# Longleaf Partners Funds

# *Quarterly Summary Report*

For the Quarter Ended
December 31, 2021

Longleaf Partners Funds

LLP001267 expires June 30, 2022

# Longleaf Partners Fund

Longleaf Partners Funds

Summary – December 31, 2021

# 4Q21
# 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) | 1.03% |
| Expense Ratio (Net) | 0.79% |
| Turnover (5 yr avg) | 29% |
| Weighted Average Market Cap | $25.8 billion |

## Holdings (19)

| | Activity* | Weight |
|---|---|---|
| Lumen | | 10.9% |
| FedEx | + | 6.6 |
| Mattel | - | 6.4 |
| MGM Resorts | | 5.7 |
| Affiliated Managers Group | - | 5.7 |
| General Electric | + | 5.3 |
| Discovery | + | 4.8 |
| Hyatt | - | 4.8 |
| Douglas Emmett | - | 4.7 |
| IAC | + | 4.7 |
| CNX Resources | - | 4.6 |
| Biogen | NEW | 4.5 |
| CNH Industrial | - | 4.2 |
| Liberty Broadband | NEW | 4.1 |
| CK Hutchison | | 4.1 |
| Williams | - | 3.6 |
| Fairfax Financial | - | 3.5 |
| Holcim | - | 2.6 |
| Fiserv | NEW | 1.6 |
| Cash | | 7.6 |
| Total | | 100.0% |

*Full eliminations include the following positions: Comcast

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 October 31, 2022 and may not be terminated before that date without Board approval.

LLP001255 expires April 30, 2022

Longleaf Partners Funds

## Long-Term / Concentrated / Engaged / Value

Founded in 1975, Southeastern Asset Management is an independent, global investment firm managing $10.9 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

| | |
|---|---|
| Communication Services | 24.5% |
| Industrials | 20.2 |
| Consumer Discretionary | 16.9 |
| Financials | 9.2 |
| Energy | 8.2 |
| Real Estate | 4.7 |
| Health Care | 4.5 |
| Materials | 2.6 |
| Information Technology | 1.6 |
| Consumer Staples | -- |
| Utilities | -- |
| Cash | 7.6 |

## Performance Contribution

| Top Three | Portfolio Contribution | Return |
|---|---|---|
| Hyatt | 1.21% | 24% |
| Fairfax Financial | 1.05 | 23 |
| FedEx | 0.97 | 18 |

| Bottom Three | Portfolio Contribution | Return |
|---|---|---|
| General Electric | -0.47% | -8% |
| Discovery | -0.33 | -5 |
| Comcast | -0.22 | -6 |

## Performance at 12/31/2021

| | Total Return (%) | | Average Annual Return (%) | | | | |
|---|---|---|---|---|---|---|---|
| | 4Q | One Year | Five Year | Ten Year | 15 Year | 20 Year | Since Inception |
| Partners Fund | 6.18 | 23.58 | 8.24 | 8.93 | 4.85 | 6.30 | 10.10 |
| S&P 500 | 11.03 | 28.71 | 18.47 | 16.55 | 10.66 | 9.52 | 10.78 |

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 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 2021

# Longleaf Partners Fund Commentary

# 4Q21

Longleaf Partners Fund added 6.18% in the fourth quarter, taking returns for the full year to 23.58%, well ahead of our absolute return goal. However, the S&P 500 rallied 11.03% in the fourth quarter, taking the index's full year returns to 28.71%. All but a handful of companies delivered positive absolute returns in the year, with the majority producing double-digit results. The Fund's cash position, which averaged over 15% over the course of the year but ended the period at less than 8%, drove over 85% of the relative shortfall for the year, while the lack of exposure to Information Technology more than accounted for the remaining underperformance. The disconnect between what drove the market and what we find to be compelling, high-quality businesses widened in the second half, allowing us to get the Fund more fully invested with three new positions initiated in the fourth quarter (five over the course of the year).

In a year that saw various times when the stock market acted like the pre-COVID, during-COVID and post-COVID "environments" (not necessarily in that order), the good news was that four of our five largest holdings – which we feel can thrive in all three of these environments – Lumen, AMG, Mattel and MGM, were among our top contributors for the year. We believe that all four remain underappreciated by the

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***Average Annual Total Returns for the Longleaf Partners Fund (12/31/2021): One Year: 23.58%, Five Year: 8.24%, Ten Year: 8.93%, and Since Inception (4/8/87): 10.10%. Average Annual Total Returns for the S&P 500 (12/31/2021): One Year: 28.71%, Five Year: 18.47%, Ten Year: 16.55%, and Since Inception (4/8/87): 10.78%. Average Annual Total Returns for the Russell 1000 Value (12/31/2021): One Year: 25.16%, Five Year: 11.17%, Ten Year: 12.96%, and Since Inception (4/8/87): 10.10%.***

*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 1.03%. The Partners Fund's expense ratio is subject to a fee waiver to the extent the Fund's normal operating expenses (excluding interest, taxes, brokerage commissions and extraordinary expenses) exceed 0.79% of average net assets per year.*

market and offer significant upside from today's discounted prices, as discussed in more detail below.

While our largest holdings received at least a little market appreciation, our detractors were unreasonably punished based on headline-level misunderstandings. Discovery Communications is grouped with dying legacy media stocks, and many market participants are sitting this one out until the plan for the merged Warner Bros. Discovery is obvious. We believe Discovery is obvious. We view this as an opportunity and would also note that Discovery's sharp stock price rally to begin 2022 indicates that at least some of the late year selling pressure might have been tax loss-selling or just plain capitulation. CK Hutchison's Hong Kong listing has resulted in the stock price being hammered (and means it is not in the S&P 500 index). However, this business is a globally diversified blue chip, managed by big owner operators that continue to make moves to simplify its business and get the value of its assets recognized, particularly in its telecom business. The company closed more tranches of its €10 billion towers deal announced last year and rationalized assets in Indonesia, with its merger with Ooredoo completing in early January 2022. We believe the company is now much closer to repurchasing a meaningful amount of shares. We swapped out of Comcast into Liberty Broadband in the quarter, as Comcast neared its appraisal, while misguided short-term fears about slowing broadband subscriber additions miss Liberty Broadband's latent pricing power and its best-in-class capital allocation, thanks to Liberty Media's effective control. Finally, while we still believe Holcim is undervalued and that management is attempting to navigate the company to a higher quality mix of assets, we trimmed some shares in the quarter to make way for more attractive mixes of Business, People and Price. We continue to monitor this position closely.

When we step back and look at the stocks that we do not own, we feel better than ever because finally too much ardor for these market favorites is making many of them fall harder. This began happening this year in the small cap world, as first the SPAC market cooled off, then the IPO (initial public offering) market began cooling as well. We have now seen things changing for larger cap favorites like Docusign falling over 40% in a day after a quarter that wasn't all that bad, because it must be truly GREAT when you are trading near 20x revenues. This has led to a narrowing of market leadership yet again, with five large tech stocks essentially drove the S&P 500. While in the first four months of 2021, the equal-weighted S&P 500 outperformed the market-cap weighted index (indicating that a large number of stocks were rising), this quickly reverted in the latter half of the year, as the market-cap weighted S&P 500 outperformed its equal-weighted counterpart by 4% in the last eight months. While we hate sounding like a broken record and would love to own these market leaders at the right price, we must remind you of the rarity of living through a 5-10 year period in which the biggest got bigger/stronger and their growth rates didn't decelerate as both history and most prudent discounted cash flow models (DCFs) would suggest they should. That doesn't mean that they keep accelerating or stay at this growth rate forever (as their valuations need). More likely, it's a longer way down when they fall. An "S Curve" does eventually flatten out and ultimately go down. Although we cannot say when it will happen, odds are very high that these companies will: 1) hit the law of large numbers; 2) see increasing regulation; and/or 3) compete against themselves, well-funded startups (some of which we now own at IAC) and/or "traditional" companies that can get together and/or focus to deliver a superior product (for example, the powerful union of Discovery and Warner Brothers). We may be witnessing the beginning of this turn. As of January 6, 2022, approximately 40% of Nasdaq Composite Index companies have seen their market values cut in half or more from 52-week highs.

Bringing it all together at the micro level, the gap between "obvious quality" and "everything else" grew once again this year. As we have written before, quality is of paramount importance to us, but it must be "hidden quality," which the market is not yet paying for. We too are tired of the phrase "value vs. growth," but we cannot help including the below chart that highlights the historically huge difference between these two categories:

## S&P 500 Growth P/E minus S&P 500 Value P/E

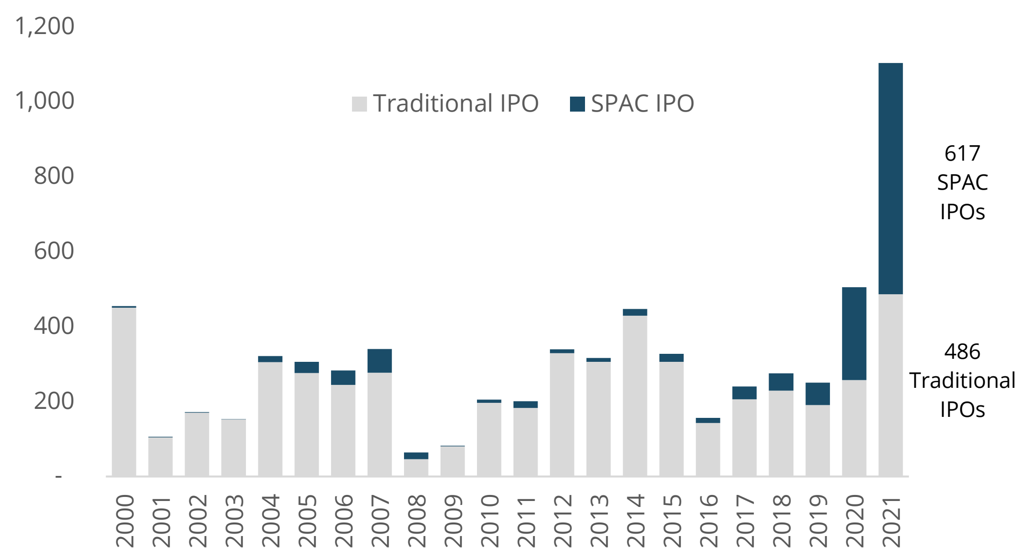
Price to Earnings Next Twelve Months (1/1/2003 - 12/31/2021)

Some of us are old enough to remember when the stock market as a whole had a price-to-earnings ratio (P/E) of 12x or less for extended periods of time!

All of us are old enough to remember the fears in the years leading up to COVID that everything was either going to stay private or go private. We believe that private equity and venture capital have a place in capitalism, but we have now seen how cyclical fears like this can be, as many more companies came public this year, expanding our universe in positive ways.

## Yearly IPO Deal Count by Traditional IPOs and SPAC IPOs

Priced deals on US exchanges from 2000 until 2021




Source: Bloomberg

We also have seen plenty of IPO/SPAC craziness showing both that private players need public markets more than they admit and that there is more volatility embedded in these newer companies than a private quarterly mark might admit. As for how efficient both the private and public markets are, we would encourage you to really delve into some of those multi-hundred-page S1s for many of the newest public companies to see the huge gap between the last valuation at which the company was funded and/or granted shares to its executives and the often much higher price at which the company went public – Coinbase and Rivian are two prime examples.

Finally, we must talk about inflation/nominal/real interest rates. We are not here to predict or say that we need raging inflation. We were wrong to miss the COVID-driven-buying-of-goods-boom in the last year or so that we believe is much closer to its end than its beginning. A lot of these Goods companies we don't own make up some of the lower next 12-month/last 12-month P/Es in the market (aka "traditional value stocks" that are often large weightings in a value index/ETF), but we are focused on longer-term earnings power and don't need to play when this key metric is too hard to predict and/or potentially declining. Where we have felt more correct is focusing in on wage inflation not going away. The demographics and global trade patterns of the next 30+ years still look quite different than the last 30, so we expect inflation to be with us longer than some think. We have yet to talk with a company that expects wage growth to dramatically flatten out in 2022, and many are expecting continued mid-single-digit growth in the near term. We also believe that a positive real rate looks much more likely over the next 10 than the last 10 years as governments around the world step back from or at least no longer accelerate bond buying.

We see three potential broad nominal rate scenarios in 2022. In the first scenario, we are wrong, and rates go lower. In this environment, we expect to still deliver absolute returns (as we did this year) but might keep losing the relative game for a bit. In a second – we think most likely – scenario, rates go higher. In this environment, we believe we could win in multiple ways as market favorites at 25x+ P/Es have a long way to fall vs. our portfolio already at a roughly 10x multiple of growing free cash flow (FCF) power. We don't need to see a dramatic jump in rates for this scenario to play out – even a small increase should be beneficial to our approach from both an absolute and relative perspective. In the final scenario, rates remain the same, and the second derivative of the curve (i.e. what the stock market typically reacts to and what investors care most about; whether things are accelerating, decelerating or flattening out) doesn't get worse. In this environment, we would also expect to win both absolute and relative, but maybe not as much as in scenario two.

## Contributors and Detractors

(2021 Investment return, 2021 Fund contribution; Q4 Investment return; Q4 Fund contribution)

Affiliated Managers Group (AMG) (61%, 3.53%; 9%, 0.68%), the diversified asset-management holding company, was the top contributor after three consecutive quarters of >20% earnings per share (EPS) growth. Despite the strong, consistent FCF and long-term revenue growth, the primary reason that the stock has traded for low multiples was the company's consolidated net outflows in the last few years. While most AMG strategies have grown their AUM with good performance and positive inflows, several large quantitative strategies with lower fees than the rest of AMG had been shrinking quickly. However, this year's third quarter marked AMG's first consolidated positive net inflows since 2018 due to strong demand for its Alternatives and Multi-Asset funds. Another reason that AMG sells for such a low multiple is that many supposed peers sell for similar multiples, but in reality most of these "peers" are tethered far more to the S&P than the majority of AMG's public equity managers, and AMG has far more alternative asset managers than is widely recognized. AMG also closed the acquisition of a majority stake in Parnassus, a successful ESG manager and great addition to its portfolio. Our appraisal of AMG's value is up over 40% this year, and the stock appreciated even more. Yet shares still trade for less than 65% of our appraisal value and 9.5x forward FCF.

Lumen (39%, 3.45%; 3%, 0.33%), the global fiber company, was a top contributor for the year. CEO Jeff Storey took two actions this year to substantially increase the business's value and address the stock's enormous discount (it trades below 35% of our appraisal value). First, during the third quarter, Lumen sold its Latin American fiber for a good price (9x EBITDA) and the weaker half of its US consumer business for an encouraging 5.5x EBITDA. Both multiples came in above our appraisals and demonstrate how cheap the consolidated Lumen RemainCo is today at less than 6x P/FCF and EV/EBITDA. The majority of Lumen's remaining EBITDA comes from its US Enterprise and SMB segments, which grow faster than Lumen's disposed LatAm fiber and are worth higher multiples. The weakest segment of the new Lumen, the western half of Consumer, is superior to the assets the company just sold for 5.5x EBITDA. Second, Storey quickly repurchased 7% of Lumen's shares, adding meaningfully to value per share and free cash flow per share. When the dispositions close, proceeds will reduce debt meaningfully, putting net debt right at the company's leverage ratio target even though that target was based on the prior, inferior business mix. We are pleased that our engagement since filing an amended 13D helped the company begin to deliver positive corporate actions. The market has fixated on the potential for another dividend cut, but Lumen's FCF is more than sufficient to cover the $1/share payout while investing aggressively into high-return, edge-out capex to grow revenues.

MGM Resorts (43%, 2.54%; 4%, 0.29%), the casino and online gaming company, was another strong performer. The company's third quarter Las Vegas revenues grew massively over 2020, approaching within 8% of 2019 levels despite some lingering COVID restrictions. MGM has gained nearly 10 percentage points of Vegas Strip market share since 2019, an extraordinary achievement for CEO Bill Hornbuckle, who has also done a terrific job controlling corporate costs. Though its current Las Vegas margins are unsustainably high at 39%, MGM's Vegas EBITDA should grow steadily from this year's $1.6 billion as national reopening boosts travel in the next year(s). MGM's regional casinos are now exceeding their 2019 EBITDA levels as well, while MGM's digital iGaming revenues grew 17% sequentially for an excellent 32% market share. MGM repurchased shares at a 13% annualized pace during the last quarter at a $40 average price, while our growing value is now approaching $60. MGM acquired the Cosmopolitan, a "tuck-in" casino with achievable synergies, at a reasonable price and recently announced the sale of the Mirage for a headline price over $1billion, well above our appraisal for the asset. We are delighted with the progress of this management team and business over the last two years.

CNH Industrial (55%, 2.51%; 16%, 0.65%), a leading farm equipment and commercial vehicle manufacturer globally, was another top performer for the year. CNH reported strong results throughout the year, beating our initial conservative expectations. The US agricultural cycle has been firmly in the company's favor, driven by commodity price strength, healthy farm balance sheets, advanced technology adoption, and aging fleets feeding replacement demand. We believe we are past the mid-cycle but expect the strong upcycle to continue with the solid orderbooks and strong visibility. On December 31, 2021, CNHI completed the demerger of its on-highway business, which includes its IVECO commercial vehicles and FPT powertrain businesses. This transaction creates a pure play off-highway company comprised of the higher-multiple agricultural, construction and specialty vehicle businesses. We expect a narrowing of the discount to the net asset value once we have two focused companies valued at peer multiples.

