

Longleaf Partners Fund
*Quarterly
Summary
Report*



For the Quarter Ended
September 30, 2019

3Q19

Longleaf Partners Fund

(800) 445-9469 / southeasternasset.com

Fund Profile

Investment Style	US mid-large cap value
Ticker	LLPF
Inception Date	April 8, 1987
Net Assets	\$1.8 billion
Expense Ratio (Gross / Net)	0.97% / 0.79%
Turnover (5 yr avg)	28%
Weighted Average Market Cap.	\$72.4 billion

Holdings (16)

	Activity*	Weight
CenturyLink		9.8 %
CK Hutchison		7.3
General Electric		7.2
Mattel		6.3
FedEx		6.1
CNH Industrial		5.6
Fairfax Financial	-	4.8
LafargeHolcim		4.8
CNX Resources		4.6
Affiliated Managers Group		4.6
Comcast	-	4.6
CK Asset Holdings		4.2
United Technologies		4.1
Park Hotels & Resorts	+	4.1
Alphabet	-	3.6
Wynn Resorts		3.1
Cash		15.2
Total		100.0 %

*Full eliminations include the following positions:
Allergan.

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 January 31, 2020

Long-Term / Concentrated / Engaged / Value

Founded in 1975, Southeastern Asset Management is an independent, global investment firm managing \$12.3 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	30.3 %
Communication Services	18.0
Consumer Discretionary	9.4
Financials	9.4
Real Estate	8.3
Materials	4.8
Energy	4.6
Cash	15.2

Performance Contribution

Top Contributors	Return	Portfolio Contribution	Top Detractors	Return	Portfolio Contribution
CenturyLink	8%	0.73%	General Electric	-15%	-1.24%
Alphabet	13	0.44	FedEx	-11	-0.69
Comcast	7	0.40	CK Hutchison	-9	-0.65

Performance at 9/30/19

	Total Return		Average Annual Return					
	Qtr	YTD	One Year	Five Year	Ten Year	15 Year	20 Year	Since Inception
Partners Fund	-3.11%	5.29%	-16.47%	-0.16%	6.61%	4.17%	5.68%	9.49%
S&P 500 Index	1.70%	20.55%	4.25%	10.84%	13.24%	9.01%	6.33%	9.84%

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.

October 8, 2019

Longleaf Partners Fund Commentary 3Q19

Longleaf / Partners
Funds

Longleaf Partners Fund declined -3.11% in the third quarter, taking year-to-date (YTD) returns to 5.29%. The S&P 500 Index added 1.70% in the third quarter and gained 20.55% YTD. As the largest shareholder group in the Fund, we are disappointed in these results but confident in the future. We saw a continuation of the headwinds we have written about over the past several years in the third quarter – fears of a trade war and Hong Kong unrest, US dollar strength, concerns over US interest rates, the continued dominance of Growth stocks over Value stocks and US markets outperforming Non-US markets, alongside temporary, unrelated stock-specific issues. However, the values of the companies we own have generally remained steady or grown, even as prices have declined, resulting in an attractively discounted portfolio with a price-to-value (P/V) ratio in the high-50s%.

We continue to see overvaluation in large segments of the S&P 500 and believe that sticking to our long-term, fundamental value investment discipline will ultimately pay off. We saw a glimpse of how quickly market forces can revert in the 11-day period

Average Annual Total Returns for the Longleaf Partners Fund (9/30/19): Since Inception (4/8/87): 9.49%, Ten Year: 6.61%, Five Year: -0.16%, One Year: -16.47%. Average Annual Total Returns for the S&P 500 (9/30/19): Since Inception (4/8/87): 9.84%, Ten Year: 13.24%, Five Year: 10.84%, One Year: 4.25%.

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. 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.

from August 27 through September 11, which saw one of the most dramatic value vs. momentum reversals in the last 25 years, comparable only to 1999-2000 when the tech bubble burst. Our portfolio added 10.87% in the period vs. the S&P 500's 5.01% and the S&P 500 Value's 7.18%. As long-term investors, we do not hang our hats on two weeks' performance, just as we do not believe the last year plus has been representative of what our strategy can deliver for clients over the long term. However, we believe the portfolio is well positioned for outperformance based on shifting market dynamics, individual company fundamentals, and management teams that can take advantage of opportunities to create value.

