Longleaf Partners Small-Cap Fund

Quarterly Summary Report

For the Quarter Ended
September 30, 2020

Longleaf Partners Funds

Summary - September 30, 2020

3Q20

Longleaf Partners Small-Cap Fund

(800) 445-9469 / southeasternasset.com

Fund Profile

Investment Style	US small-cap value
Ticker	LLSCX
Inception Date	February 21, 1989
Net Assets	$1.9 billion
Expense Ratio (Gross/Net)	0.93%
Turnover (5 yr avg)	30%
Weighted Average Mkt. Cap	$4.5 billion

Holdings (16)

	Activity*	Weight
Lumen		10.9%
Eastman Kodak	-	10.0
Mattel	-	8.4
Lazard		7.1
CNX Resources		6.5
Graham Holdings		4.9
LANXESS		4.7
Realogy		4.4
Empire State Realty		4.3
Univar Solutions		4.1
Hyatt		4.1
PotlatchDeltic	-	4.0
Everest Re	NEW	3.5
Liberty Braves Group	NEW	2.7
Formula One Group	-	2.5
Summit Materials	NEW	0.3
Cash		17.6
Total		100.0 %

*Full eliminations include the following positions: GCI Liberty and ViaSat.

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.

LLP001115 expires January 31, 2021

Longleaf Partners Funds

Long-Term / Concentrated / Engaged / Value

Founded in 1975, Southeastern Asset Management is an independent, global investment firm managing $9.0 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 14-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

Consumer Discretionary	17.4%
Communication Services	16.1
Real Estate	12.7
Financials	10.6
Information Technology	10.0
Energy	6.5
Materials	5.0
Industrials	4.1
Cash	17.6

Performance Contribution

Top Three	Portfolio Contribution	Return
Eastman Kodak	14.53%	120%
Mattel	1.63	21
Realogy	1.41	27

Bottom Three	Portfolio Contribution	Return
Empire State Realty	-0.64%	-13 %
Undisclosed	-0.02	0
Univar Solutions	0.01	0

Performance at 9/30/2020

	Total Return			Average Annual Return				
	QTR	YTD	One Year	Five Year	Ten Year	15 Year	20 Year	Since Inception
Small Cap Fund	22.16%	-11.41%	-3.16%	6.84%	9.71%	7.64%	9.08%	9.98%
Russell 2000 Index	4.93%	-8.69%	0.39%	8.00%	9.85%	7.03%	6.88%	8.98%

Returns reflect reinvested capital gains and dividends but not the deduction of taxes an investor would pay on distributions or share redemptions. Performance data quoted represents past performance; past performance does not guarantee future results. The investment return 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.

October 12, 2020

Longleaf Partners Small-Cap Fund Commentary

3Q20

Longleaf Partners Small-Cap Fund added 22.16% in the third quarter, far surpassing the Russell 2000's 4.93% return for the period, and going a long way towards closing the relative return gap for the year. Almost every company in the portfolio produced positive returns in the quarter, with several companies reporting double-digit returns, driven by stronger-than-expected results. Kodak was by far the largest contributor, accounting for two-thirds of the positive absolute returns and 85% of the relative outperformance in the quarter. The Fund still trails the index slightly year to date (YTD), with our investments in Neiman Marcus and Dillard's more than accounting for the small remaining shortfall. We have already taken the pain in these investments, selling both last quarter, as we determined that the long-term business case for each materially deteriorated in the COVID-19 environment. Although the Small-Cap Fund trails the momentum-driven Russell 2000 in the near-term, the Fund is ahead of the Russell 2000 Value Index on a trailing 1, 3, 5, 10-year and since inception basis. We are highly confident in the portfolio today and believe we have significant upside potential from here.

Average Annual Total Returns for the Longleaf Partners Small-Cap Fund (9/30/20): Since Inception (2/21/89): 9.98%, Ten Year: 9.71%, Five Year: 6.84%, One Year: -3.16%. Average Annual Total Returns for the Russell 2000 (9/30/20): Since Inception (2/21/89): 8.98%, Ten Year: 9.85%, Five Year: 8.00%, One Year: 0.39%. Average Annual Total Returns for the Russell 2000 Value (9/30/20): Since Inception (2/21/89): 9.27%, Ten Year: 7.09%, Five Year: 4.11%, One Year: -14.88%.

