

Longleaf Partners Fund  
*Quarterly  
Summary  
Report*



For the Quarter Ended  
March 31, 2020

1Q20

# Longleaf Partners Fund

(800) 445-9469 / southeasternasset.com

## Fund Profile

Investment Style	US mid-large cap value
Ticker	LLPFX
Inception Date	April 8, 1987
Net Assets	\$1.2 billion
Expense Ratio (Gross/Net)	0.97% / 0.79%
Turnover (5 yr avg)	27%
Weighted Average Mkt. Cap	\$69.8 billion

## Holdings (17)

	Activity*	Weight
CenturyLink		11.3%
FedEx	+	7.8
Williams	+	6.3
Mattel	-	6.2
General Electric	+	6.2
United Technologies	+	6.1
Affiliated Managers Group	+	5.0
CK Hutchison	-	4.9
Alphabet	-	4.8
LafargeHolcim	+	4.8
DuPont	NEW	4.7
Fairfax Financial	-	4.7
Comcast	-	4.6
CNH Industrial		4.5
CNX Resources		4.3
Hyatt	NEW	4.2
Park Hotels & Resorts	+	1.9
Cash		7.7
Total		100.0 %

\*Full eliminations include the following positions: Host Hotels & Resorts and CK Asset Holdings.

Holdings are subject to change and discussion of holdings are not a recommendation to buy or sell any security. Holdings are subject to risk. Funds distributed by ALPS Distributors, Inc.

Effective August 12, 2019, Southeastern has contractually committed to limit operating expenses (excluding interest, taxes, brokerage commissions and extraordinary expenses) to 0.79% of average net assets per year. This agreement is in effect through at least April 30, 2021 and may not be terminated before that date without Board approval.

LLP000946 expires July 31, 2020

## 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 Longleaf Partners Funds. 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.

## Sector Composition

Industrials	29.5%
Communication Services	20.7
Energy	10.6
Consumer Discretionary	10.4
Financials	9.7
Materials	9.5
Real Estate	1.9
Cash	7.7

## Performance Contribution

Top Three	Portfolio Contribution	Return	Bottom Three	Portfolio Contribution	Return
Host Hotels & Resorts	0.00%	-15%	CenturyLink	-3.28%	-27%
Hyatt	-0.22	-12	CNH Industrial	-3.21	-48
Alphabet	-0.55	-13	Park Hotels & Resorts	-2.82	-68

## Performance at 3/31/2020

	Total Return		Average Annual Return				
	QTR	One Year	Five Year	Ten Year	15 Year	20 Year	Since Inception
Partners Fund	-28.87%	-27.00%	-5.17%	2.76%	2.02%	4.66%	8.50%
S&P 500 Index	-19.60%	-6.98%	6.73%	10.53%	7.58%	4.79%	9.24%

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 may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by visiting southeasternasset.com.

**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 southeasternasset.com/account-resources. Please read the Prospectus and Summary Prospectus carefully before investing.**

**RISKS** - The 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. Mid-cap stocks held may be more volatile than those of larger companies.

S&P 500 Index - An index of 500 stocks are chosen for market size, liquidity and industry grouping, among other factors. The S&P is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. An index cannot be invested in directly.

April 9, 2020

# Longleaf Partners Fund Commentary 1Q20

Longleaf / Partners  
Funds

Longleaf Partners Fund declined -28.87% in the first quarter, while the S&P 500 Index fell -19.60%. As the largest shareholder group in the Fund, we are disappointed in both our absolute and relative results. While looking to the future does not lessen or excuse the near-term performance pain, we are more excited for the long-term prospects of our portfolio than we have been in over a decade. As global markets have been rocked by extreme uncertainty and fear in the last two months, we have seen a rapid rise in stock price volatility and a steep decline in investor sentiment. We have only seen this level of disruption a handful of times in our 45-year history. Each of the seven bear markets Southeastern has lived through has felt uniquely difficult, and at the time felt like it might never end. In each case, we stuck to our discipline and took advantage of market dislocations to upgrade the portfolio, which historically served us well with strong subsequent performance coming out of those periods. The drivers behind