Biogen (83%, 2.43%; 5%, 0.10%), a biotechnology company specializing in therapies for the treatment of neurological diseases, was a strong contributor before we exited the position in the first half. We began acquiring shares in January 2021, paying between 9-11x FCF and a discount to our appraisal, even if the company's promising drug pipeline turned out to be worth 0. After Biogen's Alzheimer drug Aduhelm was approved in June, we quickly sold out after the stock's price appreciated over 70% and briefly exceeded our appraisal of the value. We re-initiated a position in Biogen in December at a price below our original cost basis from January. The stock became very cheap once again after Aduhelm's early sales disappointed due to its high initial cost before management correctly cut the price. We think Biogen's core Multiple sclerosis (MS) and Biosimilars businesses are strong enough to create sustainable double-digit EPS growth, even if Aduhelm and the entire Alzheimer's program is worth zero. We also expect a board led by large shareholders to continue the company's accretive repurchase, while considering other beneficial corporate actions.

Fairfax Financial Holdings (48%, 2.15%; 23%, 1.05%), the Canadian insurance and investments conglomerate, was a top contributor in the fourth quarter and for the full year. Written premiums are growing well, and CEO Prem Watsa is intelligently delevering the balance sheet with the FCF. Fairfax's combined ratio came in slightly unprofitably last quarter at 101% due to Hurricane Ida and European flooding, but the underwriting is otherwise improving towards a normalized low-90s combined. Though Fairfax's investment portfolio did not outperform this year, Watsa made the good decision to end the company's costly hedging program. After appreciating significantly this year, Fairfax's 45% stake in digital insurance unicorn Digit is now worth 10% of the company's market capitalization. The stock should not continue to trade below book value with profitable underwriting, less debt, and a growing investment portfolio. Watsa led a major repurchase effort this year to take advantage of the lingering price to value (P/V) discount.

Hyatt (29%, 1.76%; 24%, 1.21%), the global hotel franchisor and owner, was the top contributor in the fourth quarter and among the largest contributors for the year. The company is once again cash profitable, even though its Group/Business bookings are less than half of 2019 levels. Revenues from leisure travelers, however, are up more than 20%, with pricing as high as 40% year-over-year for Hyatt's most popular destination resorts. CEO Mark Hoplamazian made two great sales above our appraisal values this year, helping to grow our appraisal of the consolidated company value by 27%. We expect more proceeds to come in next year and earnings growth to accelerate back towards normalized levels with COVID reopening.

CNX Resources (27%, 1.58%; 9%, 0.45%), the Appalachian natural gas producer, was another top contributor. With higher strip gas prices, another strong year of FCF and a 13% annualized repurchase pace last quarter, our appraisal of the value increased over 20%. However, the company's conservative hedging program that has helped it withstand prior bear markets also held back earnings growth this year. The board, led by chairman Will Thorndike, recently authorized another $1 billion of repurchase, representing nearly one third of outstanding shares at today's price. Despite higher absolute FCF than Appalachian comps with inferior inventory positions, CNX trades at less than half of their enterprise values.

Discovery Communications (-10%, -0.82%; -5%, -0.33%), the media company, was the only notable detractor, despite strong results across the company's legacy television and streaming portfolio. The stock trades at under 7x forward FCF that we expect to be demonstrated after the Warner Brothers merger closes next year. In our view, that is far too cheap for a growing global #3 OTT streaming player with renowned assets like HBO and CNN. Our value has grown well since we began acquiring shares in Q3 of this year.

## Portfolio Activity

The portfolio activity section in our last several letters has highlighted our growing on-deck list, and we were able to act on those opportunities to put cash to work in the fourth quarter. We initiated three new holdings, which we are still building to various degrees. We already discussed the Liberty Media for Comcast swap above, where we now have a better company on Business, People and Price and more opportunities to close the P/V gap sooner rather than later. We also went back into Biogen after an amazing sentiment turnabout since our sale in June. We would argue that the company is now more discounted than ever, and there are multiple factors coming together in 2022 that can get us paid in multiple ways. Our other new holding, which is currently a smaller weight than the above two, is the financial services / software company Fiserv. We have followed its various parts for well over a decade and come to appreciate its moat more as time has gone on, while the market has recently focused on slowing growth and competitive threats that we believe can be overcome. After beginning the year at 15%, our cash position ended the year at just under 8%. Our on-deck list remains strong, and, thanks to solid value growth across the portfolio, most of the companies are trading in the low-70s% or lower of their appraisal, meaning the margin of safety and potential upside for the portfolio, which trades at a price-to-value (P/V) in the mid-60s%, is very high.

### Southeastern Updates

The last two years have taught us to be more flexible to adjust to rapidly changing environmental factors and to allow for better work/life balance for our employees, while maintaining productivity levels and a connection to our central culture. We believe our established research network continues to provide us a clear competitive advantage. We expanded our global research expertise and network with the addition of Will Allen, who joins in January 2022 as a Memphis-based Junior Analyst, and Julio Utrera, CFA, who joined this summer as a London-based Analyst. Will is a 2019 college graduate who brings experience at value investing firm International Value Advisors. Originally from Spain, Julio adds eight years' experience of investing with a value focus in public and private equities in Europe and developing markets, as well as ESG expertise. Julio holds his CFA Level 4 Certificate in ESG Investing and served on the ESG Committee in his last role at T. Rowe Price International Equities, and he has already been a valuable addition to Southeastern's ESG committee.

In last year's annual letter, we highlighted the importance of environmental, social and governance (ESG) factors – both in our research process and in how we run our business – and the steps we have taken to formalize our approach. In 2021, we published our first annual ESG Report, which we would encourage you to read to learn more about our approach. Over the last year, we have continued to make progress and set new goals in this rapidly developing area – we signed on as a supporter of the Task Force on Climate-Related Financial Disclosures (in addition to being a signatory to UNPRI and CA100+); the research team undertook external ESG training; we expanded our portfolio carbon footprint data monitoring and established a Southeastern-specific template for carbon footprint reporting; we committed to directly engaging with management teams on their carbon reporting and efforts to improve their environmental practices (with recent success from these efforts seen at General Electric, supported a shareholder resolution to report Scope 3 emissions and set near-term emissions reduction goals ahead of its 2030 net zero target, and CNX Resources, which was recently named one of three 2021 Energy ESG E&P Top Performers by Hart Energy, among others).

Another key area of focus has been fostering, cultivating and preserving a culture of diversity, equity and inclusion (DEI) at our firm, as well as engaging with our portfolio companies to better understand their approach to DEI and in some cases to push for increased diversity at a board and/or management level. As a small, lean firm with low employee turnover, we have looked for ways that we can partner with other organizations to help make a positive impact within our industry. In 2021, we partnered with the Notre Dame Institute for Global Investing via their Investment Management Access Program (IMAP – a program focused on improving diversity within the asset management industry) and Girls Who Invest (GWI – an organization that is helping transform the asset management industry by bringing more women into portfolio management and leadership).

In August 2021, we launched an exciting new initiative, Greenwood Pine Partners, a mission-driven, minority-owned investment management firm with initial funding from the Shelby County Retirement System in Tennessee. Greenwood Pine is 51% owned by Southeastern Senior Analyst and Principal Brandon Arrindell, who is African American and from Memphis. Brandon serves as both majority owner and portfolio manager for this US-focused, all-cap strategy employing Southeastern's long-term, concentrated, engaged approach. The goal of the structure and partnership with Shelby County is to produce strong risk-adjusted returns while also working to address the issue of minority underrepresentation in asset management. Where possible, Greenwood Pine seeks to partner with minority-owned, local service providers. Southeastern has pledged the proceeds derived from its 49% stake in the LLC to organizations that uplift and provide services to underserved communities.

Finally, we are always looking for ways to improve our communications with clients. Beginning next quarter, we will provide a Frequently Asked Questions-format podcast to allow you to hear directly from your portfolio managers. The audio format will have a transcript available and will be supported by a quarterly fund summary and a longer, more detailed annual letter at the end of the year. We will continue to highlight discussions with management teams and other ad hoc topics in the *Price to Value*

*Podcast with Southeastern Asset Management*, with our newest episode coming in January, in which Staley Cates interviews Realogy CEO and President Ryan Schneider.

**Outlook**

We spent much of this letter exploring the current environment and what it has meant / will mean for our portfolio. We have heard from many clients and prospects this year who (very understandably) want to know what will be the "right environment" for our portfolios to outperform. As conventional wisdom becomes more about trading in and out of ETFs instead of analyzing bottom-up value per share growth, we understand the pressure that investment committees face and the frustration of not knowing when our relative performance will turn. We would caution, however, that nailing the chained probability of both what the next environment will be and how we will do in it is very hard.

Our 46+ year performance history shows that there is never a predictable pattern, but the historical context makes us believe even more strongly in our odds from here. Southeastern was founded in 1975 amid a period of historically high inflation, with US interest rates rising to nearly 20%. From the official start of Southeastern's US large cap composite in January 1980, we outperformed the market in eight out of the nine following years. We expect that we would do well again with more rate volatility going forward. We did less well relatively in the 1990s and 2010s when interest rates declined, even if we did deliver solid absolute returns on the stocks that we picked in those timeframes. This seems like the least likely scenario out of the three described above, since rates are already so low. At the very least, we believe we would be more fully invested in a scenario like this, judging by our improved productivity, current portfolios and on-deck list. We did well in the 2000s pre-GFC with relatively flat interest rates (note that the US 10-year treasury stayed in a tight band around 5% during that almost 10-year period), which we could see happening again (but probably less likely than increasing rates), so that is also encouraging.

While looking to our history doesn't give us the answer of when the current environment will turn, it does allow us to learn from the past and improve over time. When we add up the three broad types of environments above, we see a healthy "2.5 out of 3" in which we win. We think 2021 had many positive signs that the future is bright, and we look forward to sharing it with you.

*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. S&P 500 Value Index constituents are drawn from the S&P 500 and are based on three factors: the ratios of book value, earnings, and sales to price. An index cannot be invested in directly.*

*P/V ("price to value") is a calculation that compares the prices of the stocks in a portfolio to Southeastern's appraisal of their intrinsic values. The ratio represents a single data point about a Fund and should not be construed as something more. P/V does not guarantee future results, and we caution investors not to give this calculation undue weight.*

*"Margin of Safety" is a reference to the difference between a stock's market price and Southeastern's calculated appraisal value. It is not a guarantee of investment performance or returns.*

*A special purpose acquisition company (SPAC) is a company with no commercial operations that is formed strictly to raise capital for the purpose of acquiring an existing company.*

*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.*

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

*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.*

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

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

*EV/EBITDA is a ratio comparing a company's enterprise value and its earnings before interest, taxes, depreciation and amortization*

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

*As of December 31, 2021, the top ten holdings for the Longleaf Partners Fund: Lumen, 10.9%; FedEx, 6.6%; Mattel, 6.4%; MGM Resorts, 5.7%; Affiliated Managers Group, 5.7%; General Electric, 5.3%; Discovery, 4.8%; Hyatt, 4.8%; Douglas Emmett, 4.7% and IAC, 4.7%. 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.*
*LLP001253*
*Expires 6/30/2022*

# Longleaf Partners Small-Cap Fund

Longleaf Partners Funds

Summary - December 31, 2021

# 4Q21

# Longleaf Partners Small-Cap Fund

(800) 445-9469 / southeasternasset.com

Longleaf Partners Funds

## Long-Term / Concentrated / Engaged / Value

Founded in 1975, Southeastern Asset Management is an independent, global investment firm managing $10.9 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.

## Fund Profile

| | |
|---|---|
| Investment Style | US small-cap value |
| Ticker | LLSCX |
| Inception Date | February 21, 1989 |
| Net Assets | $1.8 billion |
| Expense Ratio (Gross) | 0.96% |
| Expense Ratio (Net) | 0.95% |
| Turnover (5 yr avg) | 30% |
| Weighted Average Market Cap | $5.5 billion |

## Holdings (19)

| | Activity* | Weight |
|---|---|---|
| Lumen | | 13.1% |
| Mattel | | 7.4 |
| Realogy | - | 7.2 |
| CNX Resources | | 6.1 |
| Liberty Braves Group | | 5.4 |
| Graham Holdings | | 5.1 |
| Empire State Realty | | 5.0 |
| Madison Square Garden Sports | | 4.9 |
| GRUMA | + | 4.8 |
| Hyatt | - | 4.8 |
| RenaissanceRe | | 4.7 |
| Lazard | | 4.7 |
| Eastman Kodak | | 4.2 |
| LANXESS | | 3.9 |
| Undisclosed | NEW | 3.9 |
| Undisclosed | NEW | 3.1 |
| Undisclosed | NEW | 2.9 |
| Idorsia | | 2.8 |
| Ingles Markets | + | 0.7 |
| Cash | | 5.3 |
| Total | | 100.0% |

*Full eliminations include the following positions: No Complete Exits

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 September 1, 2021, Southeastern has contractually committed to limit operating expenses (excluding interest, taxes, brokerage commissions and extraordinary expenses) to 0.95% of average net assets per year. This agreement is in effect through at least April 30, 2023 and may not be terminated before that date without Board approval.

LLP001256 expires April 30, 2022

## Sector Composition

| | |
|---|---|
| Communication Services | 26.5% |
| Consumer Discretionary | 17.3 |
| Financials | 16.2 |
| Real Estate | 12.2 |
| Energy | 6.1 |
| Consumer Staples | 5.5 |
| Information Technology | 4.2 |
| Materials | 3.9 |
| Health Care | 2.8 |
| Industrials | -- |
| Utilities | -- |
| Cash | 5.3 |

## Performance Contribution

| Top Three | Portfolio Contribution | Return |
|---|---|---|
| Hyatt | 1.10% | 25% |
| RenaissanceRe | 0.99 | 22 |
| Mattel | 0.96 | 16 |

| Bottom Three | Portfolio Contribution | Return |
|---|---|---|
| Empire State Realty | -0.61% | -11% |
| Eastman Kodak | -0.54 | -12 |
| Idorsia | -0.45 | -15 |

## Performance at 12/31/2021

| | Total Return (%) | | Average Annual Return (%) | | | | |
|---|---|---|---|---|---|---|---|
| | 4Q | One Year | Five Year | Ten Year | 15 Year | 20 Year | Since Inception |
| Small-Cap Fund | 1.91 | 11.18 | 7.14 | 11.17 | 7.81 | 9.94 | 10.48 |
| Russell 2000 | 2.14 | 14.82 | 12.02 | 13.23 | 8.69 | 9.36 | 9.99 |

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. Smaller company stocks may be more volatile with less financial resources than those of larger companies.

The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3,000 Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index. An index cannot be invested in directly.

January 2021

# Longleaf Partners Small-Cap Fund Commentary

# 4Q21

Longleaf Partners Small-Cap Fund added 1.91% in the fourth quarter, roughly in line with the Russell 2000's 2.14% return. For the year, the Fund returned 11.18%, falling short of the Russell 2000, which returned 14.82%. All but a handful of companies delivered positive absolute returns in the year, with the majority producing double-digit results. The Fund's cash position, which averaged 18.6% over the course of the year but ended the period at only 5.3%, drove over 85% of the relative shortfall for the year. The Fund's double-digit absolute returns were driven by very different factors/exposures than the index – for example, the largest relative sector contribution for the Fund was in Health Care, the Index's worst performing sector, while our significant underweight to the top-performing Financials sector (and more specifically, banks) was among our worst relative detractors. The disconnect between what drove the market and what we find to be compelling, high-quality businesses widened in the second half, allowing us to get the Fund close to fully invested with three new positions initiated in the fourth quarter (eight over the course of the year).

***Average Annual Total Returns for the Longleaf Partners Small-Cap Fund (12/31/21): One Year: 11.18%, Five Year: 7.14%, Ten Year: 11.17%, and Since Inception (2/21/89): 10.48%. Average Annual Total Returns for the Russell 2000 (12/31/21): One Year: 14.82%, Five Year: 12.02%, Ten Year: 13.23%, and Since Inception (2/21/89): 9.99%. Average Annual Total Returns for the Russell 2000 Value (12/31/21): One Year: 28.27%, Five Year: 9.07%, Ten Year: 12.03%, and Since Inception (2/21/89): 10.66%.***

*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. As reported in the May 1, 2021 prospectus, the total expense ratio for the Small-Cap Fund is 0.96%. Effective September 1, 2021, Southeastern has contractually committed to limit operating expenses (excluding interest, taxes, brokerage commissions and extraordinary expenses) to 0.95% of average net assets per year. This agreement is in effect through at least April 30, 2023 and may not be terminated before that date without Board approval.*

In a year that saw various times when the stock market acted like the pre-COVID, during-COVID and post-COVID “environments” (not necessarily in that order), the good news was that our four largest holdings – which we feel can thrive in all three of these environments – Lumen, Realogy, Mattel and CNX Resources, were our top contributors for the year. We believe that all four remain underappreciated by the market and offer significant upside from today’s discounted prices, as discussed in more detail below.