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, 2020, the total expense ratios for the Longleaf Partners Small-Cap Fund is 0.93%.***

Performance Review: Update on Kodak

We have fielded multiple calls and emails on Kodak since the news first broke on July 28, 2020 about the company receiving a potential $765 million loan under the Defense Production Act to produce ingredients used in a variety of key generic medicines.

When we first invested in Kodak in 2016, one of the most compelling but hardest to value parts of our case was the strategic upside in the Eastman Business Park (EBP) in Rochester, NY. This facility encompasses over 1200 acres and millions of square feet of buildings. But the vast majority of it was lying dormant at the time of our investment. One of the many good things about the news of the loan was that it could rejuvenate this asset in a win/win for both Kodak and the United States. The loan would not be a gift, but rather an investment that achieves a good return for both parties by bridging the EBP from an underutilized asset to a productive facility that can handle much more than just the drug ingredients contract initially announced.

It was discouraging that after the news of the potential loan broke, Kodak and CEO Jim Continenza had to endure multiple headlines alleging various improprieties, while the company was unable to publicly defend itself in the midst of a review of the events of the last few months by well-respected law firm Akin Gump. When Akin Gump's 88-page report finding no illegal behavior by Kodak management came out, there was less coverage, but the good news is that the facts appear to speak for themselves. Importantly, through release of this report, our view is that Jim Continenza and the Kodak board of directors were able to clear the air as it relates to his options granted this year and to potential insider trading. We will continue to monitor any developments regarding these issues.

It is not clear whether the government loan will still go through at this point, but Kodak has confirmed that commercial parties were interested in doing business with the company in this drug ingredients field before the government loan came into view, thus showing that there are multiple paths with and without a government loan to value realization here. Jim Continenza has been working hard to grow value per share since he became CEO of the company last year. Jim has dramatically cut costs, simplified the business and sharpened its focus. We are confident that he will continue to explore a broader array of strategic options for Kodak's other assets, like its digital printing business, its brand licensing stream and its under-monetized materials science patents from a position of strength.

We were not able to share details with you on our active trading in the midst of the extreme share price volatility, given regulatory restrictions and the sensitivity of the situation. We can now share more of those details and how we managed the position through the news cycle.

We exited our small common stock position the day the deal was announced and then worked with the company to convert our convertible bonds to common shares over the course of the next several days. As noted in Kodak's 8K filed on August 3rd, we received just under 30 million shares of common stock and $5.6 million in accumulated interest in cash upon conversion. We subsequently sold all of the converted shares to take advantage of the price appreciation and reduce an outsized position, as reported in our Schedule 13G filed on September 10th. Today, we still retain ownership in the preferreds, which represent 10% of the portfolio as of quarter end.

Our investment in Kodak has been mostly done as a lender first with equity upside second because of what we viewed to be a much wider than usual range of outcomes at this company. We chose to live with less near-term liquidity in exchange for this downside protection, coupled with large potential upside. We understood that this could lead to more short-term volatility in the stock price given the small market cap at the time we invested, but we can't say that we expected a range of $2 to $60 in two days and now $9 two months later. We will always view volatility like this as a gift from Mr. Market, as Ben Graham and Warren Buffett would say. We have also long focused on being approximately right instead of precisely wrong in our appraisals. We have been monitoring the situation and updating our view in real time, and the range of the Kodak value per share today is both higher and wider than it was three months ago. It is likely that the replacement cost of EBP today is an extremely large number. This value needs to be added to Kodak's other assets that we thought were worth at least $500-750 million, including cash. We can see a path to meaningfully positive free cash flow (FCF) at Kodak over the next few years that can be worth at least a mid-high teens market multiple. With the conversion of our bonds into equity, our preferred investment is now an even higher quality credit, and when the time is right, we will explore various ways to monetize or modify this investment before it matures next year. In the meantime, this investment provides dividends and solid value as a safe credit.

