

Longleaf Partners
Asia Pacific UCITS Fund

*Quarterly
Summary
Report*

For the Quarter Ended
31 March 2020

1Q20

Longleaf Partners Asia Pacific UCITS Fund

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Holdings (20)

	Activity*	Weight
MinebeaMitsumi		7.1 %
Baidu		6.7
SoftBank		6.0
Prosus	NEW	6.0
Melco International		5.7
Trip.com		5.2
Toncheng-Elong	NEW	5.2
CK Asset Holdings		5.1
MGM China		5.0
Hitachi		4.6
New World Development		4.3
L'Occitane		4.3
Toyota Motor		4.3
Man Wah		4.2
Midea		4.1
CK Hutchison		4.0
Richemont		3.9
Seria		3.7
Hyundai MOBIS		3.6
WH Group		2.7
Cash		4.3
Total		100.0%

*Full eliminations include the following positions:
Bharti Infratel, EBARA, Escorts, and First Pacific.

Fund Annual Returns

	Class I USD	MSCI AC Asia Pacific
2014**	1.30%	-1.39%
2015	-2.74	-1.96
2016	12.29	4.89
2017	37.94	31.67
2018	-21.45	-13.52
2019	18.58	19.36

Authorised and regulated by the Financial Conduct Authority.

Long-Term / Concentrated / Engaged / Value

Founded in 1975, Southeastern Asset Management is an independent, global investment firm managing \$8.4 billion. Partnership is core to all that we do, and Southeastern's employees and related entities are the largest investors across the funds advised by Southeastern. Our 15-person global investment team are generalists, tasked with finding the best bottom-up opportunities across the globe.

The Fund seeks to own a concentrated portfolio of our best 18-22 ideas that meet our Business, People, Price investment criteria. We invest with a 3-5 year investment horizon and take advantage of short-term volatility to own high quality businesses, run by capable management teams, whose stock prices are trading temporarily at a discount. Our extensive, global network allows us to engage with our management partners to help drive long-term value creation.

Share Class Information

	Class I USD	Class I GBP
Bloomberg Ticker	LPAPIUSI	LPAPIGB
Inception Date	2 December 2014	15 September 2017
Minimum Purchase (USD)	\$1,000,000	\$1,000,000
Management Fee	1.15%	1.15%
Total Expense Ratio	1.44%	1.44%
NAV per share	\$10.26	£8.22

Performance Total Returns

	Class I USD	MSCI AC Asia Pacific	Class I GBP	MSCI AC Asia Pacific GBP
Month	-15.83 %	-11.57 %	-13.11 %	-8.90 %
Quarter	-25.92	-19.28	-20.96	-13.76
One Year	-25.71	-12.13	-22.09	-7.66
Three Year	-17.46	0.28	na	na
<i>Annualized</i>	-6.20	0.09	na	na
Five Year	1.99	5.72	na	na
<i>Annualized</i>	0.39	1.12	na	na
Since Inception	2.60	11.25	-19.33	-1.66
<i>Annualized</i>	0.48	2.02	-8.11	-0.66

Performance Contribution

Top Performers	Return	Portfolio contribution	Bottom Performers	Return	Portfolio contribution
Prosus	1 %	0.25 %	Melco International	-48 %	-3.78 %
Seria	6	0.21	MGM China	-38	-2.23
Escorts	14	0.12	MinebeaMitsumi	-29	-1.93

**Partial year, from inception of 2 December 2014

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1Q20

Longleaf Partners Asia Pacific UCITS Fund

Sector Composition

Consumer Discretionary	50.9 %
Communication Services	12.7
Industrials	11.1
Real Estate	9.4
Consumer Staples	7.0
Information Technology	4.6
Cash	4.3

Country Composition

Hong Kong	35.3 %
Japan	25.7
China	21.2
Netherlands	6.0
Switzerland	3.9
South Korea	3.6
Cash	4.3

Regional Composition

Asia ex-Japan	60.1 %
Japan	25.7
Europe ex-UK	9.9
Cash	4.3

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Longleaf Partners Asia Pacific UCITS Fund

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Longleaf Partners Asia Pacific UCITS Fund

Disclosure Information

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Asia Pacific UCITS Fund Commentary 1Q20

For Professional Investors Only

Portfolio Returns at 31/03/20 – Net of Fees

	1Q20	1 Year	3 Year	5 Year	Since Inception 2/12/2014
APAC UCITS (Class I USD)	-25.92%	-25.71%	-6.20%	0.39%	0.48%
MSCI AC Asia Pacific Index	-19.28%	-12.13%	0.09%	1.12%	2.02%
Relative Returns	-6.63%	-13.58%	-6.29%	-0.73%	-1.54%

