Southeastern Asset Management

Global Strategy Commentary 4Q22

Portfolio Characteristics

Price-to-Value (PV)	Mid-50s%
# of Holdings	23
% of Cash	2.9%

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			Annualized Total Return			
	4Q (%)	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)	Since Inception (%)
Global Strategy (Gross)	10.84	-22.74	-3.32	-1.53	5.13	5.27
Global Strategy (Net)	10.68	-23.15	-3.83	-2.05	4.56	4.57
MSCI World	9.77	-18.14	4.94	6.14	8.85	5.08
MSCI World Value	14.74	-6.52	4.06	4.12	7.24	4.86

*Since inception 9/30/2000

The Global Strategy added 10.68% in the fourth quarter, ending the full year down 23.15%, while the MSCI World returned 9.77% in the quarter and fell 18.14% in the year. Multiple companies rebounded in the fourth quarter, delivering strong double-digit returns that continued into the first part of 2023 as we are writing this letter. While we recognize that more near-term volatility may be in store, we believe this is only the beginning of better performance.

Our 2022 annual returns were subpar and lagged our expectations, driven primarily by declines at a handful of detractors - Lumen, IAC and Warner Bros Discovery - which more than accounted for the relative performance gap, as well as a large portion of the disappointing absolute performance over the last year. We discuss these positions and others in more detail below.

Last month we were talking with a long-time Southeastern observer. He said that with the two macro themes laid out in our 2021 annual letter – 1) no more free money / interest rates going up; 2) more market sanity after years of growth at all costs beating everything – he would have expected a better year for Southeastern in 2022. We agreed with him. In this talk and others like it, we spent the most time going stock-by-stock, detailing how we own high-quality companies that we believe will deliver more free cash flow (FCF) per share than current results and market expectations, leading to better future returns.

We have demonstrated long-term skill as bottom-up stock pickers, but partly because of this deep, micro research focus, it has taken us too long to learn some larger lessons. Our approach remains neither purely statistical value (which has done better this year after being out of favor for the last 15) nor compounders-at-any-cost (which has done much worse this year, after dominating for more than a decade). We believe seeking out the best of both served us well for our first three decades and will again serve us well from here.

Southeastern is at its best when we find temporarily unloved but high-quality companies with short-term earnings per share (EPS) below long-term free cash per share. We have picked many good stocks that fit this description. But we have held ourselves back by making certain portfolio management decisions and investing too early in certain types of stocks. We have done internal and external analysis to better quantify these mistakes, and the impact is large. While you should be wary if we were about to say that there is one magic thing or 10 minor tweaks that will take the next several years back up to our standards, we believe that the following three guidelines will make us much better. As Charlie Munger said: "All I want to know is where I'm going to die, so I won't go there." We have been wounded at these three places too often, so we will avoid them in the future.

1) Overweights: The numbers show that we are more often than not good stock pickers, but we have not done well with our overweighting decisions for a long time. After trying for years to qualitatively fix this problem, we are now limiting our discretion on this matter by not allowing stocks to get above 6.5% weightings in the portfolio for any extended period of time. Sometimes we will have companies temporarily pop over this level on good news, but the longer stocks have stayed at weightings like this, the worse they have done for us.

2) Leverage: Southeastern has made good investments in companies that have net debt on the balance sheet, but some of our more disappointing investments have had excessive leverage. Previously, we have given ourselves too much

leeway on these kinds of investments because we were too attracted by a low price-to-value ratio on equity value (P/V), when we should have focused more on the price to enterprise value ratio (P/EV) that better accounts for a company's balance sheet. Going forward, once a prospective or existing investment crosses over 3x Net Debt to EBITDA (earnings before interest, taxes, depreciation and amortization), P/EV will become the key factor, not P/V or price to free cash flow (P/FCF). Often a P/V of 65% on a levered company can be closer to 80% on P/EV, leading to less margin of safety. It is also true that not all Net Debt to EBITDA ratios are created equal. 4x of long-term, non-recourse debt on a company with contracted, stable EBITDA that converts into free cash flow at a high rate can be better than 3.5x of short-term bank debt on a more volatile company (especially if it is not at the trough of a cycle) with less attractive free cash flow generation. The public markets start to differentiate on companies once they get over 3x and are harshest over 4x. Private equity, meanwhile, has benefitted from getting to mark their own prices on investments levered at well over 4x. We are now in the early stages of this coming home to roost, and we look forward to seeing private equity price marks catch up to public market peers. Back to what we can do about things, we will use a grid of P/EVs to pay ranging from the 70s for stable, high-quality companies levered closer to 3x to sub-60 (often equating to P/Vs in the 40s or below) for more volatile companies levered over 4x. If there are excessive financial liabilities that put the company's future at significant risk, we won't play at all.

