Longleaf Partners Fund

Quarterly Summary Report

For the Quarter Ended
December 31, 2019

Longleaf Partners Funds

Summary - December 31, 2019

4Q19 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	$1.8 billion
Expense Ratio (Gross / Net)	0.97% / 0.79%
Turnover (5 yr avg)	27%
Weighted Average Market Cap.	$80.2 billion

Holdings (16)

	Activity*	Weight
CenturyLink		10.3 %
General Electric	-	8.1
CK Hutchison		7.8
Mattel		7.5
FedEx		6.3
CNH Industrial		6.0
CNX Resources		4.9
Fairfax Financial		4.9
Affiliated Managers Group		4.6
Comcast		4.5
United Technologies		4.5
CK Asset Holdings		4.5
LafargeHolcim	-	4.4
Park Hotels & Resorts		4.2
Alphabet		3.9
Undisclosed	NEW	3.7
Cash		9.9
Total		100.0 %

*Full eliminations include the following positions: Wynn Resorts.

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 April 30, 2020

Longleaf Partners Funds

Long-Term / Concentrated / Engaged / Value

Founded in 1975, Southeastern Asset Management is an independent, global investment firm managing $12.7 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	32.7 %
Communication Services	18.7
Financials	9.5
Real Estate	8.7
Energy	8.6
Consumer Discretionary	7.5
Materials	4.4
Cash	9.9

Performance Contribution

Top Three	Return	Portfolio contribution	Bottom Three	Return	Portfolio contribution
General Electric	25%	1.81%	Comcast	0%	0.01%
Mattel	19	1.24	AMG	2	0.09
CNX Resources	22	1.06	Park Hotels	6	0.24

Performance at 12/31/19

	Total Return		Average Annual Return				
	Qtr	YTD	Five Year	Ten Year	15 Year	20 Year	Since Inception
Partners Fund	9.05%	14.81%	1.29%	7.03%	4.29%	6.17%	9.70%
S&P 500 Index	9.07%	31.49%	11.70%	13.56%	9.00%	6.06%	10.05%

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 orhigher 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 indicating 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.

January 13, 2020

Longleaf Partners Fund Commentary

4Q19

The Longleaf Partners Fund returned 9.05% in the fourth quarter, in line with the S&P 500 Index's 9.07%. The Fund returned 14.81% for the year, ahead of our absolute return goal of inflation+10% but far short of the Index's 31.49% return. The S&P 500 soared to new heights, as we faced a continuation of the headwinds we discussed in last quarter's letter and in multiple other forums over the last decade: the continued dominance of Growth stocks over Value stocks (which eased in the last four months of the year), US markets outperforming Non-US markets, US dollar strength, concerns over US interest rates, European geopolitical uncertainty, a US-China trade war and Hong Kong unrest, alongside temporary, unrelated stock-specific issues.

Almost every company in the portfolio was up in the quarter and the year, with approximately half producing double-digit returns in each period. Three companies – CNX Resources (CNX), CenturyLink and Affiliated Managers Group (AMG) – accounted for about half of the Fund's relative shortfall for the year. Three factors, which have

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Average Annual Total Returns for the Longleaf Partners Fund (12/31/19): Since Inception (4/8/87): 9.70%, Ten Year: 7.03%, Five Year: 1.29%, One Year: 14.81%. Average Annual Total Returns for the S&P 500 (12/31/19): Since Inception (4/8/87): 10.05%, Ten Year: 13.56%, Five Year: 11.70%, One Year: 31.49%.

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. 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.

been a relative headwind over the last five to ten years, more than accounted for the rest of the relative underperformance: an average 27% exposure to companies listed outside the US, no exposure to the Index's top-performing Information Technology sector and an average 10% cash position. These three factors are interrelated and are a function of sticking to our value investment discipline, but in the face of the market headwinds described above, they have meaningfully dampened our relative results.