Selected Indices*	1Q20	1 Year	3 Year	5 Year
Hang Seng Index	-15.88%	-15.83%	2.78%	2.43%
TOPIX Index (JPY)	-17.55%	-9.62%	-0.21%	0.33%
TOPIX Index (USD)	-16.70%	-7.12%	0.87%	2.49%
MSCI Emerging Markets	-23.60%	-17.65%	-1.62%	-0.37%

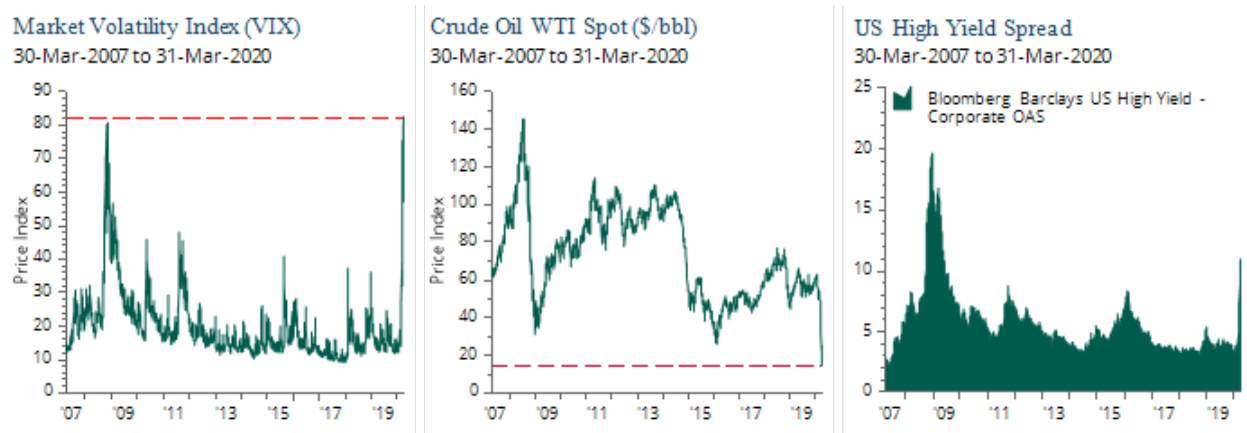
*Source: Bloomberg; Periods longer than one year are annualized

The first quarter of 2020 was very challenging for the Fund and the broader Asian and Global equity capital markets. The MSCI Asia Pacific Index, as well as the MSCI World Index, had its worst quarterly performance since 2008. While the first twenty days of January were strong in Asia, news of an outbreak of a novel Coronavirus in China, followed by the imposition of a surprise middle of the night lockdown in Hubei on January 23, marked the beginning of a volatile quarter in Asia.

The US equity markets have long been a safe haven, but that ended abruptly, as new cases of COVID-19 accelerated outside of China in February and spread to Europe and the US by March, developing into a global pandemic. Much like during the global financial crisis (GFC), credit spreads widened to recent highs, and commodities and energy prices collapsed during the quarter, with WTI oil prices falling 66% in the quarter.

A flight to safety asset classes strengthened significantly with the US yield curve hitting multi-decade lows, and the US dollar appreciating significantly in March. While there is probably nothing more predictable than coupons from a 30-year bond backed by the full faith and credit of the US government, the upside is unattractive. The real inflation-adjusted returns from holding treasury bonds are negative. As Warren Buffett mentioned recently, the 30-year Treasury with a 2% yield can be compared to a stock “paying 50 times earnings for an investment where the earnings can’t go up for 30 years.” The effective price/earnings ratio on the 30-year Treasury is even more unattractive at 81x now, with the yield down to 1.23% as of April 4.

As Sir John Templeton said, “The time of maximum pessimism is the best time to buy, and the time of maximum optimism is the best time to sell.”



Source: FactSet

Whether or not we have reached the absolute bottom is hard to determine, but many indicators have approached GFC levels – whether it’s the VIX (volatility) index, oil prices, high yield credit spreads, equity prices, or our portfolio price-to-value (P/V) ratios. The GFC was over in a few months, and the economic damage was somewhat limited, as banks were bailed out, and liquidity was injected into the financial system. It is unclear how this pandemic will play out. The extent of the economic damage stemming from the shutdown of the global economy for an extended period on corporate earnings, tax revenues, unemployment, and consumer spending is still unknown, but we suspect it will be worse than was sustained during the GFC.

Can it get worse? Probably. Do we think that risk-adjusted returns are very attractive now? Yes! Our portfolio P/V dipped below 50% during the quarter, the lowest level we have observed since the initiation of the Asia Pacific Strategy in 2014. At quarter-end, our P/V was about 55%, about the same as the lows reached in Q1-2016. We have put significant incremental personal capital into the strategy this quarter, the most in a single quarter since we began the strategy in 2014, and since we joined Southeastern in 2006 (Ken) and 2010 (Manish). In fact, our colleagues have been adding to all five Southeastern strategies this quarter, in what has collectively been the largest employee insider buying since the GFC (outside of seeding a new strategy). Beyond just our personal capital allocation decisions, our portfolio companies have increased discounted share repurchases in a meaningful manner, and we have also seen significant insider buying activity by our management partners.

