Non-US Strategy Commentary

2Q20

Southeastern Asset Management

For Institutional Investors Only

	Qtr (%)	YTD (%)	1 Year (%)	Annualized Total Return 3 Year (%)	5 Year (%)	Since Inception (%)
Non-US Strategy (Gross)	15.32	-19.84	-15.43	-1.22	3.70	7.08
Non-US Strategy (Net)	15.08	-20.15	-16.10	-2.01	2.87	6.00
MSCI EAFE	14.88	-11.34	-5.13	0.81	2.05	5.38

*Since Inception 6/30/2002

The Non-US Strategy followed a dismal 1Q with a strong absolute and solid relative bounce back of 15.08% versus MSCI EAFE of 14.88% in the second quarter. Most companies produced positive results in the quarter, as stocks broadly rebounded post the COVID-19 lows in March and April. While not owning Information Technology and holding an average 4.1% cash allocation were both a relative drag on performance in the quarter, strong stock returns outweighed the impact of what we did not own. However, the Portfolio's year-to-date figures remain frustratingly poor following the first quarter sell-off. We took advantage of the pandemic-led volatility to sell or trim companies that will be most challenged in the current environment and/or that are most fully valued and add multiple high-quality franchises to our portfolio at attractive prices. We believe this has materially improved the Portfolio both in terms of quality and margin of safety, which we expect will lead to strong future performance.

Performance Review

Stock markets across the globe rallied sharply in the quarter amid early signs of positive coronavirus trends in some countries and economies reopening, coupled with unprecedented fiscal and monetary stimulus by central banks.

Portfolio Characteristics

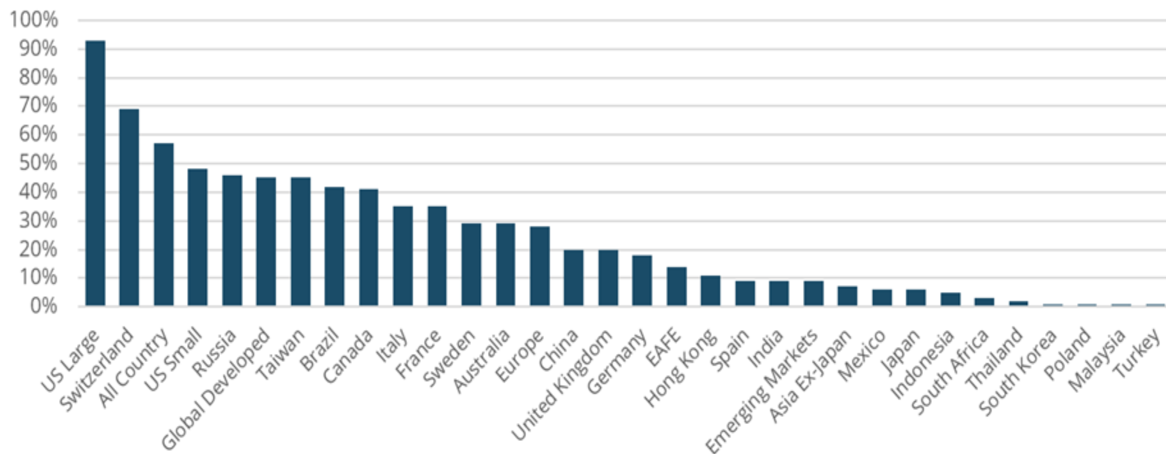
Price-to-Value	low-60s%
# of Holdings	20
% of Cash	5.0%
Portfolio Yield	2.0%

While we were encouraged to see the market becoming more of a bottom-up weighing machine - to use Ben Graham's phrase - in April, troubling trends started building in May and June as certain, long-favored parts of the market again felt more like a perpetual motion machine (reminder: there is no such thing!), as what had been going up for years resumed its march upward. We do not invest based on top-down analysis, but as dedicated fundamental investors focusing on the world from the bottom-line numbers. We have a hard time reconciling buoyant market headlines with the situation in the real economy. Nowhere was this more evident than in the US large cap market, as the gap between US and Non-US performance widened even further in the quarter.

As shown in the chart below, the US large cap cyclically adjusted price-to-earnings (CAPE) ratio is near an all-time high versus its own history. Some would say these multiples are supported by rock bottom interest rates. However, a skeptic would have to say that if low interest rates support a trailing CAPE of approximately 30 on the S&P 500, then the passive investor is agreeing to disappointingly low returns for the foreseeable future. An even worse case for the passive investor would be earnings yields regressing to the long-term mean. We constantly see going-in earnings yields compared to current bond yields, as if that constitutes a complete determination of equity valuations. But the math of deriving multiples also includes the important interplay between low growth rates and low discount rates, as well as the issue of terminal multiples. This is why multiples are historically more "sticky" than just tracking the inverse of bond yields. This is also why all shrewd real estate investors don't simply buy properties at any cap rate, which is below the interest rate on their borrowings. One would have to move into less efficient and global markets with lower valuations to begin with to meet their expected return hurdles from the past. You do not have to look long at this chart to note that nearly the entire world outside of the US Large Cap space is priced below its average CAPE today. We are finding plenty of opportunity in these markets.