2019 saw a continuation of two key market trends, which have characterized the US large cap market over the last decade. These trends have particularly played into the Fund's performance over the last six years. First is that the largest of the large capitalization companies in the US have been the top performers in the market. We noted the following in last quarter's letter:

> 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.

Taking that analysis a step further, the current top 20 companies in the S&P 500 by market cap (excluding Amazon's high PE both then and now) have a weighted average next twelve months (NTM) PE of just over 26x vs. just over 16x at the start of 2014 and just under 17x in May 2007 (there were some seriously overestimated earnings per share (EPS) numbers for big banks and big oil at that point in 2007). Today's multiples are on after-tax margins that are near peak levels. Two-thirds of our portfolio today is comprised of single or low double-digit multiples on margins that can grow meaningfully, even without the benefit of a growing economy. The rest of the portfolio is in better-appreciated stocks trading at mid to high teens multiples on mid-cycle margins, which can lead to solid returns as the market leaders did in 2014. It is, however, much harder to compound over the long run when your starting point is a sub-4% cap rate on high margins at companies that have already grown to hundreds of billions in market cap. We were too early in our belief that the market was overvalued and missed the huge move by many companies over the last five to ten years. Bigger has been better, and our relative results have suffered, particularly in 2019, as we had no exposure to Information Technology or big banks, which drove the strong Financials sector performance.

On the other end of the spectrum, we have noticed an increasing amount of “rule-out” behavior by active managers. Companies with an above market amount of trailing volatility or dividend uncertainty are ignored or actively bet against by the market. Many of our holdings don’t pass one or both of these “tests”, but that doesn’t necessarily mean they are “low quality” or make them bad investments prospectively. We define a high-quality business as one with a long-term growth tailwind in its industry, pricing power or gross profit royalties, network effect benefits, a lack of technological and/or regulatory risks and an ability to grow FCF higher than revenue with a high incremental return on capital (ROC). High-quality partners are honorable people, think long term instead of quarter to quarter, are preferably large owners of their stock relative to their net worth and are incentivized on ROC, FCF per share and/or total shareholder return (TSR). We find that the market tends to focus more on business rather than people quality, but our history has shown that good partners can achieve excess returns beyond what the business quality alone may suggest. This becomes even more evident in cases where we engage with management to bring our expertise and/or our network to bear to help drive superior outcomes. While a narrow band of traditional high-quality companies have ruled markets as of late, we have found compellingly discounted investment opportunities that have been temporarily passed over.

We go down the list of both what we own and what we don’t own each day, keeping an open mind on how to build the best portfolio possible. When we rule things out, it is after careful analysis of Business, People and Price. We have learned not to focus too much on cheapness at the expense of quality. That said, we also do not believe that “quality at any price” is a strategy that works over the long run. We love owning reasonably priced companies in more defensive, understandable industries at this point in the market cycle. We have historically owned multiple companies in this “defensive” bucket over the last 10 years: Yum! Brands, Campbell Soup, Colgate, Mondelez, Disney, Abbott Laboratories and McDonalds, among others. With hindsight, our mistake in each case was selling them too early. We are mildly comforted by the fact that this group of stocks saw its average stock return outperform its average EPS growth by over 70% since we sold, demonstrating that this has been multiple expansion, not an earnings-driven performance. In a year when our portfolio returned greater than inflation+10% but still lagged the index by half, it has been difficult to find any new investment that qualifies on Business and People and is trading at a reasonable Price. If history is a guide, we will own US companies like these again, and we will look back and be amazed that the stocks we own today were ever available at the levels that we have paid for them.