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*Average Annual Total Returns for the Longleaf Partners Fund (3/31/20): Since Inception (4/8/87): 8.50%, Ten Year: 2.76%, Five Year: -5.17%, One Year: -27.00%. Average Annual Total Returns for the S&P 500 (3/31/20): Since Inception (4/8/87): 9.24%, Ten Year: 10.53%, Five Year: 6.73%, One Year: -6.98%.*

*Returns reflect reinvested capital gains and dividends but not the deduction of taxes an investor would pay on distributions or share redemptions. Performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by visiting [southeasternasset.com](http://southeasternasset.com). The prospectus expense ratio before waivers is 0.97%. Effective August 12, 2019, Southeastern has contractually committed to limit operating expenses (excluding interest, taxes, brokerage commissions and extraordinary expenses) to 0.79% of average net assets per year. This agreement is in effect through at least April 30, 2021 and may not be terminated before that date without Board approval.*

today's environment are unique, but our disciplined approach on how to navigate the turmoil remains the same.

## Performance Review

The gap between Value and Growth widened in the quarter, as the S&P 500 Value fell -25.3%, dramatically underperforming the S&P 500 Growth's -14.5% decline and Momentum's -13.8% decline. In fact, Value was the worst performer in the US large cap universe. Momentum and Growth, which have become synonymous with the higher P/E (price to earnings) Information Technology (IT) companies that have fueled the broader market's growth for a decade, were the only factors that meaningfully outperformed the Index.

In this quarter, which has felt much longer than 91 days, growing fears over the now global COVID-19 pandemic, coupled with an oil price war, weighed on global markets, and governments responded with heightened stimulus, resulting in even lower interest rates and greater global political uncertainty. We saw the largest one-day market decline since Black Monday in 1987 twice in one week in early March. Similarly, the market volatility index (VIX) broke through its highest absolute level and posted its largest single intraday move since the global financial crisis (GFC).

As the table below shows, the spread between equity and bond yields is near an all-time high, with equities growing increasingly compelling versus the perceived safety of bonds. The multiple of earnings to treasury yield is significantly higher than in 2009, highlighting the extremely compelling absolute and relative case for active equity investing today. While some investors are looking to gain exposure today via the index or ETF trading in an effort to time and capture market beta, we believe this is a dangerous game. Now more than ever, there will be differences between winners and losers on an individual security basis. Our bottom-up work on Business, People and Price helps us distinguish between businesses trading at single digit multiples of free cash flow (FCF) that will grow versus low multiple stocks with poor underlying businesses or those that feel safer at higher multiples but don't have the right people at the helm to navigate the current market storm. Partners Fund trades for an average P/E of 10x and average earnings yield of 10%, an over 8% spread and over 7x multiple versus 30-year treasuries. As Warren Buffett said about US 10-year treasuries recently:

“If somebody came to you with a stock and said, you know, ‘This is a terrific stock. It sells at 70 times earnings. The earnings can’t go up for 10 years,’ you’d say, ‘Well, explain that to me again.’”

	<b>S&amp;P 500 LTM P/E</b>	<b>S&amp;P 500 Earnings Yield</b>	<b>30-Year US Treasury Yield</b>	<b>Difference</b>	<b>Earnings Yield to Treasury Yield Multiple</b>
1990	11.7	8.58%	9.08%	-0.50%	0.94
2002	16.8	5.94%	4.86%	1.08%	1.22
2009	8.3	12.06%	3.57%	8.49%	3.38
2020	16.7	5.97%	1.32%	4.66%	4.54

Source: Factset

LTM P/E is the trailing price to earnings (P/E) multiple using the last twelve months (LTM) of actual earnings; Earnings yield is the inverse of the P/E ratio.