In Japan, SoftBank, one of our holdings, announced that it would repurchase up to \$22.5 billion worth of shares over the next 12 months, potentially buying back up to 45% of the company. In addition, portfolio companies Toyota Motor and MinebeaMitsumi also repurchased shares during the quarter.

In Hong Kong (HK), portfolio companies New World Development and Man Wah were the third and eighth-largest share repurchasers on the HK stock exchange in the first quarter. CK Asset and CK Hutchison's CEO Victor Li spent around \$100 million buying shares in the last few weeks of the quarter. Melco International's CEO, Lawrence Ho, started buying shares in April. Chinese white goods manufacturer Midea repurchased shares in the quarter and recently renewed its share repurchase program.

In Korea, Hyundai Mobis Executive Vice Chairman Euisun Chung purchased over \$65 million worth of Hyundai Mobis and affiliate Hyundai Motor over the last few weeks, for the first time since taking over as Executive Vice Chairman of the Hyundai Motor Group.

China is slowly recovering from the pandemic that began there in January, peaked in February, and began tailing off in March, through extremely aggressive and drastic strategies to contain its spread. These measures seem to have worked, and the virus was successfully contained primarily in Hubei province. Travel restrictions were lifted on

March 25 in Hubei province two months after the lockdown in Wuhan, and other cities in Hubei started. By March 18, China reported zero domestically transmitted cases. Life is slowly getting back to normal in China. Outside of Hubei province, new cases of Coronavirus declined to low double-digit numbers by the end of February, about five weeks after quarantines were first imposed.

We have heard from many companies with operations in China that things are slowly getting better. In Macau, gross gaming revenue (GGR) was down 80% YOY in March, up from a virtual standstill in February, caused by a suspension of group tours, individual visit visas, quarantines, and a two-week cessation of the casino business. However, April will be weaker than March, as neighboring Guangdong province recently put in new measures requiring all visitors to undergo a 14-day quarantine.

Tongcheng-Elong, a Chinese online travel agency (OTA), had its travel booking revenue shrink by over 90% in the first half of February, but it has been showing week-on-week recovery, with the second half of February down 60-70% and March down 40-50%. Hotel occupancy in Mainland China improved to 29% at the end of March compared to around 7% in early February. During the three-day Qingming festival weekend from April 4 to April 6, Fliggy, Alibaba's online travel agency business reported that train reservations doubled, and hotel bookings rose 30% compared to the previous week. Trip.com also stated that travel bookings were up 50% from the weekend before and that their April tour bookings are three times better than March. While half of L'Occitane's 228 stores in China were closed in February, only seven stores remained closed by mid-March, and only one store (in Wuhan) remained closed at the end of March, with the last store scheduled to re-open April 8th.

Hyundai Motor reported that its China wholesale vehicle volume sales were down 51% in March YOY, which was an improvement over February, which was down 97% YOY. Volkswagen expects its China business to be back to normal by the middle of the year.

By March 13, 90% of state-owned and large companies and 60% of small and medium-size enterprises resumed work. The Chinese government is accelerating policy action, including cutting taxes and introducing special loan terms, to stimulate spending. The

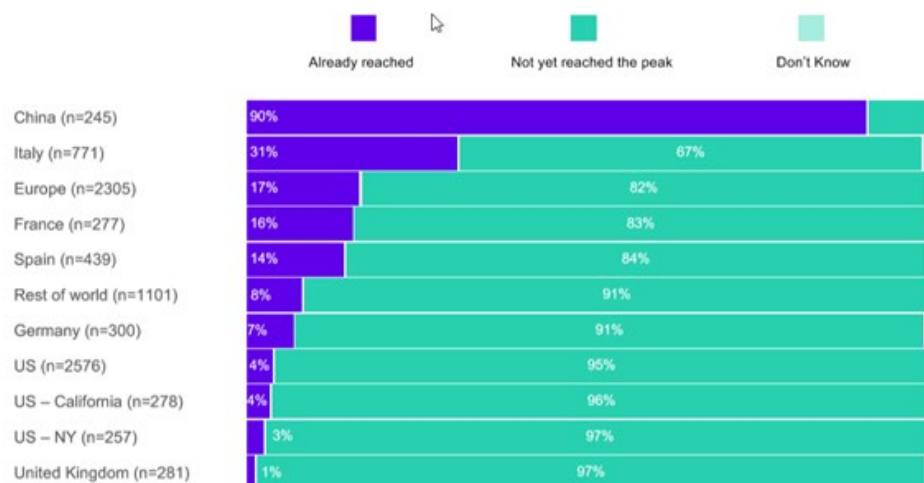
central bank announced cuts to banks' reserve requirements, releasing RMB 550bn (USD 79bn) in liquidity.