While our largest holdings received at least a little market appreciation, our detractors were unreasonably punished based on headline-level misunderstandings. At MSG Sports (MSGS), the Knicks and James Dolan stir strong emotions among finance people in New York, but the fact remains that the Dolan family has made multiple shareholder-friendly moves over the years (which we benefited from as holders of the original incarnation of MSG 10 years ago in the Small-Cap Fund), and we believe that more could be coming for MSGS in the near future. In the meantime, the teams’ ups and downs and the lack of any additional news will let the market paint a short-term focused picture. Our ultimate comfort and patience rest in owning the Knicks and the Rangers at a combined enterprise value of $4.8 billion for both. The NBA and NHL comparables, Forbes valuations, and Sportico valuations are all much higher than that for these two teams. We wrote extensively about Kodak volatility in 2020, but this year was welcomely quiet after a blizzard of emotion last year. Our value per share grew strongly in 2021, and we continue to feel that our convertible preferred security is at least worth par, even if the stock market has gone back to ignoring this company for the most part, while many who are aware of it chose only to read the negative headlines. The market is ignoring specialty chemical company Lanxess’s long history of smart asset sales and focusing on more TBD recent acquisitions and a fixable gap between free cash flow (FCF) and net income. Diversified pharmaceutical company Idorsia is off to a sluggish start since we initiated the position in the first quarter, as two trials this year had negative to inconclusive results. However, we expect the main stories will soon come into view more as the two most important drugs are likely to have important developments in 2022, discussed in more detail below.

We have received questions about the Small-Cap Fund’s double-digit underperformance versus the Russell 2000 Value (R2KV) index YTD. At first glance, there does not appear to be a simple, clear story to explain such a large shortfall. It is interesting that only five of our current holdings are even in the R2KV. We view this as a feature of our bottom-up, opportunistic approach to value, which drives our high active share and potential for strong, differentiated returns, not a bug. Cash was the largest individual culprit, accounting for approximately one-third of the relative difference. Digging a bit deeper, it appears that the market rewarded perceived clarity much more than usual this year, with memes and clear COVID plays benefiting vs. our portfolio where the opportunity often comes from the quality "story" being hidden and/or more complex. We trailed the value Info Tech subset, but our lone detractor Kodak (convertible) is not a typical IT company. Within Materials, Lanxess is a conglomerate, making it a more complex business with hidden value. Empire State Realty Trust (ESRT) is not a pure-play real estate company, as it has the Observatory, as well as office, retail and residential real estate assets. Within Consumer Discretionary, Graham Holdings is another conglomerate, and we did not own Gamestop, AMC or many of the market darling "Goods" businesses (discussed in more detail below). In Financials, we own asset manager Lazard and two newer companies, all three of which are harder to understand than the simpler banks that drove the sector. We are confident that this differentiated positioning that caused the relative drag this year will be the very driver of future absolute and relative outperformance.

When we step back and look at the stocks that we do not own, we feel better than ever because finally too much ardor for these market favorites is making many of them fall harder. This began happening this year in the small cap world, as first the SPAC market cooled off, then the IPO (initial public offering) market began cooling as well. We have now seen things changing for larger cap favorites, like Docusign falling over 40% in a day after a quarter that wasn't all that bad, because it must be truly GREAT when you are trading near 20x revenues. This has led to a narrowing of market leadership yet again, with five large tech stocks essentially driving the S&P 500. While we hate sounding like a broken record and would love to own these market leaders at the right price, we must remind you of the rarity of living through a 5–10-year period in which the biggest got bigger/stronger and their growth rates didn't decelerate as both history and most prudent discounted cash flow models (DCFs) would suggest they should. That doesn't mean that they keep accelerating or stay at this growth rate forever (as their valuations need). More likely, it's a longer way down when they fall. An "S Curve" does eventually flatten out and ultimately go down. Although we cannot say when it will happen, odds are very high that these companies will: 1) hit the law of large numbers; 2) see increasing regulation; and/or 3) compete against themselves, well-funded startups (some of which we now own); and/or "traditional" companies that can get together and/or focus to deliver a superior product (for example, companies like Realogy, Graham Holdings and Hyatt). We may be witnessing the beginning of this turn. As of January 6, 2022, approximately 40% of Nasdaq Composite Index companies have seen their market values cut in half or more from 52-week highs.

Bringing it all together at the micro level, the gap between "obvious" and "everything else" grew once again this year. As we have written before, quality is of paramount importance to us, but it must be "hidden quality," which the market is not yet paying for. We too are tired of the phrase "value vs. growth," but we cannot help including the below chart that highlights the historically huge difference between these two categories:

### S&P 500 Growth P/E minus S&P 500 Value P/E

Price to Earnings Next Twelve Months (1/1/2003 - 12/31/2021)

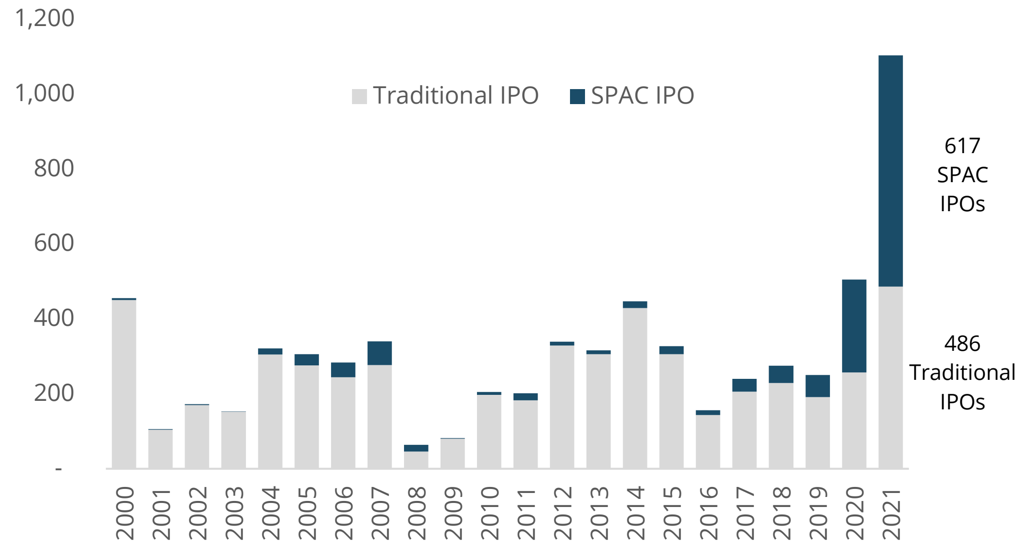

Source: FactSet

Some of us are old enough to remember when the stock market as a whole had a price-to-earnings ratio (P/E) of 12x or less for extended periods of time!

All of us are old enough to remember the fears in the years leading up to COVID that everything was either going to stay private or go private. We believe that private equity and venture capital have a place in capitalism, but we have now seen how cyclical fears like this can be, as many more companies came public this year, expanding our universe in positive ways.

## Yearly IPO Deal Count by Traditional IPOs and SPAC IPOs

Priced deals on US exchanges from 2000 until 2021




Source: Bloomberg

We also have seen plenty of IPO/SPAC craziness showing both that private players need public markets more than they admit and that there is more volatility embedded in these newer companies than a private quarterly mark might admit. As for how efficient both the private and public markets are, we would encourage you to really delve into some of those multi-hundred-page S1s for many of the newest public companies to see the huge gap between the last valuation at which the company was funded and/or granted shares to its executives and the often much higher price at which the company went public – Coinbase and Rivian are two prime examples.

We are certainly not opposed to private equity paying us fair value (or more!) for any of our holdings if the time is right. Buyouts have generally been good for us (more so in Small-Cap than our other funds, but as private equity capital raisings have grown, we expect that to expand to all our strategies going forward). We benefitted from eight buyouts in the Small-Cap Fund from 2014 to 2018 (one or two per year in the portfolio during that five-year period) before a drought in 2019, leading into a COVID overhang for more of the last two years. We expect more beneficial M&A action for our portfolio in 2022.

Finally, we must talk about inflation/nominal/real interest rates. We are not here to predict or say that we need raging inflation. We were wrong to miss the COVID-driven-buying-of-goods-boom in the last year or so that we believe is much closer to its end than its beginning. A lot of these Goods companies we don't own make up some of the lower next 12-month/last 12-month P/Es in the market (aka "traditional value stocks" that are often large weightings in a value index/ETF), but we are focused on longer-term earnings power and don't need to play when this key metric is too hard to predict and/or potentially declining. Where we have felt more correct is focusing in on wage inflation not going away. The demographics and global trade patterns of the next 30+ years still look quite different than the last 30, so we expect inflation to be with us longer than some think. We have yet to talk with a company that expects wage growth to dramatically flatten out in 2022, and many are expecting continued mid-single-digit growth in the near term. We also believe that a positive real rate looks much more likely over the next 10 than the last 10 years as governments around the world step back from or at least no longer accelerate bond buying.

We see three potential broad nominal rate scenarios in 2022. In the first scenario, we are wrong, and rates go lower. In this environment, we expect to still deliver absolute returns (as we did this year) but might keep losing the relative game for a bit. In a second – we think most likely – scenario, rates go higher. In this environment, we believe we could win in multiple ways as market favorites at 25x+ P/Es have a long way to fall vs. our portfolio already at a roughly 10x multiple of growing FCF power. We don't need to see a dramatic jump in rates for this scenario to play out – even a small increase should be beneficial to our approach from both an absolute and relative perspective. In the final scenario, rates remain the same, and the second derivative of the curve (i.e., what the stock market typically reacts to and what investors care most about: whether things are accelerating, decelerating or flattening out) doesn't get worse. In this environment, we would also expect to win both absolute and relative, but maybe not as much as in scenario two.

## Contributors and Detractors

(2021 Investment return, 2021 Fund contribution; Q4 Investment return; Q4 Fund contribution)

Lumen (39%, 4.22%; 3%, 0.38%), the global fiber company, was the top absolute and relative contributor for the year. CEO Jeff Storey took two actions this year to substantially increase the business's value and address the stock's enormous discount (it trades below 35% of our appraisal value). First, during the third quarter, Lumen sold its Latin American fiber for a good price (9x EBITDA) and the weaker half of its US consumer business for an encouraging 5.5x EBITDA. Both multiples came in above our appraisals and demonstrate how cheap the consolidated Lumen RemainCo is today at less than 6x P/FCF and EV/EBITDA. The majority of Lumen's remaining EBITDA comes from its US Enterprise and SMB segments, which grow faster than Lumen's disposed LatAm fiber and are worth higher multiples. The weakest segment of the new Lumen, the western half of Consumer, is superior to the assets the company just sold for 5.5x EBITDA. Second, Storey quickly repurchased 7% of Lumen's shares, adding meaningfully to value per share and free cash flow per share. When the dispositions close, proceeds will reduce debt meaningfully, putting net debt right at the company's leverage ratio target even though that target was based on the prior, inferior business mix. We are pleased that our engagement since filing an amended 13D helped the company begin to deliver positive corporate actions. The market has fixated on the potential for another dividend cut, but Lumen's FCF is more than sufficient to cover the $1/share payout while investing aggressively into high-return, edge-out capex to grow revenues.

CNX Resources (27%, 2.14%; 9%, 0.46%), the Appalachian natural gas producer, was another top contributor. With higher strip gas prices, another strong year of FCF and a 13% annualized repurchase pace last quarter, our appraisal of the value increased over 20%. However, the company's conservative hedging program that has helped it withstand prior bear markets also held back earnings growth this year. The board, led by chairman Will Thorndike, recently authorized another $1 billion of repurchase, representing nearly one third of outstanding shares at today's price. Despite higher absolute FCF than Appalachian comps with inferior inventory positions, CNX trades at less than half of their enterprise values.

Realogy (28%, 1.94%; -4%, -0.22%), the real estate brokerage franchisor, was also a top contributor for the year. Commission volumes increased double-digits due to 17% year-over-year (YOY) home price appreciation outweighing 5% fewer transactions. With the majority of the company's value coming from its franchise fees, the incremental margins on sales growth are extremely favorable. Realogy's brokerages (including Coldwell Banker, Century21, and Sotheby's) also gained share for the fifth consecutive quarter. The company had lagged the national market last year due to its greater New York and California exposure, but both markets have rebounded well and appear likely to continue. CEO Ryan Schneider used the large FCF coupon to pay down debt, and Realogy's leverage ratio is now down to a conservative 2.3x net debt/EBITDA vs. >5x in prior years. The strong performance suggests that the business was not disrupted by iBuyers and other new competitors as bears had predicted. With the housing market looking healthy and home prices likely to keep appreciating moderately, this franchise-fee annuity business with high defensible market share should be worth much more than the 6x forward FCF where it trades.

Hyatt (30%, 1.56%; 25%, 1.10%), the global hotel franchisor and owner, was the top contributor in the fourth quarter and among the largest contributors for the year. The company is once again cash profitable, even though its Group/Business bookings are less than half of 2019 levels. Revenues from leisure travelers, however, are up more than 20%, with pricing as high as 40% YOY for Hyatt's most popular destination resorts. CEO Mark Hoplamazian made two great sales above our appraisal values this year, helping to grow our appraisal of the consolidated company value by 27%. We expect more proceeds to come in next year and earnings growth to accelerate back towards normalized levels with COVID reopening.

Mattel (24%, 1.40%; 16%, 0.96%), the global toy and media company, was a strong contributor in the fourth quarter and for the year. Despite store closures in Asia causing -20% regional revenues during the third quarter, Mattel's consolidated sales still grew 8% due to its strong North American recovery. Barbie sales remain impressive as they have been for years, American Girl is finally returning to growth and Fisher Price is also recovering. The company is successfully passing through inflated costs with higher pricing and without losing volume. Despite the impressive results, the stock trades too low at less than 14x forward earnings, and that is before Mattel begins to monetize its massive non-earning asset Intellectual Property portfolio. Our appraisal of the value grew by more than 30% this year.

RenaissanceRe (11%, 0.54%; 22%, 0.99%) the Bermuda-domiciled reinsurance company and a new position in 2021, was a top contributor in the fourth quarter. We know the reinsurance industry well, having invested in the sector for multiple decades, and we were thrilled to have the opportunity to invest in the business at a discount. RenRe has a reputation as a leading Catastrophe risk reinsurance underwriter - although the business mix has diversified over time into third party capital management, casualty and other property risk. RenRe traded below 10x earnings power and around 1x tangible book value in the third quarter as catastrophe headlines punished the entire industry, giving us the opportunity to invest. Management also took advantage of the temporary price discount by buying back 10% of outstanding shares, while the CEO, CFO and several other senior executives invested over $4 million buying shares personally. The share price appreciated in the fourth quarter as the company announced an excess capital buffer of $1 billion, even after third quarter catastrophe hits, and likely continued share repurchases. RenRe is a leader in insurance risk modeling and portfolio construction, and best in class data gathering and analytics are in the company DNA. In the face of significant volatility and disruption for the industry in the form of technology innovation, capital access innovation and climate change risks, RenRe's competitive advantages in pricing risk and in putting together a sound global portfolio of risk should be well placed to add excess return.

Idorsia (-24%, -0.94%; -15%, -0.45%), the Swiss diversified pharmaceutical company, was the largest detractor for the year, after the company issued a dilutive convertible bond in late July and two drug trials this year had negative to inconclusive results. The entire small-cap biotech sector is down significantly after a speculative frenzy in 2020. Our appraisal of Idorsia's value remains unchanged at over twice the stock price, and we remain excited about the potential of its potential blockbuster sleep drug Quviviq (which was officially approved by the FDA after quarter end) and its hypertension drug Aprocitentan (which is still in Phase 3 trials), both of which could deliver positive news in 2022.

Lanxess (-18%, -0.85%; -9%, -0.35%), the German specialty chemicals company, was a top detractor in the year, in the face of M&A uncertainty and disappointing free cash flow conversion. Lanxess's management team has a strong track record of selling non-core segments at good multiples and intelligent capital allocation, including buying back shares in 2020. In 2021, the company announced two bolt-on acquisitions - the Microbial Controls business of International Flavors & Fragrances and private company Emerald Kamala Chemical. We believe these deals will be accretive to the value over time, but the capital commitments tied management's hands in the near-term, limiting the ability to go on offence by buying back more shares in 2021. At year end, Lanxess was trading around 10x earnings power on a much-improved business quality after five years of selling lower quality businesses and now re-allocating those proceeds into higher quality opportunities. We expect management to successfully integrate these acquisitions, address the FCF disappointments and allocate capital intelligently in 2022, which we believe will drive a stock price revaluation.

Kodak (-18%, -0.83%; -12%, -0.54%), the global technology company focused on chemicals and print, in which we own convertible preferreds, was a detractor, despite excellent operating results at the company. Our appraisal of Kodak's value surged 12% last quarter up to $10/share due to strong pricing in the printing plates and film segments. Kodak's new chemical-free Sonora plate business grew 35% and is much more environmentally sustainable than the competition. Digital Printing, a razor/razorblades annuity business, approached breakeven, while Kodak's next generation Prosper product line grew 17%. The Licensing segment, which is a surprisingly large part of appraised value, again grew steadily with massive operating margins.

## Portfolio Activity

The portfolio activity section in our last several letters has highlighted our growing on-deck list, and we were able to act on those opportunities to put cash to work in the fourth quarter. We initiated three new holdings, which are not yet disclosed, as we are still building the positions. Two are in the Financials sector, though they are very different companies. One is really more of a software company than a financial company, and the large owners we have partnered with there are top notch. The other is a financial holding company with zero "comps". It is both misunderstood and overlooked by the market as it is a confusing, small-dividend-paying company that makes no effort to dance to the sellside tune with quarterly calls or guidance. However, the management team are all about building long-term value per share in patient, unconventional ways. The third and newest purchase is a Communications Services company with a strong first-mover advantage within its rapidly growing business, and once again great partners who know how to allocate capital. We trimmed strong performers Realogy and Hyatt but had no full sales in the fourth quarter. After beginning the year at 20%, our cash position ended the year at just over 5%. Our on-deck list remains strong, and, thanks to solid value growth across the portfolio, a strong majority of the companies are trading in the mid-60s% or lower of their appraisal, meaning the margin of safety and potential upside for the portfolio, which trades at a price-to-value (P/V) in the low-60s%, is very high.