It is important to note that the gains locked in on Kodak are offset by realized losses in the Fund, so the sale has not created a capital gains distribution. We did have 2019 capital gains during the spillback period (i.e., capital gains from fiscal year 2019 that were not distributed in last year's November distribution). As of September 30th, the estimated capital gain distribution for the Fund is 0.70 per share, based entirely on the 2019 spillback period, not related to Kodak.

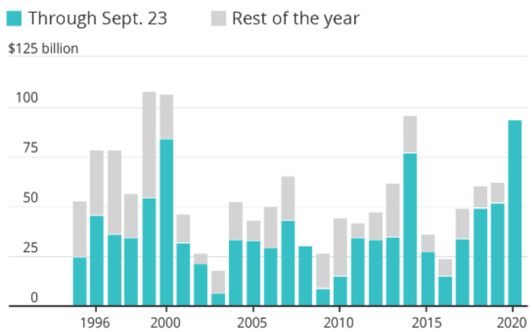
Market Review

Last quarter, we wrote about the two different categories of bear markets we have seen seven times over the last 50+ years – those that were started by an external macro shock (from which value has historically bounced back better than the market after a period of initial underperformance) and those that were started by the popping of a speculative stock market bubble. Over the last three months, we began to see early signs of both our style of investing bouncing back and the speculative bubble popping, or at least letting some air out. While we will highlight strong stock-specific results at the companies we own later, we saw some promising signs that momentum will not drive markets forever. While our previous letter focused more on the quantitative signs of market excess, we thought it might be helpful in this letter to highlight some other, more qualitative reasons things could soon turn our way.

The first sign of market excess to discuss has been the dramatic rise in initial public offerings (IPOs), as the market has continued to first thaw from and then quickly overheat after the initial COVID shock. After seeing sentiment measures reach Global Financial Crisis (GFC)-levels in March, it is pretty amazing to consider that 1999-2000's IPO issuance record is now within reach only six months later, as shown in chart 1 below.

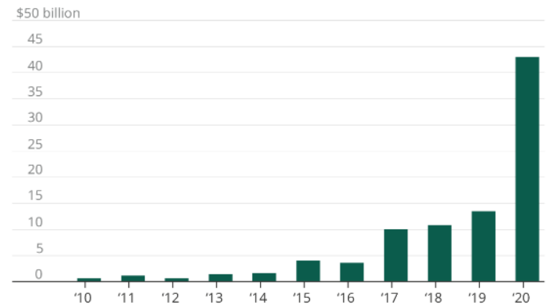
The September 4th MarketWatch headline christening 2020 as "The Year of the SPAC" (special purpose acquisition corporation) is arguably an even starker sign of excess, with the highest issuance of SPACs on record, by a lot, as shown in chart 2 below.

Chart 1:
Money Raised by US-listed IPOs



Source: Driebusch, C. (2020, September 25). IPO Market Parties Like It's 1999. *Wall Street Journal.* Retrieved from wsj.com; Dealogic

Chart 2:
Money Raised in Blank-Check Company IPOs, Annually



Source: Wursthorn, M. (2020, September 30). Blank-Check Companies Get the ETF Treatment. *Wall Street Journal.* Retrieved from wsj.com; Dealogic

In a way, this signifies an even frothier market than the kind of IPO boom that has typically been associated with traditional market peaks. At least with IPOs you know what you are buying, even if it is at a high multiple and is being sold by someone who knows a lot more about it than you do. Essentially "blank-check companies," SPACs represent shares in a company that has no operations. SPACs are a total leap of faith that markets are only open to when things feel the best, but a big leap off a high peak can lead to a painful splat. The Year of the SPAC was taken to an even greater extreme with the launch of the first SPAC ETF on October 1st. In our view, this unholy union is a sign of peak market mania.

We have also seen a sharp increase in retail stock trading forming part of the zeitgeist, which is yet another sign of a market top. In recent history, we had the great bitcoin Thanksgiving of 2017 (bitcoin trades today at $10,504 vs. its high of $19,783 in December 2017). Similarly, right before the GFC, there was a mania for building and flipping houses (housing starts even in the strong year of 2020 are still on track to be in the 1.5 million range vs. a peak of over 2 million pre-GFC). But, we have to go back to 1999-2000 to see a retail frenzy for certain stocks at similar levels we are seeing today.