We believe that Asia – especially countries where our investee companies are located – has done a good job in managing the pandemic and has the benefit of experience from disaster preparation protocols developed and refined during past health crises like SARS and MERS. We also believe that Asia will be the first to recover from the pandemic, with the least damage to its economies and businesses. At the same time, we believe that Asian equities, having endured years of bruising from macro fears, trade wars, and now a pandemic, are very attractively priced relative to their earnings growth profile.

On the other hand, the rest of the developed world is still in the early-to-middle stages of fighting the pandemic. While some countries are adopting Chinese tactics to varying degrees of success, we believe the worst is yet to come in other developed markets. In China, the government only had to deal with one epicenter in Wuhan. In the United States and Europe, several “Wuhans” are developing simultaneously. With two daughters in New York City, I personally feel the anxiety of this tidal wave, as the pandemic marches across the United States, and pray that the response in New York is sufficient enough to flatten the curve.

When do you think that your region will pass the peak of the outbreak?

With the notable exception of China, most physicians believe that the peak of the outbreak is still ahead.



Source: Sermo March 27, Survey of 6,227 physicians

A FRESH LOOK

We are focused on re-underwriting each of our companies to make sure they can survive in this current environment, which may continue for an extended period, especially if there is a second wave of the pandemic in the fall, similar to what happened with the Spanish flu in 1918. In a recent survey of 6,227 doctors worldwide, 35% believe a second wave is very likely, and 47% believe it is somewhat likely.

We believe the 20 companies in our portfolio are high-quality businesses, in that their moats are sustainable, with an ability to generate attractive incremental returns on capital and little fear of financial distress, even in a black swan-type scenario like COVID-19. Through share buyback and dividend activity in the quarter, a number of our investee companies have demonstrated confidence in their financial strength and prospects.

However, MGM China is on our watchlist, as it has some leverage (2.7x as of December 2019), but is operating well within the maximum leverage covenant ratio of 4.5x gross debt/LTM EBITDA. MGM China has plenty of liquidity, with \$480 million of cash and an undrawn revolver of \$400 million, with no debt maturities in 2020 and five and seven-year bonds maturing in May 2024 and 2026. MGM China recently secured a leverage and interest coverage covenant waiver from its lenders until Q1 2021 and could potentially look to extend it further. Management maintains confidence in the company's financial position such that they declared a dividend on March 26.

Although SoftBank's financial condition does not worry us, we thought it would be worth discussing why, as there has been a lot of news flow surrounding the company. Fears of write-downs on investments made by SoftBank and its Vision Fund have caused substantial volatility in the share price and credit spreads. The bankruptcy filing by SoftBank investee OneWeb, the effect of COVID-19 on WeWork, and the two-notch downgrade of SoftBank's credit rating to Ba1 by Moody's have increased investor concerns.

A lot of the noise around SoftBank revolves around potential write-offs of its unlisted investments. Let's take that issue off the table and just consider listed investments, i.e., assume zero value for \$63 billion worth of unlisted investments in ARM, the SoftBank Vision Fund, and other unlisted investments such as OneWeb and WeWork. The company's three listed investments – Alibaba, SoftBank Corp, and Sprint – are currently worth \$197 billion, and SoftBank has net debt of \$55 billion at the holding company, with a loan/value of listed investments of 28%. SoftBank's management recently announced that it would sell \$41 billion of assets, with up to \$18 billion to be used for share buybacks and the rest used to repurchase debt and meet loan obligations. Assuming \$41 billion of listed assets were sold, SoftBank would have \$32 billion of net debt and \$156 billion of listed assets, improving its loan/listed assets ratio to 21%. The buybacks (including the \$4.5 billion buyback announced on March 13) would result in SoftBank's repurchasing and retiring up to 45 percent of the company's outstanding shares and reducing net debt by 42% or \$23 billion. This massive share repurchase and debt reduction program will further strengthen its balance sheet and enhance its credit strength and should significantly increase value per share. SoftBank's decision on April 1 to cancel its \$3 billion acquisition of WeWork stock from shareholders has further enhanced SoftBank's credit profile and demonstrates improving investment discipline. The completion of the merger of Sprint and T-Mobile on April 1 will remove Sprint's \$34 billion net debt from Softbank's balance sheet and will create significant shareholder value at Sprint. As of March 23, SoftBank had \$15 billion of cash at the holding company level, more than enough to meet debt obligations maturing in the next two years.

PORTFOLIO CHANGES: HOW WE THINK ABOUT NAVIGATING THROUGH DISTRESS

As you know, a substantial amount of our net worth is invested alongside your capital in this strategy and we allocate capital to achieve the best risk-adjusted returns on our money. We focus on buying companies at substantial discounts to our estimates of their intrinsic value. We estimate intrinsic value by forecasting future cash flows and discounting them back to today. If cash flows disappeared for the entire year, the value of the company should only fall by about mid to high-single digits. In essence, we believe events such as COVID-19 will not affect the long-term cash flows of businesses, as long as they can sustain a potentially long period of no revenues, as the world shuts down in

a massive effort to control the spread of the virus. Firms with high financial and operating leverage, which helped supercharge profit growth during good times, are going to find it tough, as the economy shuts down for an extended period.