Our absolute return focus dictates that we need to 1) own undervalued, high quality investments and 2) avoid expensive speculation. 126 months into a bull market, we believe the second part of the equation is both far more important than it has been and more widely overlooked. At the last relative peak for value investing in May 2007, 16% of the S&P 500's market cap came from stocks with price-to-earnings (PE) ratios over 20x - the same level seen in mid-to-late 2014, when the Partners Fund's performance began to meaningfully diverge from the S&P 500's. These were both evenly distributed valuation markets relative to history and other indexes. At the end of August 2019, the percentage of >20x PE stocks was all the way up to 49%. While that is not quite the once-in-a-lifetime 69% level seen briefly in early March 2000, we are confident that the S&P 500 is far more tilted than it has been in recent history to overvalued market favorites that have driven the last decade's returns.

We have limited or no exposure to the historically expensive low-volatility, "dividend aristocrat" stocks and/or growthier technology-related stocks. At this point in the cycle, we believe we have seen the majority of the pain for not holding these stocks and that we have the portfolio, the experienced team and the right approach in place to exploit what we expect will be "our kind of market" on a prospective basis.

Some might argue that low interest rates mean "this time is different". Another form of "this time is different" is the argument that the level of bond yields justifies the current low level of earnings yields. As contrarians, we take comfort that most market participants have given up on interest rates ever moving higher. Even if interest rates stay low, our counter to this argument is that a discounted cash flow (DCF) model has

both interest rates (r) and growth (g) in the denominator of the simple net present value (NPV) calculation: $DCF = \text{Free Cash Flow} / (r-g)$. The tradeoff between r and g within a DCF means that it is not as simple as a current snapshot of bond yields vs. earnings yields, any more than it makes sense to pay any low cap rate for a piece of real estate if you can secure a loan at an interest rate that low. The g looked a lot better in the past than it does today for the current market favorites. We have owned many low-volatility, dividend aristocrat stocks in the past, but today these companies are facing slower growth and more competition from retailer concentration/competition, the internet making it easier to start new brands direct to consumer and a much worse outlook for global expansion than existed 10-20 years ago. For the healthcare stocks that seem like steady dividend payers, we see trouble on the horizon ahead of an election year as the challenged US healthcare system spends significantly more yet does not make the US significantly healthier than other countries with similar gross domestic product (GDP) per capita levels. For the historically faster growers, we agree that favorites like Visa, Mastercard, Amazon, Microsoft, etc. are good — even great — businesses. However, we would argue that it is mathematically and regulatorily much harder to double or triple a mega-cap over the next five years, when it just spent the last five years tripling (Visa, Mastercard, Microsoft) or quintupling (Amazon). We compare these extreme market valuations to our portfolio, which trades at an adjusted price to free cash flow power of less than 9x.

Even more importantly, we believe that our portfolio is comprised of high-quality businesses with management teams that are taking action to close the gap between price and value and can deliver strong results. In last quarter's letter, we discussed the potential catalysts that we expect to drive positive results across many of our holdings over the next few quarters. We saw initial positive progress at CNH Industrial, which announced plans to improve profits dramatically and split into two businesses: a pure-play Ag/Construction company and a commercial vehicle/powertrain company. Additionally, CNX reported a strong quarter that led to a 25% increase on the day and strong growth in our appraisal. Please check out our recent podcast with CNX Chairman Will Thorndike if you would like to hear more on the company's transformation during our ownership at <https://southeasternasset.com/podcasts/will-thorndike-on-cnx-outsiders-and-private-equity/>. CenturyLink was the top portfolio performer in the quarter based on steady FCF/share guidance, but we expect

significant additional upside potential from multiple strategic levers that management can pull. We have a 13D filed and have made progress behind the scenes in discussions on strategic options for the business. The other businesses we outlined last quarter remain some of the most fertile ground for our corporate leaders to generate rewarding performance payoffs. While we have been too early in our most discounted businesses, they remain among our highest conviction holdings today. We expect to see continued progress over the next several months.