Far more important to us than what we *don't* own, or what we may have missed out on, is how the companies we *do* own are performing. As we noted above, only a handful of companies – CNX, CenturyLink and AMG – accounted for nearly half of the relative shortfall in the year. CNX Resources faced strong headwinds in 2019, as the entire natural gas industry declined. Since we filed a 13D in 2015, CNX outperformed its Southwest Appalachian peers on average by over 50%, but the macro storm has overshadowed the strong progress made in improving its asset mix quality and leadership, including a new CEO, new Chairman and two additional board members that we recommended to the company. CNX has been a leader within the industry in capital allocation: spinning out its legacy coal business, selling non-core assets at great prices, cutting costs and buying back over 7% shares outstanding in the past year. CNX has $5-10+ per share of quality midstream assets, which includes high growth cash flows from their general partner interest, in addition to over $1 per share of FCF power from its E&P operations with strong reinvestment opportunities, all vs. its $8 per share stock price. The board and management team have been battle-tested and now stand in a position of relative strength in this industry's nadir. CenturyLink has been a global leader in consolidating the fragmented fiber and telecom industry through value-accretive acquisitions and mergers over time. CenturyLink is a prime example of a "rule-out" stock, as its price has been severely punished due to uncertainty over its dividend, which became a self-fulfilling prophecy, as management ultimately cut it earlier in 2019. We filed a 13D to discuss strategic options with the company, and we recently suggested a new board member, Hal Jones, who we believe brings unique industry insight and capital allocation discipline. Today, over 75% of CenturyLink's value is in fiber, which is a growing, high margin infrastructure asset with high barriers to entry. We expect to see management and the board explore ways to monetize this value in the near term. AMG owns strong, global brands in various asset classes and generates significant FCF, but the market is focused most on active US public equity management headwinds. Going forward, the company is much more geared to global markets – both private and public – than just the big US index favorites, and also has important exposure to quant, private equity and wealth management. It trades at approximately 6x FCF and has room to improve capital allocation.

We have been heartened to see the top two detractors in 2018 – General Electric (GE) and Mattel - begin to rebound in 2019, even after rocky periods earlier in the year for each. Larry Culp at GE and Ynon Kreiz at Mattel are both taking the right steps to increase value per share and to improve the overall quality of each business. GE returned over 20% in the quarter and over 50% for the year, while Mattel added 19% in the quarter and more than 30% in the year. Both companies are in the very early days of their transformation, and each trade well below our conservative appraisals. As GE continues to slim down and generate cash, it will be harder to ignore the power of the Aviation and Healthcare businesses or the prowess of Larry Culp. As Mattel cuts costs and generates more revenue from its trove of intellectual property (IP), the market will come to recognize that this is a company driven by power brands and that Ynon Kreiz is the right person to lead it.

Contributors/Detractors

(2019 Investment return; 2019 Fund contribution; Q4 Investment return; Q4 Fund contribution)

General Electric (54%, 3.54%, 25%, 1.81%), the Aviation, Healthcare and Power business, was the top contributor in the quarter and for the year, after having been the Fund's largest detractor in the third quarter and for the full year in 2018. Last quarter, the stock was overly punished after fraud investigator Harry Markopolos, working together with an undisclosed short seller, released a report alleging the company was concealing financial problems. GE management quickly dispelled the report as being flawed and outdated, and CEO Larry Culp and several other directors took advantage of the depressed share price to buy several million dollars' worth of shares personally. Once it became clear that the report was inaccurate and brought no new information to light, the share price rebounded to finally begin to reflect the strength of the business and the progress made over the course of the year. GE announced the sale of its biopharmaceuticals unit to Danaher for $21.4 billion. GE's remaining Healthcare businesses (primarily imaging and ultrasound equipment and services) have increased revenues moderately and margins significantly this year. Aviation grew a strong 8% in the third quarter due to solid demand for its leading-edge aviation propulsion (LEAP) engines, though this rate will slow in the year ahead as a result of Boeing's 737 Max problems. After several years of challenged results under prior management, Larry Culp's turnaround of GE Power showed major signs of progress this year, as the unit approached breakeven profitability. The company also announced a $1 billion long-term care insurance reserve charge in early November, which was lower than feared and will not pose a threat to its ongoing deleveraging plan. The stock trades at a low multiple of the earnings achievable within the next several years. We believe the world class Aviation and Healthcare businesses alone are conservatively worth over $15 per share, and the rest of the businesses have a meaningfully positive net value and are getting stronger under Culp's leadership.