Over the past few years, we have attempted to create a “bulletproof” portfolio, knowing we can sleep at night with a collection of businesses that have strong moats with attractive re-investment potential, led by aligned and skilled operators. At the same time, we believe this is a portfolio that can continue compounding in the downcycle, as our management partners potentially take advantage of opportunities organically or inorganically to grow value per share. We have been upgrading the quality of our portfolio over the last few years and not allocating capital to merely the cheapest, lowest P/V opportunities. This is what prompted us to sell Speedcast, Bharti Infratel, and First Pacific in the past six months, as increasing financial leverage (and increased regulatory risk for Bharti Infratel and First Pacific) raised our concern about the diminished capabilities of these companies to absorb shocks and to continue compounding value through down cycles. We also sold Ebara, whose business is heavily exposed to the oil and gas industry, due to weakened prospects and increased concerns on capital allocation and corporate governance, as detailed below.

In the fourth quarter, we replaced these companies with Richemont and Trip.com, two quality franchises where we believe the demand for their goods and services will continue to compound over the long-term, driven by the secular consumption upgrade trend in Asia, notwithstanding events such as COVID-19. Both of these businesses are conservatively capitalized (net cash), enjoy very high gross margins, and have significant brand value. Trip.com dominates China’s high-end hotel business and OTA industry with a 60% share.

We are avoiding undifferentiated companies with over-leveraged balance sheets, no matter how statistically cheap they are, such as balance-sheet-heavy financials, real estate, oil, airlines, and more. During this period of distress, we have not bought Hong Kong hotels and retail properties, which are among the cheapest assets in Asia, trading at mid-single-digit earning-multiples and a fraction of understated book. Instead, we bought relatively more expensive 50-60 cent dollars that we believe will compound

faster, have significantly higher returns on capital (versus a typical 5-7% going-in yield for real estate), and a longer runway for profitable re-investment potential. During the quarter, we purchased Chinese OTA company Tongcheng-Elong, and Prosus, the Dutch listed spin-off from Naspers, which holds a 31% stake in Tencent, a collection of capital-light compounders with highly cash generative business models. We discuss these new investments in more detail below.

Chinese online travel agencies Trip.com and Tongcheng-Elong are businesses with high barriers to entry. Cost-effective customer acquisitions and relationships with nationwide travel service providers are hard to replicate. These businesses generate a lot of FCF, as capex intensity is low, and working capital is a source of cash. They also have rock-solid balance sheets, enabling them to take advantage of distress and benefit from the consumption upgrade theme in China. Both Tongcheng-Elong and Trip.com have net cash balance sheets (including investments) equivalent to 33% of their market capitalization. Trip.com secured \$1.5 billion in 3- and 5-year credit facilities in April to further increase liquidity. Disposable income per capita has been growing at a double-digit pace in China, and consumers are traveling farther and more frequently. Also, there is a secular mix shift from offline bookings to online travel agencies. As a result, we expect this sector to grow at a mid-teens rate over the long-term. While they may be affected temporarily by COVID-19 travel restrictions, we have strong confidence in the secular trends that will drive earnings growth at our two Chinese OTA investments.

We thank you for your continued partnership and constructive and dynamic dialogue in this uncertain environment. As always, we endeavor to communicate candidly and transparently and will continue to keep you updated in real-time as best we can. We hope, above all else, that this letter finds our clients and readers safe, healthy, and practicing responsible social distancing measures.

Performance Review

1Q20		
	Contribution to Portfolio Return (%)	Total Return (%)
Top Five		
Prosus	+0.25	+1
Seria	+0.21	-6
Escorts	+0.12	+14
Tongcheng-Elong	-0.10	-0
Bharti Infratel	-0.19	-11
Bottom Five		
Melco International	-3.78	-48
MGM China	-2.23	-37
MinebeaMitsumi	-1.93	-29
Ebara	-1.91	-41
L'Occitane	-1.88	-38

TOP PERFORMERS:

Prosus — our newest position, held up strongly in the quarter and was the top contributor. Prosus is an Amsterdam-listed holding company that was spun out of South African company Naspers in September 2019. It presents a rare opportunity to buy one of the world's strongest franchises—Tencent—at a highly discounted price. Our investment in Prosus is an example of not buying the cheapest possible company. We paid around 60 cents on this investment, but in return are getting one of the most dominant businesses in the world with high returns on capital, a long runway for attractive re-investment, that is growing above 20% a year.