**Southeastern Updates**

The last two years have taught us to be more flexible to adjust to rapidly changing environmental factors and to allow for better work/life balance for our employees, while maintaining productivity levels and a connection to our central culture. We believe our established research network continues to provide us a clear competitive advantage. We expanded our global research expertise and network with the addition of Will Allen, who joins in January 2022 as a Memphis-based Junior Analyst, and Julio Utrera, CFA, who joined this summer as a London-based Analyst. Will is a 2019 college graduate who brings experience at value investing firm International Value Advisors. Originally from Spain, Julio adds eight years' experience of investing with a value focus in public and private equities in Europe and developing markets, as well as ESG expertise. Julio holds his CFA Level 4 Certificate in ESG Investing and served on the ESG Committee in his last role at T. Rowe Price International Equities, and he has already been a valuable addition to Southeastern's ESG committee.

In last year's annual letter, we highlighted the importance of environmental, social and governance (ESG) factors – both in our research process and in how we run our business – and the steps we have taken to formalize our approach. In 2021, we published our first annual ESG Report, which we would encourage you to read to learn more about our approach. Over the last year, we have continued to make progress and set new goals in this rapidly developing area – we signed on as a supporter of the Task Force on Climate-Related Finance Disclosures (in addition to being a signatory to UNPRI and CA100+); the research team undertook external ESG training; we expanded our portfolio carbon footprint data monitoring and established a Southeastern-specific template for carbon footprint reporting; we committed to directly engaging with management teams on their carbon reporting and efforts to improve their environmental practices (with recent success from these efforts seen at Lanxess, which set a goal to be carbon neutral by 2040, and CNX Resources, which was recently named one of three 2021 Energy ESG E&P Top Performers by Hart Energy, among others).

Another key area of focus has been fostering, cultivating and preserving a culture of diversity, equity and inclusion (DEI) at our firm, as well as engaging with our portfolio companies to better understand their approach to DEI and in some cases to push for increased diversity at a board and/or management level. As a small, lean firm with low employee turnover, we have looked for ways that we can partner with other organizations to help make a positive impact within our industry. In 2021, we partnered with the Notre Dame Institute for Global Investing via their Investment Management Access Program (IMAP – a program focused on improving diversity within the asset management industry) and Girls Who Invest (GWI – an organization that is helping transform the asset management industry by bringing more women into portfolio management and leadership).

In August 2021, we launched an exciting new initiative, Greenwood Pine Partners, a mission-driven, minority-owned investment management firm with initial funding from the Shelby County Retirement System in Tennessee. Greenwood Pine is 51% owned by Southeastern Senior Analyst and Principal Brandon Arrindell, who is African American and from Memphis. Brandon serves as both majority owner and portfolio manager for this US-focused, all-cap strategy employing Southeastern's long-term, concentrated, engaged approach. The goal of the structure and partnership with Shelby County is to produce strong risk-adjusted returns while also working to address the issue of minority underrepresentation in asset management. Where possible, Greenwood Pine seeks to partner with minority-owned, local service providers. Southeastern has pledged the proceeds derived from its 49% stake in the LLC to organizations that support under resourced communities.

Finally, we are always looking for ways to improve our communications with clients. Beginning next quarter, we will provide a Frequently Asked Questions-format podcast to allow you to hear directly from your portfolio managers. The audio format will have a transcript available and will be supported by a quarterly fund summary and a longer, more detailed annual letter at the end of the year. We will continue to highlight discussions with management teams and other ad hoc topics in the *Price to Value Podcast with Southeastern Asset Management,* with our newest episode coming in January, in which Staley Cates interviews Realogy CEO and President Ryan Schneider.

## Outlook

We spent much of this letter exploring the current environment and what it has meant / will mean for our portfolio. We have heard from many clients and prospects this year who (very understandably) want to know what will be the "right environment" for our portfolios to outperform. As conventional wisdom becomes more about trading in and out of ETFs instead of analyzing bottom-up value per share growth, we understand the pressure that investment committees face and the frustration of not knowing when our relative performance will turn. We would caution, however, that nailing the chained probability of both what the next environment will be and how we will do in it is very hard.

Our 46+ year performance history shows that there is never a predictable pattern, but the historical context makes us believe even more strongly in our odds from here. Southeastern was founded in 1975 amid a period of historically high inflation, with US interest rates rising to nearly 20%. From the official start of Southeastern's US large cap composite in January 1980, we outperformed the market in eight out of the nine following years. We expect that we would do well again with more rate volatility going forward. We did less well relatively in the 1990s and 2010s when interest rates declined, even if we did deliver solid absolute returns on the stocks that we picked in those timeframes. This seems like the least likely scenario out of the three described above, since rates are already so low. At the very least, we believe we would be more fully invested in a scenario like this, judging by our improved productivity, current portfolios and on-deck list. We did well in the 2000s pre-GFC with relatively flat interest rates (note that the US 10-year treasury stayed in a tight band around 5% during that almost 10-year period), which we could see happening again (but probably less likely than increasing rates), so that is also encouraging.

While looking to our history doesn't give us the answer of when the current environment will turn, it does allow us to learn from the past and improve over time. When we add up the three broad types of environments above, we see a healthy "2.5 out of 3" in which we win. We think 2021 had many positive signs that the future is bright, and we look forward to sharing it with you.

*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 Small-Cap 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. Smaller company stocks may be more volatile with less financial resources than those of larger companies.*

*The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3,000 Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index. The Russell 2000 Value index is drawn from the constituents of the Russell 2000 based on book-to-price (B/P) ratio. An index cannot be invested in directly.*

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

*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 special purpose acquisition company (SPAC) is a company with no commercial operations that is formed strictly to raise capital for the purpose of acquiring an existing company.*

*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*

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

*"Margin of Safety" is a reference to the difference between a stock's market price and Southeastern's calculated appraisal value. It is not a guarantee of investment performance or returns.*

*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.*

*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.*

*EV/EBITDA is a ratio comparing a company's enterprise value and its earnings before interest, taxes, depreciation and amortization*

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

*As of December 31, 2021, the top ten holdings for the Longleaf Partners Small-Cap Fund: Lumen, 13.1%; Mattel, 7.4%; Realogy, 7.2%; CNX Resources, 6.1%; Liberty Braves Group, 5.4%; Graham Holdings, 5.1%; Empire State Realty 5.0%; Madison Square Garden Sports, 4.9%; Gruma, 4.8%; and Hyatt, 4.8%. Fund holdings are subject to change and holding discussions are not recommendations to buy or sell any security. Current and future holdings are subject to risk.*

*Funds distributed by ALPS Distributors, Inc.*

LLP001254
Expires 6/30/2022

# Longleaf Partners International Fund

Longleaf Partners Funds

Summary – December 31, 2021

# 4Q21

# Longleaf Partners International Fund

(800) 445-9469 / southeasternasset.com

Longleaf Partners Funds

## Long-Term / Concentrated / Engaged / Value

Founded in 1975, Southeastern Asset Management is an independent, global investment firm managing $10.9 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.

## Fund Profile

| | |
|---|---|
| Investment Style | International Value |
| Ticker | LLINX |
| Inception Date | October 26, 1998 |
| Net Assets | $1.3 billion |
| Expense Ratio (Gross) | 1.20% |
| Expense Ratio (Net) | 1.15% |
| Turnover (5 yr avg) | 30% |
| Weighted Average Market Cap | $20.1 billion |

## Holdings (22)

| | Activity* | Weight |
|---|---|---|
| EXOR | - | 7.8% |
| Glanbia | | 5.7 |
| GRUMA | + | 5.6 |
| Lazard | | 5.1 |
| Domino's Pizza Group (UK) | | 5.1 |
| Prosus | | 5.0 |
| Melco International | | 4.9 |
| LANXESS | | 4.7 |
| GREE | | 4.5 |
| Accor | | 4.5 |
| Richemont | - | 4.3 |
| Applus Services | + | 4.3 |
| CK Hutchison | | 4.2 |
| Holcim | | 4.0 |
| Millicom | | 3.8 |
| Premier Foods | + | 3.7 |
| Fairfax Financial | - | 3.7 |
| WH Group | + | 3.3 |
| Jollibee | | 3.2 |
| Undisclosed | NEW | 3.0 |
| Great Eagle | | 1.7 |
| Undisclosed | NEW | 0.7 |
| Cash | | 7.2 |
| Total | | 100.0% |

*Full eliminations include the following positions: Alibaba and CK Asset

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.

The total expense ratio for the Longleaf Partners International Fund is 1.20% (Gross) and 1.15% (net). The International Fund's expense ratio is subject to a fee waiver to the extent the Fund's normal annual operating expenses exceed 1.15% of average annual net assets.

## Sector Composition

| | |
|---|---|
| Consumer Discretionary | 31.5% |
| Financials | 19.6 |
| Consumer Staples | 18.3 |
| Materials | 8.7 |
| Industrials | 8.5 |
| Communication Services | 4.5 |
| Real Estate | 1.7 |
| Health Care | -- |
| Information Technology | -- |
| Utilities | -- |
| Energy | -- |
| Cash | 7.2 |

## Regional Composition

| | |
|---|---|
| Europe Ex-UK | 47.8% |
| Asia Ex-Japan | 21.8 |
| North America | 14.4 |
| UK | 8.8 |
| Cash | 7.2 |

## Performance Contribution

| Top Three | Portfolio Contribution | Return |
|---|---|---|
| Richemont | 2.04% | 46% |
| Fairfax Financial | 1.07 | 23 |
| Domino's Pizza Group (UK) | 0.90 | 16 |

| Bottom Three | Portfolio Contribution | Return |
|---|---|---|
| Millicom | -0.99% | -21% |
| Glanbia | -0.95 | -15 |
| Alibaba | -0.82 | -22 |

## Performance at 12/31/2021

| | Total Return (%) | | Average Annual Return (%) | | | | |
|---|---|---|---|---|---|---|---|
| | 4Q | One Year | Five Year | Ten Year | 15 Year | 20 Year | Since Inception |
| International Fund | 1.51 | -0.89 | 6.28 | 6.38 | 2.47 | 4.65 | 6.89 |
| MSCI EAFE | 2.69 | 11.26 | 9.55 | 8.03 | 3.60 | 6.33 | 5.59 |

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 longleafpartners.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. Investing in non-U.S. securities may entail risk due to non-U.S. economic and political developments, exposure to non-U.S. currencies, and different accounting and financial standards. These risks may be higher when investing in emerging markets.
MSCI EAFE Index (Europe, Australasia, Far East) is a broad based, unmanaged equity market index designed to measure the equity market performance of 22 developed markets, excluding the US & Canada. An index cannot be invested in directly.

LLP001257 expires April 30, 2022

January 2022

# Longleaf Partners International Fund Commentary

# 4Q21

Longleaf Partners International Fund added 1.51% in the fourth quarter versus MSCI EAFE's return of 2.69%. For the full year, the Fund fell 0.89%, while the MSCI EAFE returned 11.26%. As discussed in our third quarter letter, the frustrating performance for the year stems mostly from our exposure to overseas-listed China and Hong Kong, which accounted for the majority of the disappointing absolute and relative returns. After a solid first half of absolute and relative returns, COVID lockdowns re-accelerated in the second half, and investor anxiety from several rounds of regulation in the Chinese technology, education, real estate and Macau gaming sectors created extreme volatility. Consumer Discretionary was by far the worst absolute and relative-performing sector, with most of the relative decline coming from our China-exposed businesses. Additionally, some of our consumer-leveraged companies, like Accor, that were looking healthy at mid-year have taken another leg down on the emergence of the new COVID variants. Although European-listed Lanxess and Millicom (which is actually a Latin American business, despite its Swedish listing) were absolute and relative detractors, our European businesses were collectively the top contributor for the year. The strongest performers were a mixture of companies we have known for a decade or more in Fairfax and EXOR and companies that are newer additions to the list of "prototypical Southeastern favorites" — great businesses that can grow for a long

***Average Annual Total Returns for the Longleaf Partners International Fund (12/31/21): One Year: -0.89%, Five Year: 6.28%, Ten Year: 6.38%, Since Inception (10/26/98): 6.89%. Average Annual Total Returns for the MSCI EAFE (12/31/21): One Year: 11.26%, Five Year: 9.55%, Ten Year: 8.03%, Since Inception (10/26/98): 5.59%.***

*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 1.20%. The International Fund's expense ratio is subject to a fee waiver to the extent the Fund's normal operating expenses (excluding interest, taxes, brokerage commissions and extraordinary expenses) exceed 1.15% of average net assets per year.*

time, while generating significant cash and allocating it intelligently — in Richemont and Domino's Pizza Group PLC.

Unfortunately, two large macro headwinds overshadowed the solid, bottom-up fundamentals within our diversified portfolio of high-quality businesses with aligned management partners that are taking steps within their control to create and recognize value. The team has been busy, reviewing our top-down view on China and re-underwriting our businesses on a case-by-case basis in the wake of the current environment. We draw upon insights from our extensive network of regional and industry experts, current and former investee company management teams and boards, asset management peers and clients to help inform our qualitative view. Although we believe that much of the China and Hong Kong markets has been unduly punished, creating some compelling bottom-up opportunities, we recognize that the macro events of 2021 will likely create long-term headwinds for many of the businesses there. We reduced our overall allocation to the region this year (though it remains notably higher than the index) and increased our European exposure. In a challenging macro environment, we believe it is even more important to concentrate in your best ideas, where you truly know your businesses and the management teams at the helm. We believe that this year's detractors are poised to be strong drivers of absolute and relative outperformance from today's depressed levels, even as we recognize that it may not be a completely smooth road to recovery. Our remaining Chinese and Hong Kong businesses are run by owner operators that are actively taking steps to create value and get those values recognized in the market, and we are seeing a record amount of insider buying across the portfolio, highlighting the confidence of our management partners.

## Performance Review

After a strong relative and absolute first half of the year, the portfolio gave up its initial gains in the second half, as China and Hong Kong were severely punished in the face of macro pressures and uncertainty. The MSCI Zhong Hua (ZH) index, a composite index comprising the MSCI China and Hong Kong indices, was down over 19% in 2021, underperforming its own 3- and 10-year average returns by approximately 26%, and falling short of the MSCI EAFE, MSCI World and the S&P 500 by a stunning 30.5%, 41% and 47.7% respectively, reflecting the deep pessimism of investors towards China and the extremely strong performance of developed markets. While US Big Tech —

Microsoft, Apple and Alphabet — were among the three biggest contributors to the S&P 500 index's 2021 gains, Asian Big Tech conglomerates — Alibaba, Tencent and Softbank — were the three of the four largest detractors to the MSCI AC Asia Pacific's 2021 returns, driven primarily by tech regulation in China.

2021 has been an extraordinarily volatile year for capital markets in Greater China. US-China tensions, China property concerns, regulatory changes across the China education and technology sectors and Macau gaming license issues, on top of harsh COVID-induced border lockdowns, have all added to market volatility. The commentary from the 3Q letter detailing our interpretation of and response to these events remains pertinent.

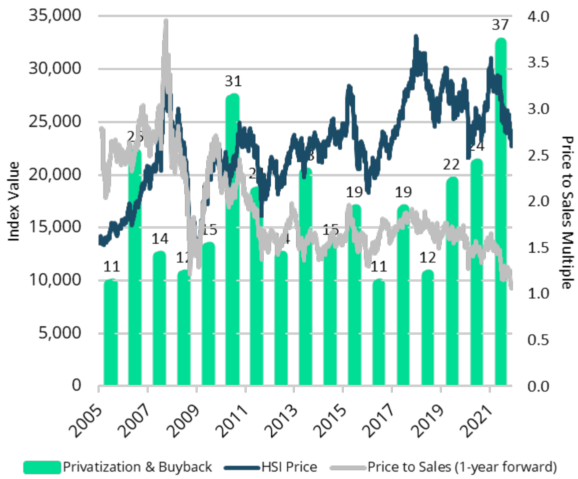
In the fourth quarter, we saw an easing of some areas of uncertainty, including the potential for Chinese securities regulation of overseas-listed variable interest entities (VIE), a structure that has allowed Chinese companies to skirt a formal prohibition on foreign investment in internet services. Fears that this structure could be deemed illegal, wiping out the value of foreign investors' holdings, were put to rest when the China Securities Regulatory Commission (CSRC) officially extended oversight of offshore listing to Chinese firms with VIE structures in late December.

Additionally, fears subsided over drastic regulation of gaming in Macau, including the potential revocation of gambling licenses (as discussed in detail in our third quarter letter), when the Macau government published its final report on the public consultation on the Macau license re-tendering on December 23. Although the report was merely a summary of public opinions gathered during the consultation period and not a final position by the government, it was positive in many respects. After the end of the quarter, Macau casino stocks rallied after authorities confirmed the revised gaming laws would involve minimal changes to the original gaming license terms and would maintain six casino licenses for up to 13 years, providing long-awaited clarity. While the industry remains depressed in the face of COVID-related lockdowns, Macau is poised to rebound quickly as pent-up demand is likely to fuel a rapid return as borders ultimately re-open. Melco International, the holding company (holdco) for Macau casino operator Melco Resorts, stands to win doubly, as a rebound can help close the historically wide (and in our view unjustified) discount between holdco and the underlying operating business.