Mattel (36%, 2.32%, 19%, 1.24%), the classic toy company, was another top contributor in the quarter and the year, after the company resolved a non-material whistleblower complaint over historical accounting errors, which delayed a debt offering that the company subsequently completed in November. Like GE, the headline fears and uncertainty surrounding the complaint weighed heavily on the stock price in the short term but did not impact the long-term value of the company. Sales increased in the quarter, while management took further necessary steps towards decreasing operating costs and improving gross margins. Barbie, Hot Wheels, action figures and games all sold well during the last quarter, while American Girl and Fisher Price declined moderately. Earnings before interest, taxes, depreciation and amortization (EBITDA) appears on track to have exceeded expectations in 2019 at $400 million or better and is expected to approach or exceed $600 million in 2020, which would meaningfully reduce the company's leverage ratios, thereby addressing one of the key issues that has depressed the stock price for the last several years. We believe that CEO Ynon Kreiz has done a wonderful job with the turnaround after inheriting a difficult situation, while actively pursuing the substantial upside presented by streaming and film demand for Mattel's brands.

LafargeHolcim (39%, 1.91%, 12%, 0.50%), the world's largest cement producer, added to the Fund's strong returns for the quarter and the year. Lafarge benefitted as North American cement pricing grew modestly, while volumes surged 11% in the last quarter. Lafarge's European and Latin American operations also delivered excellent results. 2019 was also a good year for accretive asset sales, and as the year progressed, the market became more comfortable with the prospect of additional sales. Since assuming control two years ago, CEO Jan Jenisch has improved the company's operational and capital allocation discipline. He still has more levers to pull that are not dependent on global macro conditions. Our appraisal of Lafarge's value increased alongside the stock price throughout the year, and we trimmed our position as price appreciated in the first quarter and second half of the year.

United Technologies (UTX) (44%, 1.70%, 10%, 0.44%), the industrial conglomerate scheduled to separate into Otis (elevators), Carrier (climate and fire control) and Raytheon Technologies (aviation and defense) during the first half of 2020, was a strong contributor to the Fund's quarterly and annual results. Otis grew revenues 4% and profits 6% during its last reported quarter. The turnaround at this business is taking hold. Carrier organic sales declined, but its management took steps towards reducing overhead costs and selling assets. Meanwhile, each of UTX's three Aviation and Defense businesses - Pratt & Whitney, Collins Aerospace and Raytheon - delivered solid results. Our appraisal increased this year, but not as much as the stock's 44% annual performance. We believe the sum-of-the-parts value of the business could be recognized or exceeded within months as the spin offs are completed.

Wynn (46%, 1.52%, 30%, 0.46%), the global casino company, was a meaningful contributor this year. While the gap between price and value closed, our appraisal did not grow in the past year. Muted gaming revenues in Macau, sluggishness in Las Vegas and Boston still in ramp-up phase all held things back. However, CEO Matt Maddox and the company's new board of directors have done critical work turning around the company's culture this year and last, and our investment succeeded as a result of the low price we paid in 2018.

CenturyLink (-5%, -0.23%, 8%, 0.75%), the fiber telecom company, was a top contributor in the fourth quarter, but the stock was down slightly over the full year. During the third quarter, Enterprise revenues grew year-over-year and quarter-over-quarter. EBITDA margins increased 1% due to CEO Jeff Storey's and CFO Neel Dev's ongoing expense improvements. We are pleased that CenturyLink recently appointed Hal Jones to its board at Southeastern's recommendation. We know Jones from our successful investment in Graham Holdings (formerly The Washington Post Company), where he previously served as CFO. Because CenturyLink's stock trades at a large discount to a conservative appraisal of the value of its fiber, we think his expertise in capital allocation and experience with the Cable One business when he was at Graham Holdings should help make a meaningfully positive difference to shareholders going forward.