### Market Sentiment – Calculus, Statistics and History

While we are not market forecasters or medical professionals who can predict how long this situation will last, we do need to take a broader look at how best to build our portfolios going forward. We do not believe that everything will “return to normal” in a few months. But, it is amazing how dramatically sentiment has shifted in the last few weeks. We try to remember a few simple mathematical principles during this period of great uncertainty. First is that exponential growth can be hard to fathom when things are going up, but the stock market typically reacts most to the second derivative of a curve – are things accelerating, decelerating or flattening out? While the absolute number of cases and deaths will grow in the near term, there is a chance that the worldwide rate of growth could begin decelerating with aggressive global mitigation measures being taken. This could be perceived positively by markets, as in 2009 when there was plenty of bad news after early March, but the market turned upward after the first “green shoots” sprouted. The second mathematical concept we need to remember is that, as the number of cases and testing increases around the world, this larger sample size gives the world more data to analyze. This in turn leads to increased potential for breakthrough treatments and a better understanding of who has already had the virus and recovered. This must be tempered with the fact that many experts expect that COVID-19 may be seasonal with a second wave in the fall. The market

hates uncertainty, so while more data very likely will lead to more immediate negatives, the fact that there will be fewer “unknown unknowns” in the months to come will likely be a positive. Additionally, the worldwide focus on developing a COVID-19 vaccine gives us confidence that, as we look into 2021 and beyond, the market should begin discounting a more “normal” world, even if the new definition of normal looks very different than it did in 2019.

In this environment, we are focused on companies that can make it through the next 6-12 months without needing to rely on the kindness of banks or consumers, but we are not going to run for the hills and only own those companies that feel the “safest” now. Taking a longer-term view, we could also see the pandemic leading to profound changes on three fronts that have hurt our portfolio in relative terms over the last 10+ years. First, printing trillions of dollars around the world to keep things afloat in this period could finally lead to some inflation, after over a decade of anemic interest rates. While the historical data is not 100% conclusive on the effects of inflation for value versus growth stocks, the extremes of the deflationary Great Depression (when growth won) and the inflationary 1974-early 1990s period (when value won) do suggest a potentially positive turn for our style of investing. Our businesses generally benefit from pricing power or gross profit royalties, which should help them thrive in a more inflationary environment. Second, as we move from fighting the coronavirus at all costs to figuring out how to pay the bill, we suspect we could see some profound changes in the US healthcare system. We have always had a hard time capitalizing the high returns of many healthcare players – for a life or death service – into perpetuity. The COVID-19 crisis is shining a hard light on the flawed system, where people are avoiding testing or treatment for a highly contagious disease because they are afraid of medical bills, resulting in a significantly worse public health crisis. Third, we expect to see an eventual rebalancing within Information Technology, the other sector that has dominated public and private markets for over a decade, outperforming even through this period of market distress. It feels somewhat counterintuitive today to make a case against the IT companies, as the world moves to remote working and turns to e-commerce apps and website, while we must abstain from other forms of direct commerce. However, a tougher environment and tighter financing terms will eventually compel these businesses to cut costs, raise prices and seek profits, thus ending the seemingly virtuous short-term customer satisfaction cycle of seeking higher volumes at

all costs to meet increasingly challenging consumer demands, which ultimately punishes other industries. Finally, many IT giants have both the law of large numbers and worldwide regulators working to diminish future returns.

### Confidence in What We Own: Stress Testing in a Stressful Period

Back to what we own today, we gain confidence in our portfolio in a number of ways. First and foremost, we look to our 45-year history as a reminder of how pay off patterns following large downturns can be quick and sizeable. In the three bear markets in the Partners Fund's lifetime we saw similar levels of short-term absolute and relative underperformance as markets declined. While always incredibly unpleasant, this is understandable because when markets crash, correlations head towards one. However, as shown in the chart below, our absolute and relative outperformance in the 12+ months following the low points was dramatic, as value imbalances have corrected in the recovery.

### Return Following Bear Markets

Cumulative total return 12 months after a Bear Market bottom

Trough Date	Partners Fund	S&P 500 Index
12/4/1987	43.34%	22.52%
10/9/2002	43.36%	36.16%
3/9/2009	97.41%	72.29%
<b>Average</b>	<b>61.37%</b>	<b>43.66%</b>

Bear Market defined as a 20% or more decline in the S&P 500 from a market high.