Our Hong Kong, Macau and other Chinese investments were affected to varying degrees by a resurgence of COVID-related lockdowns in the second half, as the Chinese government increased efforts to contain the Delta (and now Omicron) variant. Omicron's higher transmissibility and the lower efficacy of the local Sinovac vaccine will make it more difficult for China to maintain its "zero-COVID" strategy, exacting a greater toll on the economy, which is reflected in share prices. If Macau and Hong Kong conform to Beijing's zero-COVID strategy, their borders with each other could open faster, allowing more freedom of movement between Hong Kong, Macau and Mainland China and ultimately benefitting our investments in Hong Kong and Macau, particularly our investment in Melco. We are monitoring the situation closely.

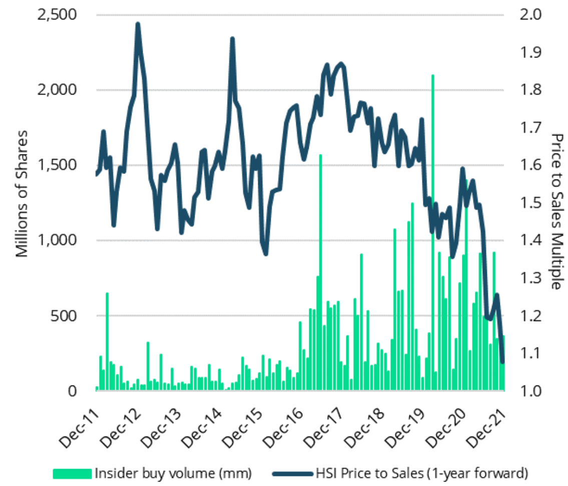
Supporting the case that China and Hong Kong offer compelling valuations, we have seen historically high levels of insider purchase activity across the region (and within our portfolio companies) in the last two years. At a time of elevated uncertainty and investor panic, it's always reassuring to see what insiders — who have better access to information and policymakers than outside shareholders, especially in a market like China where transparency is lower and volatility is higher — are doing with their money. Insiders in Hong Kong are taking advantage of the dislocation in prices by buying significant amounts of their own companies. The number of applications to the Hong Kong Securities and Futures Commission for privatization and buybacks has increased significantly as market valuations became more attractive. In the last two months of the year, there was over 3x more insider buying than selling volume in the Hong Kong stock exchange, surpassing the levels seen in February 2020, when COVID first broke out in China.

## Applications for Privatization and Buybacks as of 12/31/2021




Source: Hong Kong Securities and Futures Commission; Bloomberg

## Insider Buying vs. Hang Seng Price/Sales as of 12/31/2021




Source: 2iQ Research; Bloomberg

Active insider buying in Hong Kong contrasts sharply with record levels of insider selling in the US, reflecting the high valuations of the US capital markets. While large insider sales have been well-publicized at market darlings Tesla, Facebook, Google and Microsoft, the trend is across the board. According to InsiderScore, insiders at US-listed companies sold $165 billion of stock in 2021, 2.4x the average since 2008. In 2021, US insiders sold 23x more than they bought.

While relative and absolute valuations make the region quantitatively attractive, as long-term, bottom-up fundamental investors, “cheap” is never enough for us. We are seeing some truly “table-pounding” bargains, supported by powerful insider purchasers, but this is balanced by some troublesome developments in these markets that will have long-lasting effects. Contacts across our network – and at times portfolio managers for the International Fund – are mixed in their outlook. Having an experienced team on the ground with expertise spanning the Asia Pacific time zone, working together with the broader global research team with over four decades of experience in multiple geographies and market environments, is a distinct advantage. We continue to evaluate our portfolio in real time to ensure we maintain the best margin of safety and long-term upside potential.

## Contributors and Detractors

(2021 Investment return, 2021 Fund contribution; Q4 Investment return, Q4 Fund contribution)

Richemont (70%, 2.85%; 46%, 2.04%), the Swiss luxury goods company, was the top contributor for the fourth quarter and the full year. Under the leadership of CEO and owner operator Johann Rupert, Richemont has deftly navigated a volatile market over the last several years in the face of the Chinese crackdown on corruption and corporate giving, followed by political unrest in Hong Kong, one of the largest luxury watch markets, and most recently COVID. Against these challenges, management has always responded with a long-term value creative mindset, resulting in a stronger, more profitable, more dominant business today. Richemont has been a relative COVID winner in the luxury goods space, as the most iconic brands that are less reliant on current advertising or trends remained top of mind throughout the lockdown environment and continued to gain share disproportionately. Richemont's Cartier and Van Cleef & Arpels are two of the strongest brands in the market. Additionally, the benefits of a significant supply chain reorganization have become highly visible this year in the reported results, with profitability at the jewelry maisons expanding to all-time highs, driving an exponential step-up in free cash flow. Amid the macro pressures of the last several years, Richemont bought in the listed minority of Yoox Net-a-Porter (YNAP) in 2019, consolidating its losses, which optically made the group valuation look less attractive but actually brought control of their increasingly important online distribution channels fully in-house. Today, Richemont is working to create a non-majority owned luxury platform, which would result in the deconsolidation of the losses and highlight the latent value in this business. The company is currently in advanced discussions with FarFetch (and others) to take minority stakes in YNAP and convert the platform to Farfetch technology – something already being trialed in the Chinese JV. Given the power of the core Richemont brands and the structural drivers of branded jewelry and luxury goods more broadly, we continue to see strong growth prospects translating into mid-double-digit earnings per share (EPS) growth on a sustainable basis.

Domino's Pizza Group PLC (DPG) (49%, 2.25%; 16%, 0.90%), the leading UK pizza delivery company, was another top contributor in the quarter and for the year. When we first invested in DPG in April 2019, we saw the opportunity to engage to help drive improvements in the company's governance and other environmental, social and governance (ESG) considerations. After two+ years of engagement and much heavy lifting, the company now has a top-notch management team led by CEO Dominic Paul and a fully replaced board of directors that is now best-in-class on all metrics of ability, diversity, ESG priorities, capital allocation and shareholder friendliness. A tangible example of the contrast between old leadership and new leadership is the December 2021 announcement of a new agreement between DPG and the franchisees, signaling an alignment of intent and a spirit of teamwork to pursue the significant opportunity in the UK pizza space. Despite a share price compounding at 28% per year over our ownership period, the investment remains attractively priced, as our appraisal has also compounded healthily. DPG today is a technology-led company with nearly all of its orders coming over the company app and website. They are still in the early days of more effectively harnessing this data and customer knowledge to drive further wallet penetration. Recognizing the high cash generation but minimal capital intensity of the business model, management and the board have committed to buying back stock whenever it is attractive – we estimate 2-4% of shares outstanding per year – on top of paying the 2% dividend. Robust organic growth on the back of the franchisee agreement will support like-for-like sales growing at mid-single digits and potentially up to double digits, with new store openings totaling another few percent per year in growth. Coupled with systematic shrinking of the share count, the result could be sustainable double-digit to mid-teens EPS growth and a share price well above today's level.

Fairfax (49%, 2.19%; 23%, 1.07%), the Canadian insurance and investments conglomerate, was also a top performer in the quarter and the year. We tendered approximately 20% of our position into the $1 billion tender offer share repurchase just executed at $500 per share - a 10% premium to the pre-buyback trading price. The repurchase is funded by selling 10% of subsidiary Odyssey Re at nearly 2x book value to a Canadian pension plan. Fairfax retains control of Odyssey, while the pension plan will benefit from the steady earnings and attractive pricing in the insurance market. Fairfax was a superb – if volatile at times – investment through our initial investment period of 2000 to 2015, compounding at 15% per year. Since we invested again in 2017, it has been less satisfying, but shareholder-friendly actions like this sale and large repurchase indicate that Chair and CEO Prem Watsa has not lost his touch. This year, written premiums have grown well, and Watsa is intelligently delevering the balance sheet with the free cash flow (FCF). Fairfax's combined ratio was slightly unprofitable last quarter at 101%, due to Hurricane Ida and European flooding, but the underwriting is otherwise improving towards a normalized low-90s combined. Though Fairfax's investments portfolio did not outperform this year, Watsa made the good decision to end the company's costly hedging program. After appreciating significantly this year, Fairfax's 45% stake in digital insurance unicorn Digit is now worth 10% of the company's market capitalization. The stock should not continue to trade below book value with profitable underwriting, less debt and a growing investment portfolio. Watsa led a major repurchase effort this year to take advantage of the lingering P/V discount. We are actively engaged with the company on several ESG topics. We believe that management is best in class and think Fairfax's abysmal CCC rating by MSCI ESG should be higher. We have encouraged the company to improve its ratings agency engagement and to increase its environmental initiatives, including more transparent carbon footprint reporting and better incorporation of climate change risk assessment in the underwriting business.

EXOR (12%, 1.16%; 7%, 0.73%), the European holding company of the Agnelli family, was another strong contributor in the quarter and for the full year on the back of multiple value-accretive corporate actions across the three largest components of EXOR's value (collectively comprising ~80% of our appraisal): Stellantis, CNH International and PartnerRe. Last year, EXOR transformed underlying holding Fiat Chrysler through a strategic merger with PSA Group of France, with the official combination into new company Stellantis completing in January 2021. Stellantis CEO Carlos Tavares came from PSA, where he was widely regarded as top in the global auto executive field. EXOR CEO and Chairman John Elkann serves as Chairman of Stellantis, adding his capital allocation and strategic expertise to the operational brilliance of Tavares and team. As a result, Stellantis should be the third largest global auto original equipment manufacturer (OEM), unlocking economies of scale and supply chain efficiency and positioning the company to navigate the continuing industry evolution towards electrification, increased autonomous capabilities and transportation as a service. In 2020, EXOR announced that the previously agreed deal to sell reinsurance company PartnerRe to French co-operative insurance company Covea had fallen through in the COVID lows. The news hit the share price hard, and EXOR was one of our worst 2020 performers. However, in late October 2021, EXOR announced a renewed deal to sell PartnerRe to Covea for $9 billion, over 40% of EXOR's current market value. This multiple of 1.4x adjusted tangible book value was nearly 10% higher than the value we had assumed for PartnerRe. While optically at the same price as the prior deal, the full value of the relationship is greater, given the €1.5 billion of investments Covea agreed to make ($750 million in the investment arm of PartnerRe, which is run by EXOR for a fee, and $750 million in EXOR co-investments) after it broke the original 2020 deal. We expect EXOR to use proceeds from the deal to pay down holding company level debt, buy back $500 million in stock and retain significant firepower on the balance sheet to be used opportunistically. Given the track record of the EXOR team, we are confident this capital will create even more value when put to work. Finally, CNH Industrial completed the previously announced plan to split into two companies on January 1, 2022. The commercial vehicles business, Iveco Group, was spun out of the CNH agricultural business that comprises Case I.H., New Holland and Steyr. We believe that two focused companies traded separately will unlock more potential and value.

Melco International (-37%, -2.49%; 4%, 0.13%), the Macau casino and resort operator, was the top detractor for the year. Macau does not have a domestic market and heavily relies on cross-border tourism (primarily with mainland China), so the recovery remains dependent on the border reopening progress, which continues to get pushed back due to China's zero-COVID policy. As discussed above, the entire sector also took a beating when the Macau government announced its plans in September to kick off a 45-day consultation period for amendments to the gaming law in preparation for the license renewal process for Macau casino operators. Additionally, the intensified scrutiny on VIP junket business, culminating in the arrest of the founder of the biggest junket operator Suncity in the fourth quarter, further soured investor sentiment. As we saw in January 2022, the license renewal process is playing out roughly as expected, and there is nothing we have seen in the recently announced laws that warrant a material impact on the value. As for the VIP crackdown, this has been an ongoing theme since 2013 when Xi Jinping became the President of the PRC. Junket VIP represent a single digit % of Macau EBITDA and will not have material impact on the earnings power of the industry or at our holding in Melco. Our investment in Melco is underwritten by growth prospects of Mass Gaming demand. Mass-led recovery has been delayed due to severe border restrictions between China, Hong Kong and Macau, and we are confident that when restrictions are eased, we will see earnings and stock price recovery in short order. Our view is that the common prosperity has already occurred in Macau. The six concessionaires provide 40% of their revenue in taxes to the government. The Macau gaming industry contributes 70-80% of the government's tax revenue, over 55% of gross domestic product, and is the largest employer in Macau. Most Macanese are in a much better economic position due to the gaming industry, and we believe that the government would rather have gambling activity in a place they control, rather than occurring in other parts of southeast Asia. Post the sell down, we have seen insiders at two local operators buying shares, echoing our view that Macau shares are deeply undervalued and will be the major beneficiary of the re-opening.

Alibaba (-50%, -2.26%; -22%, -0.82%), the largest online retail platform in China, was another top detractor for the year and in the fourth quarter. Alibaba reported weak quarterly results and downgraded its sales outlook for the current fiscal year to 20-23% growth, down from original guidance of 29-32% growth. Macro headwinds, weak consumer sentiment, regulatory scrutiny and competitive forces are having a larger than expected impact on overall retail sales and Alibaba's market share. Notably, overall retail sales in China slowed down to a meager 5% growth in the September quarter. Slowing consumption, combined with stiff competition from new entrants in livestreaming ecommerce, have resulted in transitory deceleration in Alibaba's core ecommerce growth trajectory. Additionally, the company is accelerating strategic investments in new initiatives, including Community Group Buying (Taocaicai), Taobao Deals, Local Consumer Services and International Ecommerce. These are future growth drivers but are depressing company's earnings today. In December, we exited our full position in Alibaba. This was more of a tactical move than a change in investment conviction. We initiated the position early in 2021, and the continued challenges in the second half of the year resulted in a loss that was material enough to be helpful from a tax distribution management point of view. We are sensitive to taxable gains and try to minimize where sensible, so we took advantage of the opportunity to reduce that liability and plan on revisiting the Alibaba opportunity in 2022. We continue to own Alibaba in our Asia Pacific strategy.

Millicom (TIGO) (-28%, -1.38%; -21%, -0.99%), the Latin American cable company, was the largest detractor in the fourth quarter and a top detractor for the year. From the beginning of 2021 through November 12, Millicom's price was down slightly. At that point, we thought this to be somewhat unjustified since 2021 cash flow was up and was in line with projections, and free cash flow was being allocated mostly to grow the cable business in double digits in terms of subscribers and revenues. Through that point of the year, our appraisal for all of Millicom had grown at a healthy clip. Then on November 12, TIGO announced a very important strategic acquisition: buying in the half of its Guatemala business which Millicom didn't already own. It happened very quickly, and at a very attractive multiple; but because of the suddenness of the event, the TIGO balance sheet was not prepared for a cash-only purchase. So the company announced a debt deal for two-thirds of the purchase price and an equity rights offering for one-third. The rights offering can't happen until 2021 year-end financials are completed in the first quarter of 2022, and this has created a severe "overhang." There are plenty of bears on Millicom, on Latin America, on telecom, etc., who either don't buy or who have shorted Millicom. Among the Millicom bulls, in our small sample of contacts, they are waiting for the rights offering to add to positions. Additionally, tax-loss selling probably exacerbated the stock price weakness late in the quarter. We believe that the accretion to our appraisal and to FCF per share, and as well as the strategic benefit of fully owning and consolidating the Guatemala business, makes this a very wise allocation of capital for Millicom. Additionally, company operations, especially cable, continue to perform very well. But we are paying a steep short-term price since the announcement.

Prosus (-22%, -1.22%; 5%, 0.24%), a global consumer internet group, was a top detractor for the year. Tencent (which accounts for 85% of Prosus's NAV) has been impacted by slowing macro and China Tech regulatory headwinds. It reported relatively weak results in the third quarter, with revenues up 13% year-over-year (YOY) and adjusted operating profits up 7% YOY. Its online advertising business grew 5% YOY, much slower than 23% growth in prior quarter. The gaming business grew 7% YOY, which was better than the market feared, emphasizing its overseas growth potential and its efforts to control gaming by minors. Tencent's fintech and cloud businesses posted solid growth and strengthened their competitiveness. Tencent recently announced a partial stake sale and distribution in specie in some of its associate companies, including SEA Limited and JD.com to reduce the discount to its net asset value (NAV). Meanwhile, Prosus's global e-commerce portfolio reported strong results, with 53% growth in local currency driven by classifieds (+101%), food delivery (+86%), edtech (+51%) and payments (+44%). The internal rate of return (IRR) on these investments is more than 20%. The market is ascribing no value to this e-commerce portfolio (worth $49 billion per company disclosure), despite the company's proven ability to build and grow the business. Post the value-accretive voluntary exchange offer for Naspers N shares into Prosus N shares in August 2021, the discount to NAV further widened in contrast to our initial expectation, primarily driven by negative sentiment around China tech stocks and increased supply of Prosus shares. We believe the current level of discount is unwarranted given the solid growth prospects for Tencent and the global e-commerce portfolio. Management is focused on narrowing the discount to NAV and has bought back over $11.5 billion in shares in the last 18 months.