Contributors/Detractors

(Q3 Investment return; Q3 Fund contribution)

CenturyLink (9%, 0.73%), the fiber and telecom company, was a strong contributor after reporting a relatively flat quarter in line with expectations and maintaining free cash flow guidance. We expect the sales force now being fully integrated after the Level 3 acquisition and faster pace of new installations to drive accelerated growth in the key Enterprise business in the coming quarters. CEO Jeff Storey and CFO Neel Dev continue to make progress in improving the cost structure, with a further \$200-300 million per year of additional cost savings identified and a focus on increasing cash flow. CenturyLink's management has intentionally run off non-core, unprofitable businesses, like low-speed consumer internet and voice, while intelligently investing to expand the network's Enterprise fiber coverage and growing high-margin revenues over the long term. As CenturyLink's Enterprise growth inflects to outweigh the legacy declines later this year and next, we expect both the company's top line and consolidated EBITDA per share to grow. The company trades at a roughly 65% discount to our appraisal today and a multiple of 4-4.5x free-cash flow. We are engaged with management to explore additional options to close the price-value gap, as there continues to be a healthy amount of M&A in the industry at multiples above where we appraise CenturyLink's parts.

Alphabet (13%, 0.44%), the diversified internet company with strong positions worldwide in search (Google), video (YouTube), mobile (Android), and more, contributed positively after reporting accelerating revenue growth in the US (20% year-over-year) and even better results internationally. The pace of margin decline seen in prior quarters improved. Google Cloud has roughly doubled revenues over the last 18

months to become a solid number three in the industry. The company bought back \$3.7 billion worth of stock, a significant year-over-year uptick and a welcome sign that the company saw value in the stock at discounted prices in the second quarter. We trimmed our position towards the end of the quarter, as price appreciated.

Comcast (7%, 0.40%), the leading US cable company, was another top contributor. The company reported 9-10% revenue growth from its cable internet and business segments. A decline in video subscribers was largely immaterial to Comcast cable's cash flow, and the segment's margins again improved. NBC Universal's (NBCU) network and broadcast revenues increased moderately, and NBCU announced its streaming service, Peacock, would take back NBC's best video content, including *The Office*, from Netflix. Sky, Comcast's recently acquired European subsidiary, also grew moderately, while developing more of the proprietary content that has maintained its relevance with subscribers.

General Electric (-15%, -1.24%), the aviation, healthcare and power company, was the largest detractor. In August, fraud investigator Harry Markopolos, working with a short seller, released a report alleging the company was concealing financial problems. The report focused mostly on the company's long-term care insurance reserving and the accounting of the Baker Hughes GE (BHGE) stake. GE management responded firmly, pointing out that the work in the report was flawed in that it incorrectly compared insurance policies across the industry, and the BHGE accounting had already been properly footnoted. Our appraisal was not impacted, as there was no new information. We already factored in additional contributions to bolster GE Capital reserves due to lower interest rates as the year has gone on, and our sum of the parts appraisal already incorporated the loss on the BHGE investment. CEO Larry Culp and numerous other executives and directors bought several million dollars' worth of shares as the stock dropped on the back of these headlines. Later in the quarter, the company raised another \$2.7 billion of cash by selling down the next portion of its Baker Hughes stake. Operationally, GE reported moderate revenue growth in aerospace, though the ongoing Boeing 737 problems will temporarily delay some of the segment's cash inflows over the coming months. GE Power revenues shrunk 5%, but much more importantly Culp cut the unit's cash burn as it approaches profitability. The share price has since rebounded 17% after the initial 15% decline in the aftermath of the report,

but it remains overly discounted today. We highlighted GE and Larry Culp last quarter as an example of a management team that had already taken steps to turn around the business, and we expect to see additional value-accretive transactions in the future, as Culp remains focused on opportunities to monetize assets at fair prices.