In periods like today, we maintain an even more active, engaged dialogue with our investee partners across our global portfolios. In some cases, we are looking for ways to add value by encouraging our management teams to pursue intelligent, value-accretive capital allocation moves or people changes to upgrade governance and oversight. In these times, our behind-the-scenes approach to engagement is even more productive and appreciated, and we look forward to sharing the fruits of that engagement as we see progress. In many cases, we are acting as a sounding board or otherwise cheering on our management partners who are already taking steps to grow

value and ultimately get that value recognized, like at CNX. Our partners were fully hedged at great prices going into this downturn, closed an asset backed financing at a 6-7% interest rate in March, and used the money raised to buy in debt trading at a high teens yield. Many of our companies offer unique insight into the macro situation, which helps us refine our bottom-up, company-specific assumptions and also informs our broader macro view. The economists at FedEx are a fantastic worldwide economic barometer. We also look closely at our management teams' behavior, which often speaks louder than words. As we write this letter, insiders at eight of the Fund's holdings have bought shares personally this quarter, signaling their confidence in their companies.

Additionally, we are reviewing each company that we own on a case-by-case basis to determine the potential value impact of this disaster and to ensure that our appraisal values are appropriately conservative as we face an uncertain future. We feel strongly that we own high-quality businesses with capable management teams that can adeptly navigate the current environment. However, long-term values are changing faster than we have ever seen, as near-term FCF has evaporated or decreased dramatically for certain regions and businesses.

As we wrote in our recent COVID-19 update, we broadly group our investments into three categories as we reassess our portfolio holdings:

- 1) Those where we expect minimal long-term impact and/or see the potential for the company to at least partially benefit from the current situation. We generally expect to see a small near-term value impact but significant long-term value growth potential from these businesses that can more than make up for today's pain. Just over 30% of the Partners Fund portfolio falls into this category, including CenturyLink, which is seeing increased demand for its fiber infrastructure as video-conferencing and streaming grow strongly around the world and end providers are running short on bandwidth, even as their Small and Medium Business customer base will see an impact. Canadian-based insurance conglomerate Fairfax Financial, led by Prem Watsa who dramatically grew the value of the company during the GFC with his conservative investing prowess, now has a large amount of liquidity to put to work in this environment.



Alphabet's Search and YouTube businesses benefit from significantly higher demand in this environment, even as its travel and local advertising has taken a near-term hit. Additionally, natural gas company CNX Resources and pipeline operator Williams should be net beneficiaries from sub-\$30-40/barrel oil, as the growth in "associated gas" should slow dramatically as Permian basin oil drilling declines, creating a better future supply/demand balance for natural gas. Over 50% of Williams' value come from its stable, regulated utility interstate pipeline assets.

- 2) Those that we expect to feel a larger near-term hit (a low-to-mid-teens percentage decrease on average), but where we feel highly confident over the long term. This situation describes a majority of our holdings, approximately 55% of the Fund, just as it did in the GFC. We held onto and/or added to this category in the GFC, and those companies ultimately led the Fund's significant outperformance as we rebounded in 2009. We expect to see a similar pattern when we rebound from the current downturn. Classic toy company Mattel is now facing bigger headwinds in the current environment, but its supply chain is more flexible than ever, the company is producing positive FCF and is moving multiple non-earning assets through its content pipeline, and the stock trades at 5x our estimate of earnings power. United Technologies and General Electric will both be negatively impacted by aerospace supply chain issues, but UTX's Pratt and Whitney and GE Aviation's aircraft engine businesses are especially resilient, given the primary business is the recurring, contractual maintenance revenue, not new engine sales. Both companies have significant, uncorrelated, non-aerospace businesses, with GE's Medical business benefitting from worldwide demand for its products and UTX's split into Carrier, Otis and Defense/Aero which was completed shortly after quarter end. We were also able to sell our shares in Otis after quarter end at a price very close to our appraisal. Both GE and UTX have strong leaders with a great track record of capital allocation and operational execution and both trade at single digit multiples of earnings power.
- 3) Those where we expect to see a more material near-term hit and a potential long-term impairment to appraisal. While it is difficult to know how long the

current crisis will continue, we could potentially see some material value declines (20% or greater on average) in this much smaller group (6% of the portfolio), reminiscent of the GFC. There are two Fund holdings that fall into this category currently – Park Hotels and CNH Industrial. Park has been hit by a dramatic downturn in occupancy as a result of shutdowns around the US, but it also trades at an extreme discount to replacement value and had encouraging insider buying in March. CNH will still split into two companies to better highlight the value of each, but the timeline has been pushed out while the company is going through a management change that we believe controlling-owner EXOR will navigate well.