Gree Electric Appliances (-33%, -1.22; -3%, -0.10%), the dominant air conditioner manufacturer in China, was a top detractor for the year. The Chinese home appliance industry had a strong recovery going into the first quarter of 2021. However, air conditioner shipment growth decelerated since April. Combined with commodity price inflation and concerns about margin pressure, the sector sold off since the second quarter. Although air conditioners rely less on the new housing market than kitchen appliances, the Chinese real estate slowdown in the second half nevertheless presented an overhang on sentiment. Gree has been focusing on strengthening its business and pushed ahead with its channel reform. By cutting out layers of traditional offline distribution and setting up online channels, Gree will be closer to the end retail customer and respond faster to consumers' changing needs. In April, Gree was awarded the Global Cooling Prize and demonstrated its technological superiority in this industry. On capital allocation, Gree initiated its first major share buyback program in 2020, ramped up the buyback pace after the sector sold off in 2021 and completed three consecutive share repurchase programs with a total purchase of just under 9% of the company. During the year, Gree also completed its first employee stock ownership plan, which will help to align the interests of the management and employees with those of shareholders.

## Portfolio Activity

For the full year, we added five businesses (three in Europe and two in Asia) and sold five (four in Asia and one in Latin America). We opportunistically trimmed strong performers and added to some of our most compellingly discounted businesses. In the fourth quarter, we initiated two new European investments, which remain undisclosed as we continue to build out the positions. One is a German financial business, which is the low-cost operator in a structural growth market with significant room for market share gains and a management team that is heavily invested in the business. The second is an Italian company that we know well from existing and historical investments, and we had the rare opportunity to purchase the stock at a discount in the quarter. In addition to the sale of Alibaba discussed above, we also completed the sale of CK Asset, which we had trimmed earlier in the year. We believe property development will remain challenging in Hong Kong and China. CK Asset's value growth had been disappointing over too long a period. Though still likely discounted versus a break-up value we do not see such a path as likely in this environment.

**Southeastern Updates**

The last two years have taught us to be more flexible to adjust to rapidly changing environmental factors and to allow for better work/life balance for our employees, while maintaining productivity levels and a connection to our central culture. We believe our established research network continues to provide us a clear competitive advantage.

We expanded our global research expertise and network with the addition of Will Allen, who joins in January 2022 as a Memphis-based Junior Analyst, and Julio Utrera, CFA, who joined this summer as a London-based Analyst. Will is a 2019 college graduate who brings experience at value investing firm International Value Advisors. Originally from Spain, Julio adds eight years' experience of investing with a value focus in public and private equity in Europe and developing markets, as well as ESG expertise. Julio holds his CFA Certificate in ESG Investing and served on the ESG Committee in his last role at T. Rowe Price International Equities, and he has already been a valuable addition to Southeastern's ESG committee.

In last year's annual letter, we highlighted the importance of ESG factors – both in our research process and in how we run our business – and the steps we have taken to formalize our approach. In 2021, we published our first annual ESG Report, which we would encourage you to read to learn more about our approach. Over the last year, we have continued to make progress and set new goals in this rapidly developing area – we signed on as a supporter of the Task Force on Climate-Related Financial Disclosures (in addition to being a signatory to UNPRI and CA100+); the research team undertook external ESG training; we expanded our portfolio carbon footprint data monitoring and established a Southeastern-specific template for carbon footprint reporting; we committed to directly engaging with management teams on their carbon reporting and efforts to improve their environmental practices (with recent success from these efforts seen at DPG, Glanbia and EXOR, each of which set ambitious energy and emissions reductions goals, among others).

Another key area of focus has been fostering, cultivating and preserving a culture of diversity, equity and inclusion (DEI) at our firm, as well as engaging with our portfolio companies to better understand their approach to DEI and in some cases to push for increased diversity at a board and/or management level. As a small, lean firm with low employee turnover, we have looked for ways that we can partner with other organizations to help make a positive impact within our industry. In 2021, we partnered with the Notre Dame Institute for Global Investing via their Investment Management Access Program (IMAP – a program focused on improving diversity within the asset management industry) and Girls Who Invest (GWI – an organization that is helping transform the asset management industry by bringing more women into portfolio management and leadership).

In August 2021, we launched an exciting new initiative, Greenwood Pine Partners, a mission-driven, minority-owned investment management firm with initial funding from the Shelby County Retirement System in Tennessee. Greenwood Pine is 51% owned by Southeastern Senior Analyst and Principal Brandon Arrindell, who is African American and from Memphis. Brandon serves as both majority owner and portfolio manager for this US-focused, all-cap strategy employing Southeastern's long-term, concentrated, engaged approach. The goal of the structure and partnership with Shelby County is to produce strong risk-adjusted returns while also working to address the issue of minority underrepresentation in asset management. Where possible, Greenwood Pine seeks to partner with minority-owned, local service providers. Southeastern has pledged the proceeds derived from its 49% stake in the LLC to organizations that support under resourced communities.

Finally, we are always looking for ways to improve our communications with clients. Beginning next quarter, we will provide a Frequently Asked Questions-format podcast to allow you to hear directly from your portfolio managers. The audio format will have a transcript available and will be supported by a quarterly fund summary and a longer, more detailed annual letter at the end of the year. We will continue to highlight discussions with management teams and other ad hoc topics in the *Price to Value Podcast with Southeastern Asset Management*, with our newest episode coming in January, in which Staley Cates interviews Realogy CEO and President Ryan Schneider.

## Outlook

The Fund is fully invested with a substantial list of on-deck opportunities. Despite recent underperformance, the high level of insider buying by locals, the vast underperformance of China and Hong Kong relative to other markets and the strong fundamentals of our high-quality businesses and aligned management partners give us significant confidence in our portfolio holdings. On the other hand, our top performers saw substantial value growth in the last year, meaning they remain attractively discounted with significant upside even after solid price appreciation in 2021. We believe the market trend of paying ever-higher multiples for revenue growth at the expense of profitability and reasonable multiples has led to a once-every-few-decades divergence in our portfolio vs. the index. This is most obvious in US markets, with valuations at elevated levels on nearly any metric. We believe that the US-dollar led, Federal Reserve-enabled, growth stock-leveraged, meme stock-fueled, speculative binge may have reached its peak. Monetary policy is now changing course, with the US Federal Reserve tapering bond purchases and signaling multiple rate hikes in 2022. Tech stocks are no longer outperforming, and the special purpose acquisition company (SPAC) craze has begun to fizzle. As this trend turns, we feel strongly that non-US, non-USD, value-conscious, business quality-focused, owner-oriented investing in a concentrated, long-term manner is the place to be. We are confident that our concentrated portfolio comprising strong businesses, run by owner-operators, currently trading at high margins of safety will deliver significant outperformance in the years ahead.

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

*RISKS*
*The Longleaf Partners International Fund is subject to stock market risk, meaning stocks in the Fund may fluctuate in response to developments at individual companies or due to general market and economic conditions. Also, because the Fund generally invests in 15 to 25 companies, share value could fluctuate more than if a greater number of securities were held. Investing in non-U.S. securities may entail risk due to non-US economic and political developments, exposure to non-US currencies, and different accounting and financial standards. These risks may be higher when investing in emerging markets.*

*MSCI EAFE Index (Europe, Australia, Far East) is a broad based, unmanaged equity market index designed to measure the equity market performance of 22 developed markets, excluding the US & Canada.*

*MSCI World Index is a broad-based, unmanaged equity market index designed to measure the equity market performance of 24 developed markets, including the United States. An index cannot be invested in directly.*

*The MSCI Zhong Hua Index is a composite index that comprises the MSCI China and MSCI Hong Kong Index. The index captures large and mid cap representation across all China securities as well as Hong Kong securities.*

*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. S&P 500 Value Index constituents are drawn from the S&P 500 and are based on three factors: the ratios of book value, earnings, and sales to price. An index cannot be invested in directly.*

*The Hang Seng Index (abbreviated: HSI) is a freefloat-adjusted market capitalization-weighted stock market index in Hong Kong. It is used to record and monitor daily changes of the largest companies of the Hong Kong stock market and is the main indicator of the overall market performance in Hong Kong.*

*A variable interest entities (VIE) is a structure in which an offshore entity is owned by investors in the U.S. or Hong Kong stock exchanges. This offshore entity in turn has a contractual relationship with a Chinese company.*

*Book Value is the value of an asset as carried on a company's balance sheet.*

*An MSCI ESG Rating is designed to measure a company's resilience to long-term, industry material environmental, social and governance (ESG) risks.*

*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 price-to-sales ratio, also known as "price/sales," is one of many valuation metrics for stocks. The ratio describes how much someone must pay to buy one share of a company relative to how much that share generates in revenue for the company.*

*"Margin of Safety" is a reference to the difference between a stock's market price and Southeastern's calculated appraisal value. It is not a guarantee of investment performance or returns.*

*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.*

*Internal rate of return (IRR) is the interest rate at which the net present value of all the cash flows from an investment equal zero.*

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

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

*Net Asset Value (NAV) is a statement of the value of a company's assets minus the value of it liabilities.*

*A special purpose acquisition company (SPAC) is a company with no commercial operations that is formed strictly to raise capital for the purpose of acquiring an existing company.*

*As of December 31, 2021, the top ten holdings for the Longleaf Partners International Fund: EXOR, 7.8%; Glanbia, 5.7%; GRUMA, 5.6%; Lazard, 5.1%: Domino's Pizza Group (UK), 5.1%; Prosus, 5.0%; Melco International, 4.9%; Lanxess, 4.7%; GREE, 4.5%; and Accor, 4.5%. Fund holdings are subject to change and holding discussions are not recommendations to buy or sell any security. Current and future holdings are subject to risk.*

*Funds distributed by ALPS Distributors, Inc.*

LLP001262
Expires 04/30/2022

# Longleaf Partners Global Fund

Longleaf/ Partners Funds

Summary – December 31, 2021

# 4Q21
# Longleaf Partners Global Fund

(800) 445-9469 / southeasternasset.com

Longleaf Partners Funds

## Long-Term / Concentrated / Engaged / Value

Founded in 1975, Southeastern Asset Management is an independent, global investment firm managing $10.9 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.

## Fund Profile

| | |
|---|---|
| Investment Style | Global Value |
| Ticker | LLGLX |
| Inception Date | December 27, 2012 |
| Net Assets | $0.3 billion |
| Expense Ratio (Gross) | 1.33% |
| Expense Ratio (Net) | 1.15% |
| Turnover (5 yr avg) | 35% |
| Weighted Average Market Cap | $30.2 billion |

## Holdings (21)

| | Activity* | Weight |
|---|---|---|
| Lumen | | 11.4% |
| EXOR | - | 9.2 |
| FedEx | + | 6.2 |
| General Electric | + | 5.5 |
| Discovery | + | 5.2 |
| Millicom | + | 5.2 |
| IAC | + | 4.9 |
| Prosus | - | 4.8 |
| CK Hutchison | | 4.7 |
| CNX Resources | - | 4.6 |
| MGM Resorts | | 4.6 |
| Melco International | + | 4.1 |
| Fairfax Financial | - | 3.5 |
| Biogen | NEW | 3.4 |
| Accor | | 3.2 |
| Affiliated Managers Group | | 3.0 |
| Williams | - | 2.9 |
| Hyatt | - | 2.6 |
| Mattel | NEW | 2.5 |
| GREE | + | 2.5 |
| Fiserv | NEW | 1.4 |
| Cash | | 4.6 |
| Total | | 100.0% |

*Full eliminations include the following positions: Comcast, Credit Suisse, Ferrovial, Holcim, and WH Group

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.

The total expense ratio for the Longleaf Partners Global Fund is 1.33% (Gross) and 1.15% (net). The Global Fund's expense ratio is subject to a fee waiver to the extent the Fund's normal annual operating expenses exceed 1.15% of average annual net assets.

## Sector Composition

| | |
|---|---|
| Communication Services | 26.7% |
| Consumer Discretionary | 24.3 |
| Industrials | 16.4 |
| Financials | 15.7 |
| Energy | 7.5 |
| Health Care | 3.4 |
| Information Technology | 1.4 |
| Consumer Staples | -- |
| Materials | -- |
| Real Estate | -- |
| Utilities | -- |
| Cash | 4.6 |

## Regional Composition

| | |
|---|---|
| North America | 61.7% |
| Europe Ex-UK | 22.4 |
| Asia Ex-Japan | 11.3 |
| Cash | 4.6 |

## Performance Contribution

| Top Three | Portfolio Contribution | Return |
|---|---|---|
| Fairfax Financial | 0.97% | 23% |
| FedEx | 0.93 | 18 |
| EXOR | 0.74 | 7 |

| Bottom Three | Portfolio Contribution | Return |
|---|---|---|
| Millicom | -1.04% | -21% |
| General Electric | -0.47 | -8 |
| Discovery | -0.33 | -5 |

## Performance at 12/31/2021

| | Total Return (%) | | Average Annual Return (%) | | | | |
|---|---|---|---|---|---|---|---|
| | 4Q | One Year | Five Year | Ten Year | 15 Year | 20 Year | Since Inception |
| Global Fund | 3.00 | 8.20 | 7.40 | -- | -- | -- | 6.68 |
| MSCI World | 7.77 | 21.82 | 15.03 | -- | -- | -- | 12.37 |

*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. Investing in non-U.S. securities may entail risk due to non-U.S. economic and political developments, exposure to non-U.S. currencies, and different accounting and financial standards. These risks may be higher when investing in emerging markets.

MSCI World Index is a broad-based, unmanaged equity market index designed to measure the equity market performance of 24 developed markets, including the United States. An index cannot be invested in directly.

LLP001258 expires April 30, 2022

January 2021

# Longleaf Partners Global Fund Commentary

# 4Q21

Longleaf Partners Global Fund added 3.00% in the fourth quarter versus MSCI World's return of 7.77%. For the full year the Fund added 8.20%, while the MSCI World returned 21.82%. Approximately half the disappointing relative performance for the year stems from our exposure to overseas-listed China and Hong Kong. After a solid first half of absolute and relative returns, COVID lockdowns re-accelerated in the second half, and investor anxiety from several rounds of regulation in the Chinese technology, education, real estate and Macau gaming sectors created extreme volatility. Consumer Discretionary was by far the worst absolute and relative-performing sector, driven primarily by our China-exposed businesses. The Fund's cash position, which averaged 11% over the course of the year but ended the period at approximately 5%, weighed on relative results. Although our relative underweight to the US and lack of exposure to the Information Technology businesses that dominated that market were a drag on relative performance, the majority of our North American stocks posted double-digit returns for the year. In a year that saw various times when the stock market acted like the pre-COVID, during-COVID and post-COVID "environments" (not necessarily in that order), the good news was that our two largest holdings – which we feel can thrive in all three of these environments – Lumen and

***Average Annual Total Returns (12/31/21): Longleaf Partners Global Fund: Since Inception (12/27/12): 6.68%, Ten Year: na, Five Year: 7.40%, One Year: 8.20%. MSCI World Returns (12/31/21) Since Inception: 12.37%, Ten Year: na, Five Year: 15.03%, One Year: 21.82%.***

*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.* ***As reported in the Prospectus dated May 1, 2021, the total expense ratio for the Longleaf Partners Global Fund is 1.33% (gross) and 1.15% (net). The expense ratio is subject to fee waiver to the extent normal annual operating expenses exceed 1.15% of average annual net assets.*** *Southeastern has contractually committed to limit operating expenses (excluding interest, taxes, brokerage commissions and extraordinary expenses) to 1.15% of average net assets per year.*

EXOR, were among our top contributors for the year. We believe that both remain underappreciated by the market and offer significant upside from today's discounted prices.

The team has been busy re-underwriting our businesses on a case-by-case basis. We draw upon insights from our extensive network of regional and industry experts, current and former investee company management teams and boards, asset management peers and clients to help inform our qualitative view. Although we believe that much of the China and Hong Kong markets have already been punished, creating some compelling bottom-up opportunities, we recognize that the macro events of 2021 will likely create long-term headwinds for many of the businesses there. In a challenging macro environment, we believe it is even more important to concentrate in your best ideas, where you truly know your businesses and the management teams at the helm.

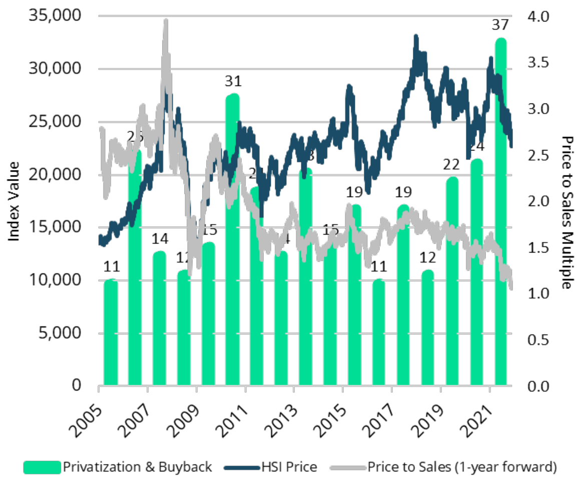
## China Update

China and Hong Kong were severely punished in the second half in the face of macro pressures and uncertainty. The MSCI Zhong Hua (ZH) index, a composite index comprising the MSCI China and Hong Kong indices, was down over 19% in 2021, underperforming its own 3- and 10-year average returns by approximately 26% and falling short of the MSCI EAFE, MSCI World and the S&P 500 by 30.5%, 41% and 47.7% respectively, reflecting the deep pessimism of investors towards China and the extremely strong performance of developed markets. US-China tensions, China property concerns, regulatory changes across the China education and technology sectors and Macau gaming license issues, on top of harsh COVID-induced border lockdowns, have all added to market volatility. The commentary from the 3Q letter detailing our interpretation of and response to these events remains pertinent.

