to a mid-teens yield with minimal chance of any cut. (Update at 19 Feb 2019: CTL did cut the dividend to use the cash instead to strengthen the balance sheet. We believe a better way to address the balance sheet is to explore asset sales given the multiples being paid in fiber transactions, and/or to issue tracking stocks for the separate Fiber and Consumer segments to highlight their values and offer the potential to raise capital. Southeastern filed a 13-D to talk to interested buyers and nominate appropriately experienced directors to the board. The dividend cut did not alter our appraisal of the company or its earnings power.) We expect consolidated EBITDA to grow by a low-single digits percentage next year, but within that number we believe high-value Enterprise fiber revenues and cash flows will grow above that, making up for the low-quality legacy landline run off. CenturyLink remains an overweight position given its deep discount and the quality of both its management team, led by CEO Jeff Storey, and its fiber assets, which we believe are of high strategic value to numerous infrastructure investors.

Portfolio Activity

Swings in stock prices generated portfolio activity in 2018, ultimately driving cash from 13% to 2%. We sold seven investments – Wynn, Chesapeake and Yum China in the first quarter, CONSOL Energy and Genting in the third and Ferrovial and Hopewell in the fourth. The Fund had previously held Ferrovial, the Spanish transport infrastructure company that owns toll roads in Europe and North America, airports in Europe, including London Heathrow, and infrastructure construction and servicing businesses. The company's Spanish and British businesses faced increasing headwinds, including Catalonia and Brexit uncertainty. Given less certain prospective value growth and the rising interest rate environment, we sold the position. During our two-year investment, we earned over 20% as traffic and pricing increased on the company's toll roads and at

Heathrow, even as European headwinds mounted. We also sold Hopewell Holdings, the Hong Kong-listed property company. The stock rose during the year with the special cash dividend in April from the sale of the company's ownership in Hopewell Highway Infrastructure toll road company for 20% above our appraisal. We sold the stock, which gained 31% over four years, in order to redeploy the capital into available investments with much more attractive value growth.

We bought two new investments in the first quarter, Comcast and top performing Vestas, Yum China in the third, and MinebeaMitsui in the fourth. Comcast and Yum China are "recycles" that we successfully invested in previously, and MinebeaMitsui, while new to the Global Fund, has been a holding in our Asia Pacific strategy for over a year. Recycles tend to have fewer surprises since we have closely followed the business as owners and have already deeply engaged with our management partners.

Outlook

We are neither pleased nor complacent about 2018 returns. As your largest co-investors in the Fund, we believe it is a compelling time to add to Longleaf Global. First, a P/V at this level is rare, and we think portends an exceptional next few years. Second, the Fund's cash position is below 2%, and our on-deck list of prospective qualifiers is robust. Third, numerous companies in the portfolio either have corporate transactions in process or are good candidates for prospective activity over the next few years, with capable management partners who can control their own destiny in terms of value realization. We are working with boards and leaders at certain holdings to accelerate this realization.

See following page for important disclosures.

**Quarter-ends since 1993 were identified where the Longleaf Partners Fund's "price-to-value ratio" (P/V) was less than 60%. From each quarter end identified, the 1, 3, and 5 year cumulative returns for the Fund and the S&P 500 were calculated. Those returns were then averaged and the 3 and 5 year returns were annualized. The results were: 18.46% for 1 year, 13.43% for 3 year, and 12.98% for 5 year for the Partners Fund and 7.39%, 8.29%, and 10.84% for the S&P 500. In addition, quarter-ends since 1998 were identified where the Longleaf Partners International Fund's "price-to-value ratio" (P/V) was less than 60%. From each quarter end identified, the 1, 3, and 5 year cumulative returns for the Fund and the MSCI EAFE were calculated. Those returns were then averaged and the 3 and 5 year returns were annualized. The results were: 17.00% for 1 year, 10.49% for 3 year, and 11.28% for 5 year for the International Fund and 6.95%, 6.25% and 9.08% for the EAFE Current circumstances may not be comparable.*

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.

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 December 31, 2018, the top ten holdings for the Longleaf Partners Global Fund: CenturyLink, 8.6%; EXOR, 7.9%; Melco, 7.3%; Vestas, 6.9%; CK Hutchison, 6.9%; GE, 5.8%; FedEx, 5.4%; Fairfax, 4.9%; Alphabet, 4.8%; LafargeHolcim, 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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LLP000874
Expires 4/30/2019