The company's 31% ownership in Tencent represents over 90% of our Prosus appraisal value. While COVID-19 is hurting a lot of industries and companies, Tencent is one of the few that benefit. Tencent's WeChat is the world's largest and most active social network with over 1.1 billion monthly active users (MAU) and is embedded in people's lives across online games, video, music, travel, ecommerce and financial services. Tencent is also a top global gaming company with a dominant position in China, having

developed five of the top 10 most popular international mobile games worldwide. Tencent's top games have seen a rapid acceleration in daily average users (DAU) and downloads in the quarter, as people were confined at home. Prosus has a net cash balance sheet, and its stake in Tencent alone represents around 130% of Prosus's market cap with Tencent at market price. We believe exposure via Prosus is far more attractive than when it was held by Naspers because it is listed in a developed market with no South African currency or political risk worries, and a much more liquid exchange. Prosus is the largest shareholder of Tencent with two board seats at the company. While Tencent does not look particularly cheap on a standalone basis, trading at 25x earnings, the company has several non-earning assets (NEAs) in the form of businesses in the investment phase that are still unprofitable or under-earning. Yet, if they were separately listed, they would be worth a lot. If we exclude the value of its NEAs, we are buying Tencent at less than 10x FCF via our Prosus stake, for a business that is expected to continue compounding at over 20% annually.

Beyond the Tencent exposure, we have great management partners and disciplined capital allocators in Bob Van Dijk and Patrick Kolek, who have experience leading dominant franchises in Classifieds, Food Delivery and Payment verticals in emerging markets, and are focused on closing the discount to value. While these businesses are small as a percent of value today, they represent free options at today's Prosus price, are expected to grow at double-digit rates with low capital intensity and will potentially be listed in time to help with value discovery.

Seria — the second largest 100-yen store operator in Japan, was a significant contributor in the quarter. COVID-19 has, so far, created a net benefit to the company. In February, existing same-store sales growth (SSS) achieved +9.1% YOY, the highest over the past five years, driven by strong demand for masks, disinfectants, and home cleaning equipment. Seria is competitively positioned in the 100-yen industry in Japan. Despite weak SSS and labor cost headwinds facing the industry last year, Seria's high single-digit operating profit margin is well ahead of peers. Existing store networks provide strong FCF, above the growth capex required. Net cash on the balance sheet is more than the combined market capitalization of the other two listed competitors in Japan, and it could

enable Seria to take advantage of opportunities ahead. We are confident that CEO Eiji Kawai, whose family owns over 30%, will continue to compound value per share in the longer-term.

Escorts — a top five agricultural equipment manufacturer in India, was another positive contributor for the quarter. We initiated a position in Q3-2019 after its share price corrected due to a drop in tractor sales, driven by a delayed monsoon season, the crisis in the non-banking financial sector, and an overall slowdown in India. The shares quickly went to our value, and we exited the position as tractor sales started to turn positive, the company gained market share, and delivered strong results and FCF conversion. We hope to be able to invest in this franchise and partner with Nikhil Nanda again with our desired margin of safety.

Tongcheng-Elong (TCEL) — one of the top three online travel agencies in China – is another new position in the portfolio that held up better than most. TCEL provides accommodation reservations and transportation ticketing services with around a 15% market share. The company has over 205 million MAU and approximately 155 million annual paying users. Tencent is a 22.5% owner of TCEL, which is the exclusive travel booking service on its Wechat / Weixin platform. Leveraging the 1.1 billion MAU of Tencent, TCEL can penetrate lower-tier cities, where the travel industry's online penetration is much lower compared to higher-tier cities and acquire users at a far lower cost than peers. As of December 31, 2019, 85.6% of its registered users are from non-first-tier towns in China. Another holding of ours, Trip.com, owns 22% of TCEL and provides hotel inventory to the company at attractive prices. As a result, TCEL boasts industry-leading EBITDA margins (27% in 2019). TCEL is a high margin and capital-light business where working capital is a significant source of cash. Trip.com's founder James Liang is the Chairman of TCEL, and he bought 1.1 million shares in January 2020 at much higher prices.

The company grew gross merchandise value, revenue, and EBITDA by 26%, 21.5%, and 36%, respectively, in 2019, yet we were able to buy this business at around 10x FCF because of severe near-term disruption in Chinese travel volumes due to COVID-19. The

Chinese travel industry was severely affected in the quarter, and domestic travel came to a halt during the Chinese New Year and in February as the virus spread in Wuhan and, to a much lesser extent, across China. Strict action by Chinese authorities to effectively lock down an entire province of over 60 million people seems to have contained the spread of the virus across China. Domestic travel is resuming, with steady weekly improvement since late February. The company is managing the downturn well, as a large proportion of its costs are variable, and it expects to post a profit despite a projected 42-47% drop in sales in Q1 2020. Furthermore, TCEL is primarily a domestic business with about 95%+ of revenues coming from China. Nearly half of revenues come from lower-tier cities, thanks to its dominant position in the WeChat platform, where it generates over 80% of MAUs. Balance sheet strength is critical in these uncertain times, and the company has a net cash balance sheet, with around 33% of its market capitalization in cash and investments.