In the fourth quarter, we saw an easing of some areas of uncertainty, including the potential for Chinese securities regulation of overseas-listed variable interest entities (VIE), a structure that has allowed Chinese companies to skirt a formal prohibition on foreign investment in internet services. Fears that this structure could be deemed illegal, wiping out the value of foreign investors' holdings, were put to rest when the China Securities Regulatory Commission (CSRC) officially extended oversight of offshore listing to Chinese firms with VIE structures in late December. Additionally, fears subsided over drastic regulation of gaming in Macau, including the potential revocation of gambling licenses (as discussed in detail in our third quarter letter), when the Macau government published its final report on the public consultation on the Macau license re-tendering on December 23. Although the report was merely a summary of public opinions gathered during the consultation period and not a final position by the government, it was positive in many respects. After the end of the quarter, Macau casino stocks rallied after authorities confirmed the revised gaming laws would involve minimal changes to the original gaming license terms and would maintain six casino licenses for up to 13 years, providing long-awaited clarity. While the industry remains depressed in the face of COVID-related lockdowns, Macau is poised to rebound quickly as pent-up demand is likely to fuel a rapid return as borders ultimately re-open. Melco International, the holding company (holdco) for Macau casino operator Melco Resorts, stands to win doubly, as a rebound can help close the historically wide (and in our view unjustified) discount between holdco and the underlying operating business.

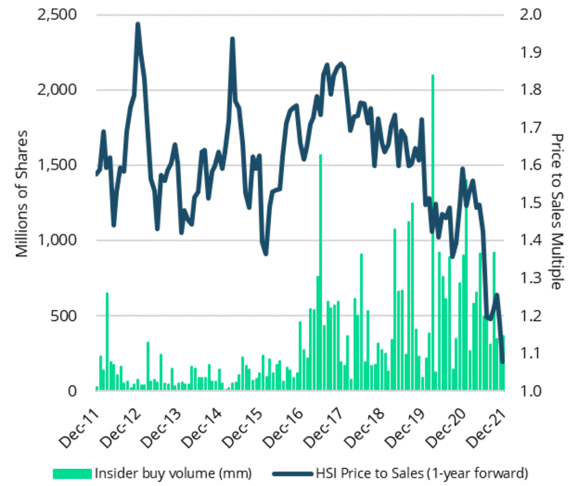
Supporting the case that China and Hong Kong offer compelling valuations, we have seen historically high levels of insider purchase activity across the region (and within our portfolio companies) in the last two years. At a time of elevated uncertainty and investor panic, it's always reassuring to see what insiders — who have better access to information and policymakers than outside shareholders, especially in a market like China where transparency is lower and volatility is higher — are doing with their money. Insiders in Hong Kong are taking advantage of the dislocation in prices by buying significant amounts of their own companies. The number of applications to the Hong Kong Securities and Futures Commission for privatization and buybacks has increased significantly as market valuations became more attractive. In the last two months of the year, there was over 3x more insider buying than selling volume in the Hong Kong stock exchange, surpassing the levels seen in February 2020, when COVID first broke out in China.

### Applications for Privatization and Buybacks as of 12/31/2021




Source: Hong Kong Securities and Futures Commission; Bloomberg

### Insider Buying vs. Hang Seng Price/Sales as of 12/31/2021




Source: 2iQ Research; Bloomberg

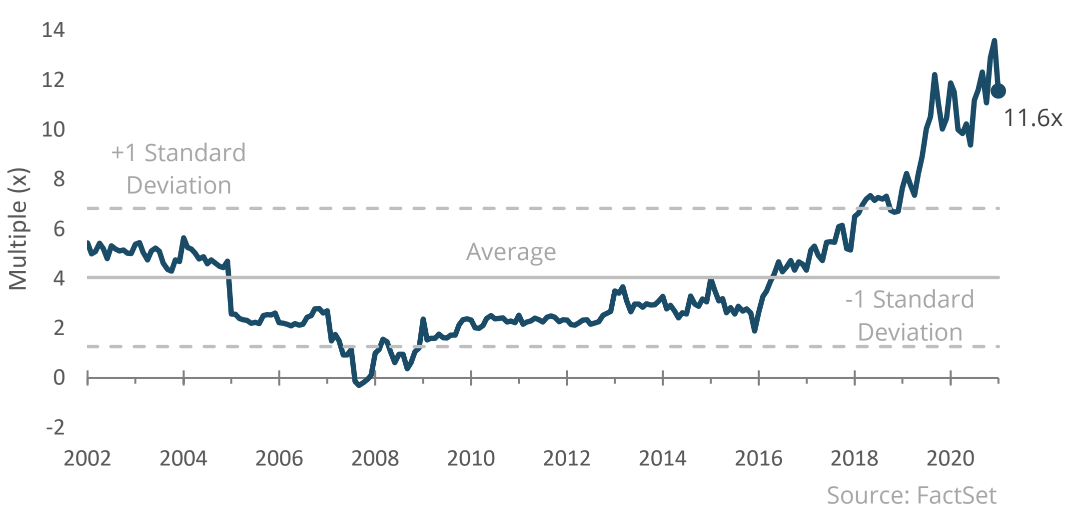
## Market Review

When we step back and look at the stocks that we do not own, we feel better than ever because finally too much ardor for the US market favorites is making many of them fall harder. This began happening this year in the small cap world, as first the special purpose acquisition company (SPAC) market cooled off, then the IPO (initial public offering) market began cooling as well. We have now seen things changing for larger cap favorites, like Docusign falling over 40% in a day after a quarter that wasn't all that bad, because it must be truly GREAT when you are trading near 20x revenues. This has led to a narrowing of market leadership yet again, with five large tech stocks essentially driving the S&P 500. While in the first four months of 2021, the equal-weighted S&P 500 outperformed the market-cap weighted index (indicating that a large number of stocks were rising), this quickly reverted in the latter half of the year, as the market-cap weighted S&P 500 outperformed its equal-weighted counterpart by 4% in the last eight months. While we hate sounding like a broken record and would love to own these market leaders at the right price, we must remind you of the rarity of living through a 5-10-year period in which the biggest got bigger/stronger and their growth rates didn't decelerate as both history and most prudent discounted cash flow models (DCFs) would suggest they should. That doesn't mean that they keep accelerating or stay at this growth rate forever (as their valuations need). More likely, it's a longer way down when they fall. An "S Curve" does eventually flatten out and ultimately go down. Although we cannot say when it will happen, odds are very high that these companies will: 1) hit the law of large numbers; 2) see increasing regulation; and/or 3) compete against themselves, well-funded startups (some of which we now own at IAC and Prosus) and/or "traditional" companies that can get together and/or focus to deliver a superior product (for example, the powerful union of Discovery and Warner Brothers). We may be witnessing the beginning of this turn. As of January 6, 2022, approximately 40% of Nasdaq Composite Index companies have seen their market values cut in half or more from 52-week highs.

Bringing it all together at the micro level, the gap between "obvious quality" and "everything else" grew once again this year. As we have written before, quality is of paramount importance to us, but it must be "hidden quality," which the market is not yet paying for. We too are tired of the phrase "value vs. growth," but we cannot help including the below chart that highlights the historically huge difference between these two categories:

### S&P 500 Growth P/E minus S&P 500 Value P/E

### Price to Earnings Next Twelve Months (1/1/2003 - 12/31/2021)

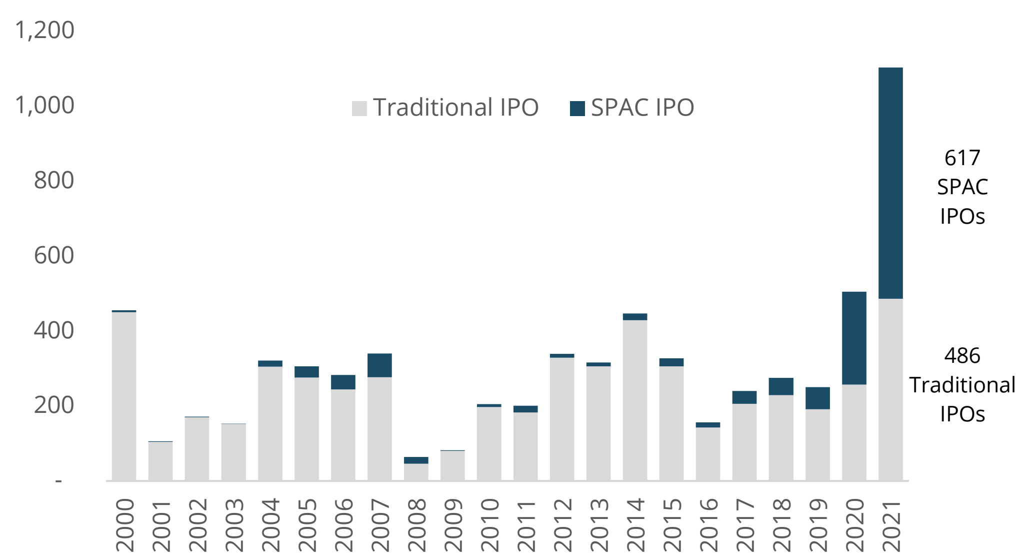


Some of us are old enough to remember when the stock market as a whole had a price-to-earnings ratio (P/E) of 12x or less for extended periods of time!

All of us are old enough to remember the fears in the years leading up to COVID that everything was either going to stay private or go private. We believe that private equity and venture capital have a place in capitalism, but we have now seen how cyclical fears like this can be, as many more companies came public this year, expanding our universe in positive ways.

## Yearly IPO Deal Count by Traditional IPOs and SPAC IPOs

Priced deals on US exchanges from 2000 until 2021




Source: Bloomberg as of 12/31/2021

We also have seen plenty of IPO/SPAC craziness showing both that private players need public markets more than they admit and that there is more volatility embedded in these newer companies than a private quarterly mark might admit. As for how efficient both the private and public markets are, we would encourage you to really delve into some of those multi-hundred-page S1s for many of the newest public companies to see the huge gap between the last valuation at which the company was funded and/or granted shares to its executives and the often much higher price at which the company went public – Coinbase and Rivian are two prime examples.

Finally, we must talk about inflation/nominal/real interest rates. We are not here to predict or say that we need raging inflation. We were wrong to miss the COVID-driven-buying-of-goods-boom in the last year or so that we believe is much closer to its end than its beginning. A lot of these Goods companies we don't own make up some of the lower next 12-month/last 12-month P/Es in the market (aka "traditional value stocks" that are often large weightings in a value index/Exchange Traded Fund), but we are focused on longer-term earnings power and don't need to play when this key metric is too hard to predict and/or potentially declining. Where we have felt more correct is focusing in on wage inflation not going away. The demographics and global trade patterns of the next 30+ years still look quite different than the last 30, so we expect inflation to be with us longer than some think. We have yet to talk with a company that expects wage growth to dramatically flatten out in 2022, and many are expecting continued mid-single-digit growth in the near term. We also believe that a positive real rate looks much more likely over the next 10 than the last 10 years as governments around the world step back from or at least no longer accelerate bond buying.

We see three potential broad nominal rate scenarios in 2022. In the first scenario, we are wrong, and rates go lower. In this environment, we expect to still deliver absolute returns (as we did this year) but might keep losing the relative game for a bit. In a second – we think most likely – scenario, rates go higher. In this environment, we believe we could win in multiple ways as market favorites at 25x+ P/Es have a long way to fall vs. our portfolio already at a roughly 10x multiple of growing free cash flow (FCF) power. We don't need to see a dramatic jump in rates for this scenario to play out – even a small increase should be beneficial to our approach from both an absolute and relative perspective. In the final scenario, rates remain the same, and the second derivative of the curve (i.e., what the stock market typically reacts to and what investors care most about; whether things are accelerating, decelerating or flattening out) doesn't get worse. In this environment, we would also expect to win both absolute and relative, but maybe not as much as in scenario two.

## Contributors and Detractors

(2021 Investment return, 2021 Fund contribution; Q4 Investment return; Q4 Fund contribution)

Lumen (40%, 3.06%; 3%, 0.31%), the global fiber company, was the top contributor for the year. CEO Jeff Storey took two actions this year to substantially increase the business's value and address the stock's enormous discount (it trades below 35% of our appraisal value). First, during the third quarter, Lumen sold its Latin American fiber for a good price [9x earnings before interest, taxes and depreciation (EBITDA)] and the weaker half of its US consumer business for an encouraging 5.5x EBITDA. Both multiples came in above our appraisals and demonstrate how cheap the consolidated Lumen RemainCo is today at less than 6x P/FCF and EV/EBITDA. The majority of Lumen's remaining EBITDA comes from its US Enterprise and Small and Medium Business (SMB) segments, which grow faster than Lumen's disposed LatAm fiber and are worth higher multiples. The weakest segment of the new Lumen, the western half of Consumer, is superior to the assets the company just sold for 5.5x EBITDA. Second, Storey quickly repurchased 7% of Lumen's shares, adding meaningfully to value per share and free cash flow per share. When the dispositions close, proceeds will reduce debt meaningfully, putting net debt right at the company's leverage ratio target even though that target was based on the prior, inferior business mix. We are pleased that our engagement since filing an amended 13D helped the company begin to deliver positive corporate actions. The market has fixated on the potential for another dividend cut, but Lumen's FCF is more than sufficient to cover the $1/share payout while investing aggressively into high-return, edge-out capex to grow revenues.

Fairfax Financial Holdings (49%, 2.06%; 23%, 0.97%), the Canadian insurance and investments conglomerate, was the largest contributor in the fourth quarter and a top performer for the full year. We tendered approximately 20% of our position into the $1 billion tender offer share repurchase just executed at $500 per share - a 10% premium to the pre-buyback trading price. The repurchase is funded by selling 10% of subsidiary Odyssey Re at nearly 2x book value to a Canadian pension plan. Fairfax retains control of Odyssey, while the pension plan will benefit from the steady earnings and attractive pricing in the insurance market. Fairfax was a superb – if volatile at times – investment through our initial investment period of 2000 to 2015, compounding at 15% per year. Since we invested again in 2017, it has been less satisfying, but shareholder-friendly actions like this sale and large repurchase indicate that Chair and CEO Prem Watsa has not lost his touch. This year, written premiums have grown well, and Watsa is intelligently delevering the balance sheet with the free cash flow . Fairfax's combined ratio was slightly unprofitable last quarter at 101%, due to Hurricane Ida and European flooding, but the underwriting is otherwise improving towards a normalized low-90s combined. Though Fairfax's investments portfolio did not outperform this year, Watsa made the good decision to end the company's costly hedging program. After appreciating significantly this year, Fairfax's 45% stake in digital insurance unicorn Digit is now worth 10% of the company's market capitalization. The stock should not continue to trade below book value with profitable underwriting, less debt and a growing investment portfolio. Watsa led a major repurchase effort this year to take advantage of the lingering price to value (P/V) discount. We are actively engaged with the company on several environmental, social and governance (ESG) topics. We believe that management is best in class and think Fairfax's abysmal CCC rating by MSCI ESG should be higher. We have encouraged the company to improve its ratings agency engagement and to increase its environmental initiatives, including more transparent carbon footprint reporting and better incorporation of climate change risk assessment in the underwriting business.

Biogen (83%, 1.61%; 5%, 0.07%), a biotechnology company specializing in therapies for the treatment of neurological diseases, was a strong contributor before we exited the position in the first half. We began acquiring shares in January 2021, paying between 9-11x FCF and a discount to our appraisal, even if the company's promising drug pipeline turned out to be worth 0. After Biogen's Alzheimer drug Aduhelm was approved in June, we quickly sold out after the stock's price appreciated over 70% and briefly exceeded our appraisal of the value. We re-initiated a position in Biogen in December at a price below our original cost basis from January. The stock became very cheap once again after Aduhelm's early sales disappointed due to its high initial cost before management correctly cut the price. We think Biogen's core Multiple sclerosis (MS) and Biosimilars businesses are strong enough to create sustainable double-digit earnings per share (EPS) growth, even if Aduhelm and the entire Alzheimer's program is worth zero. We also expect a board led by large shareholders to continue the company's accretive repurchase, while considering other beneficial corporate actions.

Williams (39%, 1.46%; 2%, 0.16%), the leading North American pipeline company, was also a strong performer. Transco, the company's flagship asset, grew revenues and EBITDA organically, but the performance of Williams's Gulf of Mexico assets was held back by hurricanes. The company's Northeast Gathering & Processing segment EBITDA increased 7% in an encouraging result. Williams is investing into a promising Wyoming wind project, while reducing emissions across all its legacy assets. Our appraisal of the consolidated value increased 14%, and the stock trades under an 80% P/V with minimal cyclicality and steady FCF, combined with an increased ability and willingness to repurchase shares.