We are carefully weighing each individual business, revisiting our case for each. The “category 3” businesses could prove to be a “category 1 or 2,” particularly in the hands of the great people at each. However, our discipline dictates that we will not add to companies where our value has taken a permanent impairment until our values have stabilized and begun to grow again. If we believe that the long-term business case or competitive advantages of a business become impaired and/or that our management partners are not capable of taking action to grow the value, then we will take action to upgrade our portfolio.

We recognize that it can be easy to fall prey to simply holding onto or doubling down on the companies that we already own and know in an uncertain environment, and we also recognize that we built our portfolios in a very different environment than today. We are therefore looking at each existing company and comparing it against opportunities to upgrade the quality and durability of the portfolio with any new additions. What will matter most going forward are the individual stocks we own and the changes we are making to our portfolios.

### **Contributors/Detractors**

(Q1 Investment return; Q1 Fund contribution)

CenturyLink (-27%, -3.28%), the fiber telecom company, was the largest detractor, despite reporting over \$1 of FCF per share in the fourth quarter of 2019. Two sell-side analysts downgraded CenturyLink to a “sell” in the last few weeks of the quarter, with

the primary points of concern being the long-challenged consumer and voice business and an expected decline in earnings before interest, tax, depreciation and amortization (EBITDA), as customers within the small and medium business (SMB) segment shut down in the current environment. Our case has always assumed that the “bad” consumer and voice business, comprising roughly one-third of EBITDA, continues to decline every year. The positive growth from the remaining “good” parts of the business comes from segments with long-term growth prospects, like Enterprise, SMB and International connectivity. The SMB business is challenged today by small business customers facing sudden existential threats, and we might see a one-time hit to EBITDA as the company addresses bad credit at these customers. However, this is positively offset by the Enterprise business seeing a significant increase in demand to support remote working and in-home streaming, illustrated in part by the growth of CenturyLink’s video-chat customer Zoom. The company, like many others, has suspended guidance in the current environment, but we believe it is well positioned to come out even stronger than before. The company’s net debt-to-EBITDA is in a much better position than in 2008-09, and it produces over \$3 per share in FCF. As noted above, we have a 13-D filed at the company and are actively engaged with CEO Jeff Storey and the board to explore numerous strategic options to bridge the substantial gap between share price and long-term appraisal value.

CNH Industrial (CNH) (-48%, -3.21%), one of the world’s largest agriculture machinery manufacturers, was another top detractor for the quarter. CNH reported a weak fourth quarter, which was in line with our expectations given challenging end markets due to US-China trade war, weather and soft commodity prices. However, the company disappointed by revising down the 2020 earnings per share (EPS) guidance by 16% versus what was communicated to the markets in late 2019. CNH has not executed well in recent months, leading to inventory build-up and delay in delivery of cost efficiency targets. The stock came under added selling pressure due to its dual-listing in Italy, which has been one of the worst performing markets in Europe year to date, even though its look-through revenue exposure to Italy is less than 12%. To the positive, the agricultural segment, which represents over 60% of the value, is a relatively essential and stable business that has already been through several years of lean times. Smart capital allocation and improved execution by the company will be key as it navigates through this period. The company made a management change that we

support in naming Chairperson Suzanne Heywood interim CEO as they seek to replace Hubertus Muhlhauser and appointing Oddone Incisa as CFO to replace Max Chiara. Heywood also serves as Managing Director at CNH's majority owner EXOR, and we expect her, together with EXOR CEO John Elkann, to improve leadership and execution.