3) <u>Holding Companies</u>: Value has been created at complex holding companies (holdcos) operating across multiple businesses. Berkshire Hathaway, Liberty Media and EXOR are prime examples that we have invested in at Southeastern. Companies like this can be dangerously seductive for value hounds like us. We get to dig into the footnotes and own multiple, high-quality assets when the market focuses too much on a consolidated EPS or book multiple. There have been, however, too many examples where our partners were not of the caliber of the above three and/or where we have been early before the market punishes anything complex, which often happens in a bear market. Going forward, we will do two things on these companies: 1) qualitatively, we must insist on higher quality partners who are manic about closing the price-to-value

gap, since these structures magnify the plusses and minuses of the people involved; 2) quantitatively, when these companies have publicly traded parts, we need to use the lower of price or value of each sub-part when calculating the value of the entire holdco.

We understand that it might take time to earn your trust that we have changed on these fronts, and we are very grateful for our long-term and new clients who are with us today. The changes are in place, and the analysis supports our view that they can make a big difference. By the time this is obvious, the greatest opportunity to invest with us will be gone.

Contribution to Return

4Q Top Five

Company Name	Contribution to Return (%)
Affiliated Managers Group	2.21
General Electric	2.03
Prosus	1.61
EXOR	1.21
PVH	1.20

4Q Bottom Five

Company Name	Contribution to Return (%)
Lumen	-2.06
IAC	-0.99
Warner Bros Discovery	-0.73
Alphabet	-0.34
Mattel	-0.29

2022 Top Five

Company Name	Contribution to Return (%)
CNX Resources	1.12
Warner Music Group	0.87
Affiliated Managers Group	0.72
Fairfax Financial	0.71
Williams	0.56

2022 Bottom Five

Company Name	Contribution to Return (%)
Lumen	-5.68
IAC	-4.59
Warner Bros Discovery	-3.97
Millicom	-2.61
FedEx	-2.09

Performance Commentary

- **Affiliated Managers Group**: Asset management holding company AMG was a top contributor in the quarter after reporting results and a positive outlook well ahead of expectations. CEO Jay Horgen is proving to be a great partner, and we believe it is still early days as AMG's diversification of asset classes and management styles is becoming better appreciated.

- **General Electric**: Formerly one of our most hated companies, industrial conglomerate GE is now on the verge of beginning its breakup into three separate businesses. It has been a solid relative contributor for the year with further potential upside in 2023 and beyond.

- **CNX Resources**: CNX was the top contributor for the year, but we were surprised it wasn't an even larger one. Its value per share strongly outgrew its price performance for the year. While all energy companies saw a boost from higher prices, CNX had previously done more price hedging than peers. This decision held back near-term reported earnings, which remain the market's focus. This helped relative returns at unhedged and more leveraged companies that were hoping for higher prices. CNX has been taking advantage of a widening price-to-value gap for itself as the year went on by continuing to be one of our largest share repurchasers. When you combine strong capital allocation like this with geopolitical conflict solidifying the long-term value of North American natural gas while hedges roll off with the passage of time, we remain excited about CNX's future.

- **Lumen**: Global fiber company Lumen was the top detractor for both periods. This long-term position had a history of managing costs and producing steady free cash flow under the leadership of former CEO Jeff Storey, but its organic revenue growth has been disappointing for a few years and its cash flow began to disappoint recently. In September, the company announced a new CEO, Kate Johnson, would take over. Although her experience at Microsoft and proven track record of delivering organic growth make her a good fit for the role, the communication of her hire was mishandled. The stock price declined on the initial news and fell further as a previously feared dividend cut was announced in November. Lumen also announced in November the positive news of the planned sale of its Europe business for 11x EBITDA (when the whole company is now selling at 5x EBITDA) and a $1.5 billion share repurchase authorization, on top of closing on the previously announced sale of part of its consumer business to Apollo in October. The recent moves are creating a clearer business mix and stronger balance sheet, and we believe we could see additional positive moves to finally separate the legacy Level 3/Qwest business from the remaining quality local market assets.