FedEx (-11%, -0.69%), the transportation and logistics company, fell after non-US Express revenues missed expectations with lowered revenues and earnings guidance. FedEx Ground grew, but the segment's margins contracted. Tariffs and trade uncertainties have thus far hurt Express more than any of the Fund's other portfolio companies, as increased integration costs at TNT have combined with a worse revenue outlook to produce current results well below the segment's long-term earnings power. None of these disappointments have changed the business's competitive position or five-year outlook, but we lowered our appraisal in the quarter to reflect the lower-than-expected year-to-date results. Amazon's increasing competition has received much media attention, but FedEx has (unlike UPS) already taken the pain of dropping direct revenue from Amazon. Plus, there are many companies that compete with Amazon and will therefore choose to partner with FedEx instead. Despite a poor outlook through 2020, FedEx stock is trading at a low-double-digit multiple of forward earnings and priced at a substantial discount to our appraisal, its free cash flow power and its historical valuation range.

Fairfax Financial (-10%, -0.55%), the insurance and investment conglomerate, declined despite solid underwriting results. The market focuses at times on Fairfax's emerging market exposure, which has been achieved very profitably and is a competitive advantage going forward, but has been viewed this year as a negative when countries like India struggle. In developed markets where Fairfax has more of its value, property and casualty and reinsurance markets have been turning around with better pricing after years of overcapitalization in the market. Fairfax remained disciplined and avoided growing its policies unprofitably throughout the soft pricing market, and the company is now intelligently increasing business across its subsidiaries, while maintaining a strong combined ratio. The Fairfax balance sheet safely holds low-duration debt and plenty of cash, allowing the company to be a liquidity provider when superior equity investment opportunities arise.

Portfolio Activity

We sold our position in Allergan after the company announced late last quarter that it had agreed to be acquired by AbbVie. We also trimmed Fairfax early in the quarter and trimmed Comcast and Alphabet as each appreciated in the quarter. We added to Park Hotels but did not purchase any new businesses. The pipeline of prospective investments has steadily improved throughout the year after the market rebound in Q1. We have met with and pre-qualified several interesting investment prospects across a range of industries that could come into the portfolio if we get a market pullback.

Outlook

The portfolio ended the quarter with a strongly discounted P/V in the high-50s% and 15.2% cash, which we can put to work quickly as new opportunities qualify. We expect to see continued progress in our individual holdings, as our management partners pursue catalysts that could drive significant near-term payoffs. We believe that our largest macro headwinds over the last five-to-ten years could soon become tailwinds. While we cannot predict the timing, we believe that trailing trends are longer in the tooth than they've ever been. We were encouraged by some broader market moves in our favor in September.

We are grateful for our long-term clients, who have remained with us through a challenging period. In recognition of your patience and to ensure an increasing expense ratio does not disadvantage our loyal partners, the Longleaf Trustees approved a temporary expense cap for the Fund. As of August 12, 2019, the expense cap lowers the total cost of the Fund (total expense ratio) to 0.79%. We remain committed to treating your investment as if it were our own and will continue to communicate with you as candidly as possible. We recently redesigned our website to enable better access to portfolio information and communication from your portfolio managers. We would encourage you to visit the new site at www.southeasternasset.com.

See following page for important disclosures.

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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.

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

Discounted cash flow (DCF) is a valuation method used to estimate the attractiveness of an investment opportunity. DCF analysis uses future free cash flow projections and discounts them to arrive at a present value estimate, which is used to evaluate the potential for investment.

Net present value (NPV) is the difference between the present value of cash inflows and the present value of cash outflows.

Dividend aristocrat stocks are a group of stocks in the S&P 500 that meet certain minimum size requirements and have 25 years of consecutive dividend increases.

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.

FCF Power is Southeastern's estimate of the amount of free cash flow per share that the company can produce on an annual basis once the business has achieved what we consider to be a normalized level of operations of its ongoing businesses.

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 September 30, 2019, the top ten holdings for the Longleaf Partners Fund: CenturyLink, 9.8%; CK Hutchison, 7.3%; GE, 7.2%; Mattel, 6.3%; FedEx, 6.1%; CNH Industrial, 5.6%; Fairfax Financial, 4.8%; LafargeHolcim, 4.8%; CNX Resources, 4.6%; Affiliated Managers Group, 4.6%. 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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