Bharti Infratel — a dominant telecom tower operator in India, is facing an evolving and unpredictable regulatory landscape that called into question our investment case. Our case was premised on network capex revival by telco operators (Infratel's tower tenants), as the industry consolidated from over 12 players down to three, and mobile ARPUs rationalized, marked by a sharp increase in pricing plans by all operators in December 2019. However, in a surprise ruling by the Supreme Court of India on a case dating back over ten years, telecom operators were ordered to pay massive fines plus interest to the government for past dues. Vodafone-Idea, Infratel's second-biggest tower tenant, was already struggling with leverage issues, and this ruling required the company to pay \$4 billion within three months. For a company whose market cap was around \$2.5 billion, the long-term viability of this critical customer became questionable. While Infratel itself is in a strong net cash position and has been paying healthy dividends, we decided to exit this investment as Infratel's fate depends on an increasingly volatile regulatory environment.

BOTTOM PERFORMERS:

Melco International — the Asian casino and resort holding company, was a top detractor for the quarter. Subsidiary Melco Resorts (Melco) achieved record-high luck-adjusted EBITDA in the fourth quarter and the full year. Despite macro headwinds, including the US-China trade war and Hong Kong protests in 2019, Melco grew mass table revenues by 17% and achieved modest growth in VIP revenue despite industry VIP Gross Gaming Revenue (GGR) being down over 20% and industry mass GGR only up 12%. The first three weeks of January were off to a record start, but both Macau visitation and GGR collapsed around the Chinese New Year on the back of the COVID-19 outbreak. In February, Macau's GGR fell by 88% YOY, as the Macau government ordered the shutdown of casinos for 15 days, and the Chinese government suspended the issuance of individual visitor scheme (IVS) and group tours. All casino operators sold off on the fears of COVID-19 and its impact on the near-term outlook. Melco International, as well as its operating subsidiary Melco Resorts, underperformed its casino peers as there were additional concerns over its balance sheet and liquidity. However, we are comfortable with the financial position of both companies. Melco Resorts is particularly well-positioned, as the company refinanced all of its debt last year such that the next bond maturity is in 2025.

Melco has \$1.5 billion in cash on hand, and its \$1.75 billion credit facility is virtually undrawn. Its net debt/EBITDA is at a very manageable level at 1.9x, significantly below its 4.5x LTM total debt/EBITDA covenant. Furthermore, the debt/EBITDA leverage covenant excludes its bonds, and Melco only has \$1 million drawn under its revolving credit facility, so this leverage ratio is almost zero at the moment. Excluding debt at listed subsidiary Studio City, whose debt is not guaranteed by Melco Resorts, net debt/EBITDA is even lower at 1.5x. Melco has a ~10% stake in Australian Crown Resorts, which is highly liquid and worth \$400 million, even at currently discounted prices. We are also very comfortable with Melco International's financial position, as the company's \$1 billion loan is collateralized by its 56% stake in Melco Resorts, which is currently worth around \$3.5 billion (as of March 31, 2020) and paid about \$170 million of dividends to Melco International last year.

While the recovery of operations amid COVID-19 has been slow, every week has seen positive progress from early February levels, and Melco saw a meaningful reduction in its cash burn, as the business recovered to about 25% of last year's levels in March. With renewed border controls by Macau and neighboring Guangdong province in late March, we expect April to get worse from March levels. Real recovery back to normalized earnings power will only happen once visa and quarantine restrictions are lifted.

Over our many years of partnership with Lawrence Ho and his team, we have seen them adeptly navigate through tough times and allocate capital well, especially during downturns. We are confident Melco, which derives over 90% of its Macau EBITDA from non-VIP business, will continue to compound value per share being a principal beneficiary of the structural growth in mass gaming.

MGM China — one of the six Macau gaming concessionaires, was a detractor for the quarter. The company gained market share in both mass and VIP segments, as its newly (and now fully) opened Cotai resort continued to ramp up. In a down market, MGM China's EBITDA grew 28% YOY in 2019. 2020 was off to a very strong start (\$2.5 million EBITDA per day in the first three weeks of January, much higher than our expectation) until the virus fears led to a sudden and severe drop in visitations and revenue for the gaming industry in Macau. Visitation revival will depend on when the virus situation is contained, and borders are opened again. In the meantime, the company is focused on controlling costs and has reduced its operating expenses by around 30% below its regular run rate. The company has ample liquidity with US\$480 million of cash on its balance sheet and another US\$400 million of an undrawn revolving facility. None of the company's outstanding debt is due in 2020, and the earliest key bond maturity is in 2024. Covenants have ample wiggle room (leverage ratio of 4.5 to 1 and interest cover of 2.5 to 1), and the company has already received a leverage covenant holiday from its banks until Q1 2021.