- IAC: Digital holding company IAC saw its conglomerate discount grow wider over the course of the year as technology stocks declined precipitously. This time last year, we thought we were paying a low-double-digit multiple of FCF power for a growing collection of assets led by great people. We now think that is a mid-single-digit multiple and that the people remain aligned. While underlying holding company MGM is doing well, other parts of this holdco have not yet delivered. Angi reported another disappointing quarter and has undergone a necessary management change that is already producing better results. Dotdash Meredith is facing a tough online ad market, but the integration of the two businesses is on track. We remain confident in CEO Joey Levin and Chairman Barry Diller's ability to close the wide price-to-value gap at IAC.

- Warner Bros Discovery: Media conglomerate Warner Bros Discovery (WBD) was another top detractor in the quarter and for the year. As has been documented in almost every form of media over the last several months, while we and WBD's board/management knew there were things wrong at Warner Brothers under AT&T, it turned out to be even worse than expected. The aforementioned advertising market is not helping WBD either. While the brand and library values remain intact, the realization of this value has been deferred. With leverage closer to 5x than the sub-4x we thought we would be looking at in 2023, the market's judgment has been harsh. We remain confident in management and growing free cash flow from here, with eight different insiders buying shares personally this year. We encourage you to listen to Global Strategy PM Ross Glotzbach interviewing WBD CEO and President David Zaslav in the latest episode of the Price-to-Value Podcast.

- **Millicom**: Latin American cable company Millicom was a top detractor for the year after the company executed a poorly timed and steeply discounted rights offering to fund a strategic acquisition of the half of its Guatemala business that Millicom didn't already own. Additionally, Millicom faced competitive pressures in multiple markets. The company's stock price rebounded in the fourth quarter after French telecom investor Xavier Niel took a 7% stake in Millicom, highlighting the large price to value gap. After quarter end, Millicom's share price rallied 15% in a day when rumors broke that Apollo Global Management and former SoftBank executive Marcelo Claure were exploring a potential acquisition of the company.

Portfolio Activity

Summary of Trade Activity in 4Q

New Purchases	Full Exits
No New Purchases	No Complete Exits

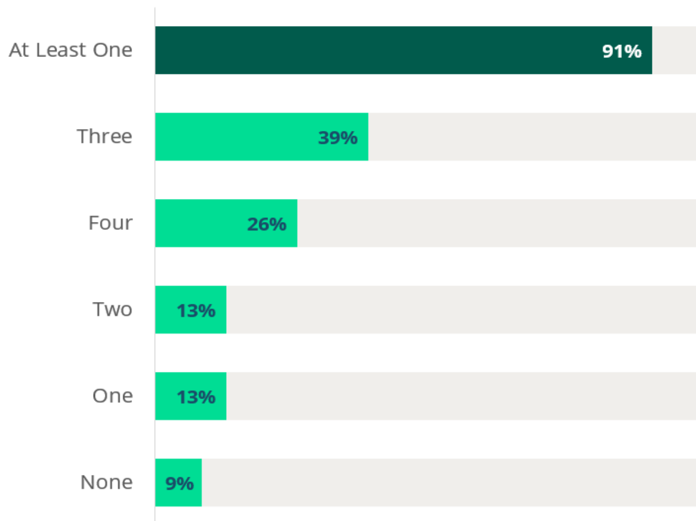
Outlook

Some of our overall market views remain similar to previous years: the S&P 500 still looks elevated or fairly valued on potentially too-high earnings assumptions, but the median multiple is more attractive than the average multiple in this top-heavy index; the Russell 2000 looks better on its reported multiple, but this ignores many unprofitable companies; Non-US markets are statistically cheaper than US markets. The S&P 500 next twelve months' EPS multiple is currently 17x, while the US 10-year treasury yield ended the year at 3.8% vs. one year ago at 1.5%. This is an interesting contrast to 10 years ago when the index was at 12x and the 10-year was at 1.8%, or 20 years ago when the numbers were 15x and 3.8%. The lesson is that there is a lot more that goes into valuation than just discount rates, but they are an important factor.

Our portfolio is at a NTM (next twelve months) P/E of 8x vs. these numbers. That remains an unusually wide gap. The portfolio reached a near-all-time low P/V ratio in the high-40s% in the second half and remains in the mid-50s% today.