CNX Resources (-23%, -1.14%, 22%, 1.06%), the Appalachian natural gas E&P and midstream company, was among the top five contributors in the fourth quarter but was the largest detractor from the Fund's annual performance. With gas prices declining over 25% and the industry's capital market access disappearing, 2019 was one of the worst relative and absolute years in the history of the US natural gas industry. Despite the painful losses this year, CNX has outperformed its peers since separating from its coal business two years ago. More importantly, CNX has a manageable balance sheet at a time when numerous gas competitors are struggling with larger on- and off-balance sheet liabilities. CNX's growing FCF coupon will allow the company to retire a majority of its debt in 2022 if necessary, and the company's borrowing base increased this quarter. CNX's 2020 production is over 80% hedged at prices above the current futures strip, which should help the company weather any additional market challenges in the near term. Management remains focused on operational improvements, and CNX recently announced a reduction in next year's capital expenditures and operating expenses to increase cash-flow projections. The company has retired over 7% of shares outstanding this year, a level that is unmatched by its natural gas peers. We believe we have some of the best partners in the industry with CEO Nick Deluliis and Chairman Will Thorndike.

Affiliated Managers Group (AMG) (-12%, -0.58%, 2%, 0.09%), the asset management holding company, detracted from the Fund's 2019 performance. Consolidated assets under management (AUM) decreased, as net outflows outweighed positive performance for the year. The stock is priced at less than 6x next year's after tax FCF, a remarkable discount for an asset-light fee business that has traditionally traded at or above mid-teens multiples. AMG owns a diverse mix of managers – many of which have growing or steady AUM – with differentiated return drivers, including concentrated value managers (Yacktman), quantitative strategies (AQR and Winton), international stock pickers (Tweedy Browne and Harding Loevner) and several others, like ValueAct, that are not directly correlated with US big cap equities or fixed income. The company has repurchased over 6% of its shares this year, and with strong FCF has the potential to do much more to take advantage of the depressed share price. We expect the asset outflows to moderate and FCF per share to grow.

Portfolio Activity

We initiated a new, undisclosed holding in the fourth quarter. We have followed it for over 10 years, as it has undergone a transformation that has both grown its value per share and improved its quality. Currently though, it is in the "rule-out" box discussed above, even though it has best-in-class assets and management. The company is also far more defensive than it is perceived. We sold our position in Wynn Resorts as its price increased. Its value did not grow as we expected after we re-initiated a position last year.

Outlook

The portfolio ended the quarter with a discounted price-to-value ratio (P/V) in the low-60s% and 10% cash. As the market appreciated, our on-deck list shrunk. However, we were able to make one new addition in the quarter. We began this commentary citing many of the same headwinds you have read from us for a while. The continuation of these headwinds does not mean that these trends will go on forever. Actually, it means that the opposite is more likely; and, we believe that when Mr. Market begins to "weigh" our values more efficiently, our stocks' appreciation will be dramatic. We saw signs beginning in September that things could be starting to come our way. It's hard to call a relative bottom, and it's understandably harder to remain patient after an extended period of relative underperformance. We continue to work to get better each day, while sticking to our core discipline at a time of elevated markets. We were heartened by the strong absolute returns in the fourth quarter and the solid relative results, given our cash holdings and lack of exposure to the largest market favorites. We thank you for your long-term support and patience, which we believe will soon be rewarded.

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.

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

Return on capital (ROC) is a calculation used to assess a company's efficiency at allocating the capital under its control to profitable investments.

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 December 31, 2019, the top ten holdings for the Longleaf Partners Fund: CenturyLink, 10.3%; GE, 8.1%; CK Hutchison, 7.8%; Mattel, 7.5%; FedEx, 6.3%; CNH Industrial, 6.0%; CNX Resources, 4.9%; Fairfax Financial, 4.9%; Affiliated Managers Group, 4.6%; Comcast, 4.5%. 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.