MGM Resorts (42%, 1.43%; 4%, 0.23%), the casino and online gaming company, was another strong performer. The company's third quarter Las Vegas revenues grew massively over 2020, approaching within 8% of 2019 levels despite some lingering COVID restrictions. MGM has gained nearly 10 percentage points of Vegas Strip market share since 2019, an extraordinary achievement for CEO Bill Hornbuckle, who has also done a terrific job controlling corporate costs. Though its current Las Vegas margins are unsustainably high at 39%, MGM's Vegas EBITDA should grow steadily from this year's $1.6 billion as national reopening boosts travel in the next year(s). MGM's regional casinos are now exceeding their 2019 EBITDA levels as well, while MGM's digital iGaming revenues grew 17% sequentially for an excellent 32% market share. MGM repurchased shares at a 13% annualized pace during the last quarter at a $40 average price, while our growing value is now approaching $60. MGM acquired the Cosmopolitan, a "tuck-in" casino with achievable synergies, at a reasonable price and recently announced the sale of the Mirage for a headline price over $1billion, well above our appraisal for the asset. We are delighted with the progress of this management team and business over the last two years.

CNX Resources (27%, 1.33%; 9%, 0.43%), the Appalachian natural gas producer, was another top contributor. With higher strip gas prices, another strong year of FCF and a 13% annualized repurchase pace last quarter, our appraisal of the value increased over 20%. However, the company's conservative hedging program that has helped it withstand prior bear markets also held back earnings growth this year. The board, led by chairman Will Thorndike, recently authorized another $1 billion of repurchase, representing nearly one third of outstanding shares at today's price. Despite higher absolute FCF than Appalachian comps with inferior inventory positions, CNX trades at less than half of their enterprise values.

Melco International (-38%, -2.00%; 3%, 0.09%), the Macau casino and resort operator, was the top detractor for the year. Macau does not have a domestic market and heavily relies on cross-border tourism (primarily with mainland China), so the recovery remains dependent on the border reopening progress, which continues to get pushed back due to China's zero-COVID policy. As discussed above, the entire sector also took a beating when the Macau government announced its plans in September to kick off a 45-day consultation period for amendments to the gaming law in preparation for the license renewal process for Macau casino operators. Additionally, the intensified scrutiny on VIP junket business, culminating in the arrest of the founder of the biggest junket operator Suncity in the fourth quarter, further soured investor sentiment. As we saw in January 2022, the license renewal process is playing out roughly as expected, and there is nothing we have seen in the recently announced laws that warrant a material impact on the value. As for the VIP crackdown, this has been an ongoing theme since 2013 when Xi Jinping became the President of the PRC. Junket VIP represent a single digit % of Macau EBITDA and will not have material impact on the earnings power of the industry or at our holding in Melco. Our investment in Melco is underwritten by growth prospects of Mass Gaming demand. Mass-led recovery has been delayed due to severe border restrictions between China, Hong Kong and Macau, and we are confident that when restrictions are eased, we will see earnings and stock price recovery in short order. Our view is that the common prosperity has already occurred in Macau. The six concessionaires provide 40% of their revenue in taxes to the government. The Macau gaming industry contributes 70-80% of the government's tax revenue, over 55% of gross domestic product (GDP), and is the largest employer in Macau. Most Macanese are in a much better economic position due to the gaming industry, and we believe that the government would rather have gambling activity in a place they control, rather than occurring in other parts of southeast Asia. Post the sell down, we have seen insiders at two local operators buying shares, echoing our view that Macau shares are deeply undervalued and will be the major beneficiary of the re-opening.

Millicom (TIGO) (-28%, -1.46%; -21%, -1.04%), the Latin American cable company, was the largest detractor in the fourth quarter and a top detractor for the year. From the beginning of 2021 through November 12, Millicom's price was down slightly. At that point, we thought this to be somewhat unjustified since 2021 cash flow was up and was in line with projections, and free cash flow was being allocated mostly to grow the cable business in double digits in terms of subscribers and revenues. Through that point of the year, our appraisal for all of Millicom had grown at a healthy clip. Then on November 12, TIGO announced a very important strategic acquisition: buying in the half of its Guatemala business which Millicom didn't already own. It happened very quickly, and at a very attractive multiple; but because of the suddenness of the event, the TIGO balance sheet was not prepared for a cash-only purchase. So the company announced a debt deal for two-thirds of the purchase price and an equity rights offering for one-third. The rights offering can't happen until 2021 year-end financials are completed in the first quarter of 2022, and this has created a severe "overhang." There are plenty of bears on Millicom, on Latin America, on telecom, etc., who either don't buy or who have shorted Millicom. Among the Millicom bulls, in our small sample of contacts, they are waiting for the rights offering to add to positions. Additionally, tax-loss selling probably exacerbated the stock price weakness late in the quarter. We believe that the accretion to our appraisal and to FCF per share, and as well as the strategic benefit of fully owning and consolidating the Guatemala business, makes this a very wise allocation of capital for Millicom. Additionally, company operations, especially cable, continue to perform very well. But we are paying a steep short-term price since the announcement.

Prosus (-22%, -1.00%; 5%, 0.35%), a global consumer internet group, was a top detractor for the year. Tencent (which accounts for 85% of Prosus' net asset value (NAV)) has been impacted by slowing macro and China Tech regulatory headwinds. It reported relatively weak results in the third quarter, with revenues up 13% year-over-year (YOY) and adjusted operating profits up 7% YOY. Its online advertising business grew 5% YOY, much slower than 23% growth in prior quarter. The gaming business grew 7% YOY, which was better than the market feared, emphasizing its overseas growth potential and its efforts to control gaming by minors. Tencent's fintech and cloud businesses posted solid growth and strengthened their competitiveness. Tencent recently announced a partial stake sale and distribution in specie in some of its associate companies, including SEA Limited and JD.com in an effort to reduce the discount to its NAV.  Meanwhile, Prosus' global e-commerce portfolio reported strong results, with 53% growth in local currency driven by classifieds (+101%), food delivery (+86%), edtech (+51%) and payments (+44%). The internal rate of return (IRR) on these investments is more than 20%. The market is ascribing no value to this e-commerce portfolio (worth $49 billion per company disclosure), despite the company's proven ability to build and grown the business. Post the value-accretive voluntary exchange offer for Naspers N shares into Prosus N shares in August 2021, the discount to NAV further widened in contrast to our initial expectation, primarily driven by negative sentiment around China tech stocks and increased supply of Prosus shares. We believe the current level of discount is unwarranted given the solid growth prospects for Tencent and the global e-commerce portfolio. Management is focused on narrowing the discount to NAV and has bought back over $11.5 billion in shares in the last 18 months, and Tencent has increased its share repurchase after quarter end.

Gree Electric Appliances (-34%, -0.93%; -3%, -0.08%), the dominant air conditioner manufacturer in China, was also a detractor for the year. The Chinese home appliance industry had a strong recovery going into the first quarter of 2021. However, air conditioner shipment growth decelerated since April. Combined with commodity price inflation and concerns about margin pressure, the sector sold off since the second quarter. Although compared to kitchen appliances, air conditioners rely less on the new housing market than kitchen appliances, the Chinese real estate slowdown in the second half nevertheless presented an overhang on sentiment. Gree has been focusing on strengthening its business and pushed ahead with its channel reform. By cutting out layers of traditional offline distribution and setting up online channels, Gree will be closer to the end retail customer and respond faster to consumers' changing needs. In April, Gree was awarded the Global Cooling Prize and demonstrated its technological superiority in this industry. On capital allocation, Gree initiated its first major share buyback program in 2020, ramped up the buyback pace after the sector sold off in 2021 and completed three consecutive share repurchase programs with a total purchase of just under 9% of the company.

## Portfolio Activity

The disconnect between what drove the market and what we find to be compelling, high-quality businesses widened in the second half, allowing us to get the Fund more fully invested, even as we exited a few positions where our case had changed. We initiated three new holdings in the quarter (nine over the course of the year), which we are still building to various degrees. We exited Comcast as it neared its appraisal and sold our small position in Ferrovial after not getting a large enough stake. We sold Holcim, WH Group and Credit Suisse to fund the more attractive opportunities discussed above. While we still find Holcim and WH Group undervalued in absolute terms and owners of good assets, qualitative developments at both led to us prioritizing other investments in our Global portfolios. After taking an initial, smaller position in Credit Suisse earlier in the year, we ended up selling. We felt like we were getting a free shot at a potential turnaround at this controversial name. However, when more work from our team failed to confirm our initial thesis (especially that a more dramatic shift away from a balance sheet-heavy approach wasn't going to happen as soon as we first thought possible), we stuck to our process and sold at essentially breakeven vs. our cost.

After beginning the year at 15%, our cash position ended the year at 5%. Our on-deck list remains strong, and, thanks to solid value growth across the portfolio, most of the companies are trading in the mid-70s% or lower of their appraisal, meaning the margin of safety and potential upside for the portfolio, which trades at a price-to-value in the low-60s%, is very high.

## Southeastern Updates

The last two years have taught us to be more flexible to adjust to rapidly changing environmental factors and to allow for better work/life balance for our employees, while maintaining productivity levels and a connection to our central culture. We believe our established research network continues to provide us a clear competitive advantage. We expanded our global research expertise and network with the addition of Will Allen, who joins in January 2022 as a Memphis-based Junior Analyst, and Julio Utrera, CFA, who joined this summer as a London-based Analyst. Will is a 2019 college graduate who brings experience at value investing firm International Value Advisors. Originally from Spain, Julio adds eight years' experience of investing with a value focus in public and private equities in Europe and developing markets, as well as ESG expertise. Julio holds his CFA Level 4 Certificate in ESG Investing and served on the ESG Committee in his last role at T. Rowe Price International Equities, and he has already been a valuable addition to Southeastern's ESG committee.

In last year's annual letter, we highlighted the importance of ESG factors – both in our research process and in how we run our business – and the steps we have taken to formalize our approach. In 2021, we published our first annual ESG Report, which we would encourage you to read to learn more about our approach. Over the last year, we have continued to make progress and set new goals in this rapidly developing area – we signed on as a supporter of the Task Force on Climate-Related Financial Disclosures (in addition to being a signatory to UNPRI and CA100+); the research team undertook external ESG training; we expanded our portfolio carbon footprint data monitoring and established a Southeastern-specific template for carbon footprint reporting; we committed to directly engaging with management teams on their carbon reporting and efforts to improve their environmental practices (with recent success from these efforts seen at General Electric, supported a shareholder resolution to report Scope 3 emissions and set near-term emissions reduction goals ahead of its 2030 net zero target, and CNX Resources, which was recently named one of three 2021 Energy ESG E&P Top Performers by Hart Energy, among others).

Another key area of focus has been fostering, cultivating and preserving a culture of diversity, equity and inclusion (DEI) at our firm, as well as engaging with our portfolio companies to better understand their approach to DEI and in some cases to push for increased diversity at a board and/or management level. As a small, lean firm with low employee turnover, we have looked for ways that we can partner with other organizations to help make a positive impact within our industry. In 2021, we partnered with the Notre Dame Institute for Global Investing via their Investment Management Access Program (IMAP – a program focused on improving diversity within the asset management industry) and Girls Who Invest (GWI – an organization that is helping transform the asset management industry by bringing more women into portfolio management and leadership).

In August 2021, we launched an exciting new initiative, Greenwood Pine Partners, a mission-driven, minority-owned investment management firm with initial funding from the Shelby County Retirement System in Tennessee. Greenwood Pine is 51% owned by Southeastern Senior Analyst and Principal Brandon Arrindell, who is African American and from Memphis. Brandon serves as both majority owner and portfolio manager for this US-focused, all-cap strategy employing Southeastern's long-term, concentrated, engaged approach. The goal of the structure and partnership with Shelby County is to produce strong risk-adjusted returns while also working to address the issue of minority underrepresentation in asset management. Where possible, Greenwood Pine seeks to partner with minority-owned, local service providers. Southeastern has pledged the proceeds derived from its 49% stake in the LLC to organizations that support under resourced communities.

Finally, we are always looking for ways to improve our communications with clients. Beginning next quarter, we will provide a Frequently Asked Questions-format podcast to allow you to hear directly from your portfolio managers. The audio format will have a transcript available and will be supported by a quarterly fund summary and a longer, more detailed annual letter at the end of the year. We will continue to highlight discussions with management teams and other ad hoc topics in the *Price to Value Podcast with Southeastern Asset Management*, with our newest episode coming in January, in which Staley Cates interviews Realogy CEO and President Ryan Schneider.

**Outlook**

Despite recent underperformance, the solid results at a strong majority of our investees and the high quality of our carefully selected China and Hong Kong investments give us significant confidence in our portfolio holdings. Our top performers saw substantial value growth in the last year, meaning they remain attractively discounted with significant upside even after solid price appreciation in 2021.

We spent much of this letter exploring the current environment and what it has meant / will mean for our portfolio. We have lived through many different macro environments in many different regions throughout these periods, and we have found that opportunity is not often where it feels the easiest. We have heard from many clients and prospects this year who (very understandably) want to know what will be the "right environment" for our portfolios to outperform. As conventional wisdom becomes more about trading in and out of ETFs instead of analyzing bottom-up value per share growth, we understand the pressure that investment committees face and the frustration of not knowing when our relative performance will turn. We would caution, however, that nailing the chained probability of both what the next environment will be and how we will do in it is very hard.

Our 46+ year performance history shows that there is never a predictable pattern, but the historical context makes us believe even more strongly in our odds from here. Southeastern was founded in 1975 amid a period of historically high inflation, with US interest rates rising to nearly 20%. From the official start of Southeastern's US large cap composite in January 1980, we outperformed the market in eight out of the nine following years. We expect that we would do well again with more rate volatility going forward. We did less well relatively in the 1990s and 2010s when interest rates declined, even if we did deliver solid absolute returns on the stocks that we picked in those timeframes. This seems like the least likely scenario out of the three described above, since rates are already so low. At the very least, we believe we would be more fully invested in a scenario like this, judging by our improved productivity, current portfolios and on-deck list. We did well in the 2000s pre-global financial crisis (GFC) with relatively flat interest rates (note that the US 10-year treasury stayed in a tight band around 5% during that almost 10-year period), which we could see happening again (but probably less likely than increasing rates), so that is also encouraging.

While looking to our history doesn't give us the answer of when the current environment will turn, it does allow us to learn from the past and improve over time. When we add up the three broad types of environments above, we see a healthy "2.5 out of 3" in which we win. We are confident that our concentrated portfolio comprising strong businesses, run by owner-operators, currently trading at high margins of safety can deliver significant outperformance in the years ahead. We think 2021 had many positive signs that the future is bright, and we look forward to sharing it with you.

*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 Global Fund is subject to stock market risk, meaning stocks in the Fund may fluctuate in response to developments at individual companies or due to general market and economic conditions. Also, because the Fund generally invests in 15 to 25 companies, share value could fluctuate more than if a greater number of securities were held. Investing in non-U.S. securities may entail risk due to non-US economic and political developments, exposure to non-US currencies, and different accounting and financial standards. These risks may be higher when investing in emerging markets.*

*MSCI World Index is a broad-based, unmanaged equity market index designed to measure the equity market performance of 24 developed markets, including the United States. An index cannot be invested in directly.*

*The MSCI Zhong Hua Index is a composite index that comprises the MSCI China and MSCI Hong Kong Index. The index captures large and mid cap representation across all China securities as well as Hong Kong securities.*

*MSCI EAFE Index (Europe, Australia, Far East) is a broad based, unmanaged equity market index designed to measure the equity market performance of 22 developed markets, excluding the US & Canada.*

*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. S&P 500 Value Index constituents are drawn from the S&P 500 and are based on three factors: the ratios of book value, earnings, and sales to price. An index cannot be invested in directly.*

*The Hang Seng Index (abbreviated: HSI) is a freefloat-adjusted market capitalization-weighted stock market index in Hong Kong. It is used to record and monitor daily changes of the largest companies of the Hong Kong stock market and is the main indicator of the overall market performance in Hong Kong.*

*A variable interest entities (VIE) is a structure in which an offshore entity is owned by investors in the U.S. or Hong Kong stock exchanges. This offshore entity in turn has a contractual relationship with a Chinese company.*

*Form S-1 is the initial registration that must be filed by a United States company in advance of an Initial Public Offering (IPO).*

*Book Value is the value of an asset as carried on a company's balance sheet.*

*An MSCI ESG Rating is designed to measure a company's resilience to long-term, industry material environmental, social and governance (ESG) risks.*

*Cost basis is the original value or purchase price of an asset or investment for tax purposes.*

*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 price-to-sales ratio, also known as "price/sales," is one of many valuation metrics for stocks. The ratio describes how much someone must pay to buy one share of a company relative to how much that share generates in revenue for the company.*

*Standard deviation is a statistic that measures the dispersion of a dataset relative to its mean and is calculated as the square root of the variance.*

*"Margin of Safety" is a reference to the difference between a stock's market price and Southeastern's calculated appraisal value. It is not a guarantee of investment performance or returns.*

*A special purpose acquisition company (SPAC) is a company with no commercial operations that is formed strictly to raise capital for the purpose of acquiring an existing company.*

*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.*

*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.*

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

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

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

*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.*

*Internal rate of return (IRR) is the interest rate at which the net present value of all the cash flows from an investment equal zero.*

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

*ESG stands for Environmental, Social and Governance, and refers to the three main factors when measuring the sustainability and ethical impact of an investment in a business or company.*

***As of December 31, 2021, the top ten holdings for the Longleaf Partners Global Fund: Lumen, 11.4%; Exor, 9.2%; FedEx, 6.2%; General Electric, 5.5%; Discovery, 5.2%; Millicom, 5.2%; IAC/InterActiveCorp, 4.9%; Prosus, 4.8%; CK Hutchison, 4.7% and CNX Resources, 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.***

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