Park Hotels and Resorts (-68%, -2.82%), was another top detractor. Park saw its occupancy levels hit unprecedented lows due to travel reduction and conference cancellations as a result of COVID-19. Park responded by closing all or parts of the majority of its owned hotels. We have evaluated the company's debt (the next maturity is \$700 million at the end of 2021) and liquidity (about \$1.4 billion) and believe it will survive the crisis. CEO Tom Baltimore purchased shares personally after the stock's sharp decline but still well above where it trades. The stock was deeply discounted at quarter end, but our appraisal of the value has declined with the loss of cash-flow. As we said above, it is in the third bucket, and we did not add during the quarter. Park trades at an extremely wide discount to both relatively stable replacement cost (it trades at less than 20% of that metric) and a fast moving value, providing a large margin of safety at today's low price.

CK Hutchison (-31%, -2.35%), a conglomerate of telecommunications, health and beauty, infrastructure, global ports and energy, was another top detractor in the quarter. Its underlying stake in Husky Energy is facing strong headwinds in the current oil environment, but Husky only comprises a low single-digit percentage of CK Hutchison's overall appraisal. Health and beauty chain Watsons stores in China have already seen the impact of COVID-19 peaking in February, and it began a solid recovery in March as the country is gradually reviving. Its European retail chain Superdrug is seeing strong double-digit sales growth and is likely to remain open, even in a potential continent-wide lockdown, as it provides critical services. Telecom subsidiary 3 Group Europe reported a 17% year-over-year (YOY) increase in EBITDA, driven by successful growth at Italy Wind Tre. CK Hutchison net debt/EBITDA is below 2x, and all three credit rating agencies have maintained a stable A rating. The stock trades above a 6% dividend yield today. The Li Ka-shing family and other directors of the company bought 1.25mn shares in the quarter, signaling their strong confidence in the current uncertain environment.

Classic toy company Mattel (-35%, -2.20%), was also a detractor. In the fourth quarter of 2019 Mattel revenues fell 3%, but, more importantly, margins increased and CEO Ynon Kreiz announced new strategic plans to continue growing profits and monetizing intellectual property. The Dolls business (primarily Barbie) grew 3% in the face of tough Frozen 2 competition, Vehicles (Hot Wheels) grew 8%, and other brands continued stabilizing, while American Girl was more challenged in the period as it continued to shrink double digits. Mattel reported positive earnings in 2019 for the first time since 2016, and we expect much higher cash earnings in the years ahead despite the sharp COVID-19 retail disruption, as Mattel sells through a variety of channels, including online. Leading toy brands have historically been resilient during tougher economic times (Mattel 2009 cash flow was roughly similar to 2007 levels, and overall toy industry sales were only down 1% from '08 to '09). Mattel's intellectual property is seeing a significant uptick in demand from children and streaming platforms today.

### Portfolio Activity

We started the year with relatively high levels of cash, which we have used as dry powder to improve our portfolios. The fund added two new positions – DuPont, which we have owned twice successfully in the past, and Hyatt, which is an industry that we know well and where we have successfully invested in several previous downturns.

After selling Dow DuPoint in early 2019 as it reached our appraisal value, we initiated a new position in DuPont in February and added heavily during the March sell-off. After spinning its commodity chemicals business Dow in April 2019 and its seeds and agriculture chemicals business Corteva in June 2019, DuPont has a collection of high-return assets in nutrition, electronics and construction. CEO Ed Breen has a strong history of smart capital allocation, cost cutting and value additive M&A activity, and we believe he can lead the company effectively through this difficult period. We were especially encouraged by the announcement late last year that DuPont is spin-merging its Nutrition segment with International Flavors and Fragrances, creating a powerhouse business and improving DuPont's balance sheet even further when the deal closes later this year.