MinebeaMitsumi — the Japanese manufacturer of high precision equipment and components, was a detractor for the quarter. Just before the COVID-19 pandemic, the company was on a clear path of recovery in its core precision ball bearings business. External sales of ball bearings volume were forecast to be up over 10% YOY, exceeding 210 million units per month, which would have led to strong margin expansion. Now, as the pandemic develops, the demand recovery may slow down in the near-term, but should not disappear. MinebeaMitsumi also benefits from its diversified business segments with other sources of profits. For example, the company is taking further market share in its iPhone camera actuator business with new technology, while continuing to maintain a 100% market share for the iPhone LCD backlight business. On capital allocation, MinebeaMitsumi has accelerated its buyback pace going into 2020 and used up its entire 15-billion-yen buyback authorization for the year in fewer than three months. MinebeaMitsumi's balance sheet is well-capitalized, with net debt/EBITDA well below 1x.

Ebara — a Japan-based industrial conglomerate, was also a detractor for the quarter. The company reported strong 2019 results, but its 2020 outlook and 3-year mid-term plan were weaker than our expectations. Our original investment case was based upon margin upside (from near-trough levels) to be driven by self-help initiatives and a strong independent board guiding value accretive capital allocation (such as share buybacks at discounted prices that we saw in 2018 and 2019). One of its key business segments, Fluid Machinery and Systems, is heavily exposed to capital expenditure in the oil and gas industry. With oil prices below \$20 per barrel, the demand outlook for big-ticket compressors and turbines is highly uncertain amid stiff competition, calling into question the margin upside potential of the business.

In addition, the company announced a 4-billion-yen donation to a foundation linked to the company's founder as part of its ESG effort. The sheer magnitude of this donation (~15% of projected operating profit), combined with the lack of clear communication around it (including the accounting treatment), made us question the corporate governance of this company. Within two weeks of the original announcement, it was incrementally positive to see the company revise its policy on this donation, reduce the

amount to 1/10th the initial amount for 2020, and require any future amounts to be approved by the board each year. While the stock price remains highly discounted, this entire episode shook our trust in Ebara's management and the board. We exited Ebara to upgrade our portfolio on business and people metrics.

L'Occitane — the natural and organic-based cosmetics company, was a detractor in the quarter. It reported a topline growth in local currency of 15.2% in the third-quarter ending in December, which was in-line with our expectations. The core L'Occitane en Provence brand posted a robust growth of 6.3% in the quarter, mainly driven by a substantial contribution from e-commerce. However, management indicated that the company might not reach its operating profit margin target of 12% for the current financial year due to the lackluster performance of emerging brands. Management maintained its target of mid-teen sales growth in the full year, and the first three weeks of January showed strong momentum. However, since the last week of January, the operating environment has become much more challenging, with the COVID-19 outbreak starting in China, which is L'Occitane's third-largest market. In February, half of its stores in China were closed, and the rest operated on limited hours. There are some signs of recovery in Asia, leading more stores back to operation, but travel retail remains challenging. While we expect a gradual recovery in Asia, the US and European markets have become more challenged due to the global spread of the virus. In addition to L'Occitane being a brand owner, it also operates retail stores that have high operating leverage. The company is taking various cost control measures, such as re-negotiating rents, delaying marketing campaigns, and reducing administrative costs. L'Occitane owns strong brands, has a solid balance sheet, and is run by owner-operators who are focused on growing value per share. L'Occitane's financial leverage – 1.5x net debt/EBITDA as of March – is very moderate, and they have access to €230 million of unused credit facilities, which they are currently working to increase. The COVID-19 pandemic has temporarily disrupted margin upside, but we are confident in management's ability to improve margins to over 15% in the coming years.

See the following pages for important disclosures.

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Neither the Guernsey Financial Services Commission nor the States of Guernsey Policy Council take any responsibility for the financial soundness of the Longleaf Partners UCITS Funds or for the correctness of any of the statements made or opinions expressed with regard to it. If you are in any doubt about the contents of this document you should consult your accountant, legal or professional adviser or financial adviser.

Southeastern Asset Management has taken all reasonable care to ensure that the facts stated in this document are true and accurate in all material respects, and that there are no other facts the omission of which would make misleading any statement in the document, whether of facts or of opinion. It should be remembered that the price of Fund shares and the income from them can go down as well as up.

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WARNING

The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about the contents of this document, you should obtain independent professional advice.

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not been registered for offering in Italy pursuant to the Italian internal rules implementing the UCITS IV directive. Therefore, you are expressly fully aware that the Italian protections granted by the applicable legal framework would not apply and you would be exclusively responsible for the decision to invest in the Funds. Moreover, you represent that you would only invest directly or on behalf of third parties to the extent that this is fully lawful and you comply with any conduct of business rules applicable to you in connection with such investment. You agree to refrain from providing any document relating to the Funds to any party unless this is fully compliant with applicable law.

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