While most asset classes felt pain from higher interest rates this year, that is more priced in now, and some of the main free-money beneficiaries are significantly off their highs. The initial punch in the face has been felt by all, and now our partners are taking productive actions to differentiate themselves at an impressive rate:

# of Actions
% of all firms held in the Global Strategy



Types of Actions / Potential Actions

- Buybacks
- Insider Stock Purchases
- Potential Asset Sales/Spin-Offs
- Potential Whole Company Sale

We continue to believe that money costing something again is a healthy, long-term development for the capital markets in general and for Southeastern in particular. The change was abrupt, but our portfolios are positioned well for the future. The portfolio ended the year with 2.9% cash, and our on-deck list remains healthy. We look forward to the changes we have discussed leading to better returns.

See the following for important disclosures.

Southeastern Asset Management can be found in our ADV Part 2, available at www.southeasternasset.com. Statements regarding securities are not recommendations to buy or sell the securities discussed. The statements and opinions expressed are those of the author and are as of the date of this report. Holdings identified do not represent all of the securities purchased, sold, or recommended for advisory clients. Current and future holdings are subject to risk and past performance does not guarantee future results. Strategy information is based on a sample account at December 31, 2022. Portfolio makeup and performance will vary on many factors, including client guidelines and market conditions.

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 strategy 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.

SOUTHEASTERN ASSET MANAGEMENT, INC.
INSTITUTIONAL GLOBAL EQUITY
COMPOSITE GIPS REPORT

Year End	Total Firm Assets (USD) (millions)	Composite Assets (USD) (millions)	Number of Accounts	MSCI World (with net dividends)	Annual Performance Results Composite		Composite Dispersion	Composite 3-Yr Annualized EX-Post Standard Deviation	Benchmark 3-Yr Annualized EX-Post Standard Deviation
					Gross	Net			
2021	10,816	775	6	21.8%	10.1%	9.6%	1.1%	23.4%	17.1%
2020	10,270	2,062	7	15.9%	6.3%	5.7%	0.6%	24.2%	18.3%
2019	12,481	2,394	14	27.7%	20.6%	19.9%	0.7%	15.2%	11.1%
2018	13,881	2,475	17	-8.7%	-15.1%	-15.5%	0.6%	14.7%	10.4%
2017	18,203	3,149	17	22.4%	27.7%	27.0%	5.2%	15.1%	10.2%
2016	19,302	3,873	20	7.5%	16.3%	15.8%	3.0%	15.4%	10.9%
2015	20,315	4,822	31	-0.9%	-9.2%	-9.6%	2.0%	13.7%	10.8%
2014	30,542	6,779	33	4.9%	-1.6%	-2.3%	1.2%	13.5%	10.2%
2013	34,914	9,680	45	26.7%	34.3%	33.4%	1.6%	17.9%	13.5%
2012	31,752	8,898	53	15.8%	15.5%	14.8%	2.1%	20.1%	16.7%

Institutional Global Equity Composite - Portfolios included in this composite normally contain 18-22 securities, which are generally a subset of those held in U.S. and non-U.S. portfolios. The subset reflects the companies with the most attractive qualifications at the time an account has cash. Country and industry weightings and market cap size are a by-product of bottom-up investment decisions. Cash is a by-product of a lack of investment opportunities that meet Southeastern's criteria. The benchmark used for comparison is the MSCI World Index with net dividends.

Southeastern Asset Management, Inc. claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Southeastern Asset Management, Inc. has been independently verified for the periods January 1, 2001 through December 31, 2021. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The Institutional Global Equity Composite has had a performance examination for the periods January 1, 2001 through December 31, 2021. The verification and performance examination reports are available upon request.

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Southeastern is an independent investment management firm that is not affiliated with any parent organization. Southeastern invests primarily in equities. Results are based on fully discretionary portfolios under management that are managed without regard to tax considerations. Past performance is not indicative of future results. A list of composite descriptions, a list of limited distribution pooled fund descriptions, and a list of broad distribution pooled funds are available upon request. The U.S. dollar is the currency used to express performance. Returns are presented gross and net of management and performance fees and include the reinvestment of income. Dividends are recorded either gross or net of foreign withholding taxes based on the treatment of these taxes by the accounts' custodian. Net of fee performance is calculated using actual management and performance fees. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the portfolios in the composite the entire year. Composite dispersion and 3 year annualized ex-post standard deviation are reported using gross returns. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.

The investment management fee schedule for accounts with a market value less than $100 million is 1.0% on the first $50 million and 0.875% on the next $50 million. The fee schedule for accounts with a market value exceeding $100 million is 0.75% on all assets. Actual investment advisory fees incurred by clients may vary.

The Institutional Global Equity Composite was created on July 1, 2011. The inception date for this composite is September 30, 2000.