We bought global hotel company Hyatt for less than half of our appraisal value in March, as travel industry stocks faced indiscriminate selling. The business combines

many of the qualities we look for in every new investment: a safe balance sheet, owner-partners with a great track record, a proven brand with loyal customers, high-margin royalty income and owned real estate with a high replacement cost. The pandemic will freeze many of the company's operations for a large part of this year, but the business is positioned to withstand even a protracted shutdown and prosper on the other side. The balance sheet has lower net leverage than virtually all its competitors, and a majority of the value comes from capital-light franchise fees. We have had a long history of successfully investing in this industry, typically initiating our investment during times of significant industry disruption. Notably, the Fund has invested in global hotel operators in three primary periods in our recent history: InterContinental during the Eurozone crisis in 2011-12, Marriott and InterContinental in the GFC in 2008-09 and Marriott, Host Marriott and Hilton in 2000, increasing exposure after the 9-11 attacks in 2001-03. In each case, the environment felt highly uncertain, revenue per available room (REVPAR) was declining and the near-term outlook for travel amid a potential recessionary environment felt bleak. However, in each case, we felt confident in the financial strength of each business, as well as management teams' abilities to go on offense to steer the individual businesses through a difficult period.

We sold our position in CK Asset to focus on other opportunities listed in the US. We trimmed several companies that have held in better than most at higher price-to-value (P/V) and price-to-FCF ratios. We have increased our positions in multiple holdings that are in groups 1 and 2, described above. Our cash is now down to 8%, and we continue to monitor our current holdings and our on-deck list for new opportunities to upgrade.

### **Southeastern's COVID-19 Business Plan**

While we have discussed at great length the investment opportunity that the market disruption has created, we are deeply saddened by the devastating loss of life and dangerous health impact the COVID-19 pandemic has had for so many globally. The health and safety of our employees, their families, our clients and the community around us remain our top priority. We have been heartened to see some of our companies taking steps to help where they can, such as General Electric working to help develop thousands of ventilators to aid coronavirus patients.

Southeastern is closely monitoring the rapidly-developing situation and following WHO and local government guidelines and best practices. We shifted employees to a remote working scenario over the course of the quarter and have temporarily restricted all business travel and conference attendance for all employees. All teams are coordinating to ensure maximum productivity with this arrangement and have managed with minimal disruption. We have a robust business continuity plan (BCP) and remote connectivity platform in place, and our global research team are used to communicating across multiple locations and time zones. The transition has been seamless, with no material issues with connectivity or disruptions to daily business activities.

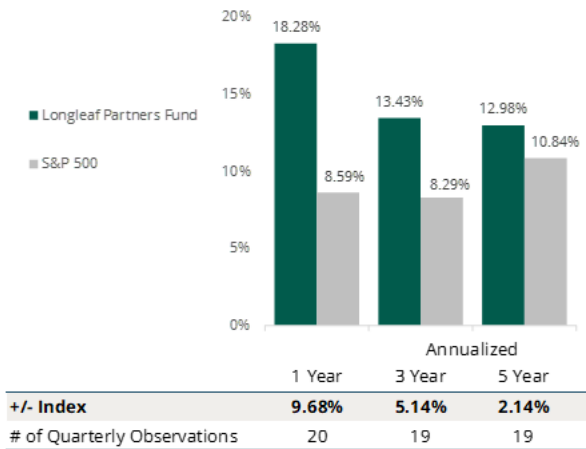
## Outlook

As we wrote at the beginning of this letter, our long-term outlook for the portfolio is the strongest it has been in over a decade. Although we expect to see some continued near-term volatility before we see a sustained upswing, we believe our portfolio is well positioned to weather the storm. We do not know when, but the COVID-19 situation will eventually stabilize, and global businesses will recover. When they do, equities should vastly outperform bonds, which are poised to lose capital in a meaningful way, as interest rates cannot go much lower. We believe our companies will outperform the market as they have in prior recovery periods because they are more heavily discounted today, despite being strong, high quality businesses. Our management partners are exceptional and are taking the necessary steps to create significant value while navigating their businesses through this uncertain period to be even stronger in the future.

Southeastern employees have been adding to our investment in the Fund with the largest collective insider buying (outside of seeding a new strategy) since the GFC. We believe it is a great time for our partners to be adding as well. Cash in the portfolio is now 8%, and P/V is mid-40s%, a level only seen once in our history of tracking the metric, during the GFC. As shown in the chart below, we have historically seen strong relative and absolute outperformance in the subsequent 12+ months following periods of P/V below 60%.