Putting a sad 2020 twist on the old "shoeshine boy test", one of us recently lost someone close to us but was unable to attend the small funeral service due to COVID restrictions and family obligations. While texting with the family member who was able to attend, she reported back not on the details of the service, but rather on all of the questions about options trading and an electric vehicle stock from the guests in attendance! For contrarians like us, this brought some glimmers of hope to a long day in a long year.

Contributors/Detractors

(Q3 Investment return; Q3 Fund contribution)

As discussed above, Kodak (121%, 15.45%) was the largest contributor to performance in the quarter.

Mattel (21%, 1.63%), the classic toy company, was another strong contributor in the quarter. Although this year's revenues will be down due to global lockdowns shutting stores, the company is on track to increase its annual earnings before interest, taxes, depreciation and amortization (EBITDA) with higher gross margins and the successful execution of its outsourced manufacturing strategy. Barbie delivered another excellent performance, gaining seven points of US doll market share in the second quarter, while growing its revenues as competitors shrunk. Mattel also released a new Barbie special on Netflix in September, part of a promising long-term push into intellectual property licensing. American Girl, a brand that has struggled for years, doubled its digital sales during the quarter as well. With higher profitability, shoppers returning to stores and a strong new digital media presence behind its biggest brands, CEO Ynon Kreiz's strategy is beginning to pay off.

Realogy (27%, 1.41%), the residential brokerage franchisor, was another strong contributor. Although quarterly numbers in both the Franchise and Owned Brokers businesses appeared anemic due to April's nearly frozen market, home sales picked up by the end of the second quarter and have surged in the third. The company amended its credit covenants to allow for another year of higher leverage ratios on depressed trailing annual EBITDA until its sales normalize. Realogy's Title business also cashed in on the refinance boom and doubled its EBITDA contribution during the quarter. CEO

Ryan Schneider deserves credit for not panicking in the worst moments in March and April, and the company is poised to de-lever rapidly in today's healthy homes sales market.

Lazard (17%, 0.96%), the global asset management and investment banking company, was also a top contributor. During the quarter, Lazard's AUM grew 11% as international markets rallied, and management revealed a strong backlog of new accounts to drive future inflows. Financial advisory revenues declined 11% YOY with the depressed number of M&A transactions outweighing strong growth in restructuring work. CEO Ken Jacobs has done excellent work to maintain the company's profitability by reducing costs more than 10% in a challenging market environment. As earnings rebound with an improving 2021 M&A environment, we expect further strong appreciation from Lazard's undervalued shares. In the meantime, Lazard's free cash flow funds a hefty 5% dividend. The recent news of Morgan Stanley acquiring an inferior peer to Lazard Asset Management for a high multiple, as well as activists taking stakes in peers Janus Henderson and Invesco, should help to highlight the value of Lazard's differentiated international asset management business. Lazard remains highly discounted versus our appraisal value, which has been growing again after the initial COVID pain.

Graham Holdings (18%, 0.94%), the media, education and manufacturing conglomerate also contributed to positive returns. With small businesses slashing marketing expenses, Graham's quarterly TV revenues fell 17% excluding the election-year growth in political advertising. However, the TV revenues bottomed in April and have since shown marked improvement. In Education, Kaplan International constant-currency revenues decreased 9% due to the freeze in international travel and campus closures, but this result was better than feared and the segment's margins held up well. Kaplan Higher Education, a joint venture with Purdue, grew strongly, as did the company's wood treating and podcasting subsidiaries. CEO Tim O'Shaughnessy took advantage of a highly discounted price by repurchasing at a 7% annualized pace and announced in September the board's new repurchase authorization of up to 500,000 shares.

Empire State Realty Trust (ESRT) (-13%, -0.64%) was the only detractor of note in the quarter. New York City is just beginning to emerge from COVID, so its office buildings remain only about 10% full, and the Empire State Building Observatory – while outperforming other observatories in the area by a significant margin – is still well off its 2019 levels due to a dramatic fall-off in tourist traffic. It will take time for the company to rebound to full strength, but a dire scenario is already priced in, and our value in the mid-teens per share assumes a slow ramp back. The good news is that ESRT has a best in class balance sheet, and our great CEO partner Tony Malkin is poised to go on offense in a market that is ripe with opportunities.