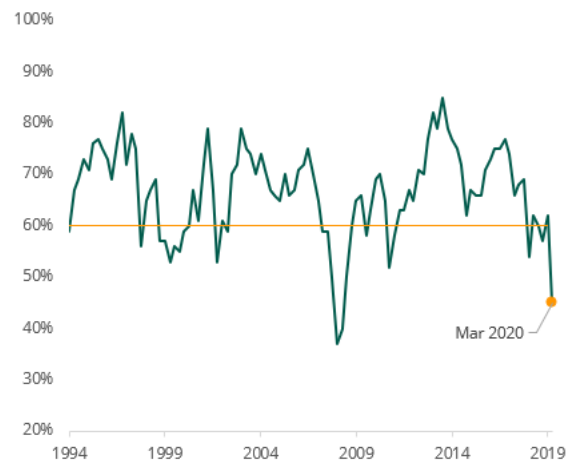
## Partners Fund

Average Annualized Total Return Following P/V Less Than 60%



## Quarterly Price-to-Value Ratio

Current P/V is mid-40s%



Additionally, our on-deck list of qualified new potential holdings has more than doubled in the quarter. The opportunities are not limited to a single industry or region, as selling has opened opportunities across a broad spectrum of companies. Some of the more interesting opportunities where we are looking closely include "groups of people" stocks, primarily in the travel and entertainment space, that are competitively advantaged to weather the storm; misunderstood companies where the market is applying a 2008 scenario even though the business has changed significantly since the GFC; and industries or businesses that are great long-term value growers but are subject to short-term volatility. For example, we have been following a former retail holding for a long time, and it has finally flipped back into being an on-deck after a recently misunderstood set of results. We talked with a diversified industrial company that we regret missing in 2011-2012 the first time we did the work. We might now have another shot. We are now talking with users at a company that is undergoing a transition to more of a software business. We have done the work and are waiting on price at a blue-chip former winner with all-time great capital allocation. We still believe that many Consumer Branded Goods, Utilities and Health Care companies remain broadly fair-to-overpriced, given their perceived defensiveness, but we would love to own some of these businesses at the right price and are closely monitoring them. We are avoiding undifferentiated companies with over-leveraged balance sheets no matter how statistically cheap they are, such as balance-sheet-heavy financials, oil (which we do not consider high enough quality, despite the large price drop), airlines, etc.



We have stepped up our communications with you over the last several weeks, and you should expect additional outreach from us as long as this crisis lasts. We hope that you have found our Podcast and FAQ helpful, and we encourage you to reach out to us at [info@SEasset.com](mailto:info@SEasset.com) or [podcast@SEasset.com](mailto:podcast@SEasset.com) with your questions and topics that you would like to see us cover in future communications. We thank you for your continued partnership and patience. We believe it will be rewarded with strong future performance.

*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 <https://southeasternasset.com/account-resources>. Please read the Prospectus and Summary Prospectus carefully before investing.***

#### *RISKS*

*The Longleaf Partners 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. Mid-cap stocks held by the Fund may be more volatile than those of larger companies.*

*The S&P 500 Index is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. 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.*

*The Global Financial Crisis (GFC) is a reference to the financial crisis of 2007-2008.*

*VIX is the CBOE Volatility Index, which reflects the market's expectation of near-term S&P 500 volatility based on a range of index options.*

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

*Earnings per share (EPS) is the portion of a company's net income allocated to each share of common stock.*

*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.*

*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.*

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

*As of March 31, 2020, the top ten holdings for the Lingleaf Partners Fund: CenturyLink, 11.3%; FedEx, 7.8%; Williams, 6.3%; Mattel, 6.2%; GE, 6.2%; United Technologies, 6.1%; Affiliated Managers Group, 5.0%; CK Hutchison, 4.9%; Alphabet, 4.8%; LafargeHolcim, 4.8%. Fund holdings are subject to change and holdings discussions are not recommendations to buy or sell any security. Current and future holdings are subject to risk.*

*Funds distributed by ALPS Distributors, Inc.*

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*Expires 7/31/2020*