Portfolio Activity

Cash built in the first two months of the quarter, as we sold and trimmed strong performers, but we began to put more money to work in September. We exited GCI Liberty in July for an 81% return over two years of ownership. Charter Communications, the cable company that is GCI Liberty's largest holding, grew its value consistently with improved EBITDA and FCF, and Charter's share price roughly doubled in the last two years. GCI's Alaskan cable business faced a seemingly endless series of unforeseen challenges but navigated them well. Once again, CEO Greg Maffei and Chairman John Malone proved to be exemplary partners. We also exited our position in satellite communications company ViaSat, which was a small performance detractor but a longer-term opportunity cost given its six-year holding period. Over the course of our holding, ViaSat shrunk its subscriber churn and raised prices, as we had originally believed they would. Its government business consistently grew revenues and profits very well, and ViaSat Inflight signed up over 2000 airplanes. But the company will not produce positive FCF for several more years due to the ongoing investment demands of its next-gen satellites. Threats from new entrants have emerged from the likes of Amazon that are difficult for us to quantify. We have also disagreed with management on certain items over our holding period. There is a wide range of outcomes from here for the business, but we felt we could deploy the capital elsewhere with less downside risk.

We initiated three new investments in the quarter, all of which remain undisclosed as we build out the positions. We have successfully owned all or parts of these businesses before (sometimes in different forms) and are confident that they have improved qualitatively since we last owned them. We also had positive people changes at two of them.

Outlook

After another quarter of strong market returns, we were excited to see increased volatility and share prices pulling back a bit in the last month, when we were able to start putting some of our cash to work again. Our research team has been busy, and our on-deck list of potential new investments grew substantially in the last three months. If we are able to fill out the open orders for 3 positions in the portfolio that are currently sub 5%, this would quickly take cash from 18% to 10%. We have over five ideas that are fully vetted and being closely watched across a variety of industries. These companies range from branded apparel to diversified infrastructure to diversified industrials to financial services to media/entertainment. They have all been discounted for idiosyncratic reasons. With more market volatility, we expect we will be able to put more cash to work into at least some of these businesses at good prices.

Continuing the theme of this letter, it feels like things are closer to coming our way, mostly because it felt for the first two months of this quarter that market sentiment had rarely been worse for bottom-up, value investors like us. It will be an interesting rest of the year for all of the reasons that we are all tired of hearing about. We can imagine a grid of outcomes with the best possible (but not the most likely) “cube” being [vaccine that works well and is rolled out smoothly and swiftly over the next 6-9 months] + [“normal” (we give some leeway with those quotes) US election] + [nothing else bad happening], but we are aware that there are a lot of other cubes in this grid. Of course there are always large outcome grids like this (that’s life), but it is rare to find so many consequential and sharply divergent paths compressed into so few months, and it feels like the market is pricing in a scenario much closer to the ideal cube for a lot of market sectors that have been seemingly priced for perfection for years now. Where the market is more doubtful, we feel that the vast majority of the pain has already been taken, including in some of our portfolio holdings, like Lumen (the recently renamed CenturyLink) and Empire State Realty Trust, to name a few. We have maintained our cash discipline as the market melted up, meaning we have cash available to be a liquidity provider in the next market downdraft, and we will not be afraid to put it to work when investments qualify. For those reasons, we are confident our portfolio will work from here in a variety of outcomes and look forward to speaking with you again after year end. Thank you for your continued partnership, and we hope you and your families remain safe and healthy.

See following page for important disclosures.

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RISKS

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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.

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

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.

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.

As of September 30, 2020, the top ten holdings for the Longleaf Partners Small-Cap Fund: Lumen, 10.9%; Kodak, 10.0%; Mattel, 8.4%; Lazard, 7.1%; CNX Resources, 6.5%;Graham Holdings, 4.9%; LANXESS, 4.7%; Realogy, 4.4%; Empire State Realty, 4.3%.; Univar 4.1%. 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.

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LLP001092
Expires 1/31/2021