CAPE Ratio: Current Historic Percentile

Chart shows the percent of time the CAPE ratio has been cheaper than the current CAPE ratio



Source: Research Affiliates. Data as of May 31, 2020

Additionally, the US Dollar (USD) remains heavily overvalued versus much of world, particularly Europe. While a currency translation effect in the face of the ever stronger USD has been a recurring headwind, the Portfolio benefitted in the quarter as the USD weakened. Today, the UK, Eurozone and Japan are notably inexpensive relative to their historical relationship to the USD, and we believe we could see this shift to a longer-term tailwind. Going forward, we believe we can outperform mostly because of what we own, but we think that avoiding the overvalued parts of the market and the potentially statistically cheap but lower quality parts of the market will also be key.

Shifting to what we own today, in our 1Q letter we discussed the three categories of COVID impact to our portfolio companies: 1) those that have benefitted in at least some way and therefore had little value pain; 2) those that have taken some pain but will survive and can keep growing over the medium term and 3) those that have some real, material issues to deal with, which saw a more material near-term value hit and potential for permanent value impairment. As we noted last quarter, we are continually reviewing each existing company and comparing it against opportunities to upgrade the quality and durability of the Portfolio with any new additions. We firmly believe that this will lead to better prospective returns from here due to a higher quality portfolio.

The third bucket, which held C&C Group and OCI, was the most important category for us to address, as we sought to upgrade the Portfolio. We exited both companies in the second quarter, though for somewhat different reasons. The common denominator was people changes, a decline in the business outlook amidst the COVID-19 environment and balance sheet deterioration.

C&C is the most singularly impacted investment in the strategy from COVID-19. After being a top contributor in 2019, our outlook for the business and view on the people changed entirely in a short two-month period. First, CEO Stephen Glancey announced his surprise retirement in February. Glancey was a key part of our case, given his strong track record of value creation as an owner-operator. We put in the order to sell half our position as soon as the announcement was made and began revisiting the facts of the case. Only a number of weeks later, the pandemic drove the closure of all pubs across C&C's markets in Ireland, England, Scotland and Wales. The high margin on-trade business in these markets contributed over 60% of C&C's profits on paper but even higher than that when factory utilization and corporate overheads are taken into account. The balance sheet rapidly deteriorated given the monthly operating losses, and as the normal negative working capital balance became a significant liquidity drain, and payables came due with no receivables to keep working capital in balance, the result was dramatically rising debt levels. We believe there is a material risk that the balance sheet stress could persist into 2021, at which point the risk of a capital raise to repair the balance sheet rises. As the facts of the case changed dramatically in a short period, we sold the full position in the quarter.

We also completed our exit of OCI in the second quarter, as a result of a combination of people changes (as founder Nassef Sawiris, whom we admire and support, stepped back from day-to-day management of the company) and balance sheet deterioration, amid a particularly challenging macroeconomic backdrop. OCI was a smaller position than C&C but was a longer-standing disappointment in the Portfolio. We have maintained an engaged dialog with management on the potential to create value through asset sales or to potentially sell the business over the course of our ownership, but ultimately the macro swamped the ability for the company to execute on the original case. The outcome reminded us of the business quality lesson wisely summed up by Warren Buffett: "When a management with a reputation for brilliance

tackles a business with a reputation for bad economics, it is the reputation of the business that remains intact."

Finally, we sold Bolloré Group, which we bought in August 2018 but have followed for years, tracking back to our investment in Vivendi in 2011-12. The original thesis was based on generational change to new leadership being a catalyst to unlock the latent value of this conglomerate of attractive businesses. However, we grew concerned over our alignment with the controlling family. We concluded that there were better places to allocate our capital given all the opportunities the COVID-19 pandemic provided.

We used the proceeds from these three sales to initiate two new positions – Accor and Applus. Both companies fall into category 2, and we believe help further upgrade the Portfolio's long-term upside. We discuss Accor in more detail below in the Portfolio activity section. We continue to monitor the Portfolio and our on-deck list and will take advantage of identified opportunities to increase the Portfolio quality, margin of safety and potential performance upside.

Contribution to Return

2Q Top Five

Company Name	Total Return (%)	Contribution to Return (%)
Becle	55	2.15
Melco International	33	2.12
LANXESS	32	1.75
Prosus	34	1.46
LafargeHolcim	27	1.26

2Q Bottom Five

Company Name	Total Return (%)	Contribution to Return (%)
C&C Group	-13	-0.27
Bolloré	23	-0.25
Millicom	-7	-0.16
Great Eagle	1	-0.05
Accor	2	0.00

Becle Sab de Cv, the tequila and spirits holding company, added to the quarter's strong returns. The first quarter featured particularly good results from Becle's Jose Cuervo Tequila brands, with volume and pricing up significantly in constant currency over the last two years. Our appraisal of the company's value increased, even as the lockdown froze most of Becle's on-premise (bar and restaurant) sales. However, 87% of Becle's US dollar-value is consumed off-premise, and US at-home spirits consumption

(particularly of tequila) has accelerated significantly during the lockdown. Tequila and Irish Whiskey (Becle owns Bushmills as well) have taken share from beer and vodka for years, and the trend appears to be accelerating. Becle's Mexican business, representing <20% of the company's revenues, has however been weaker recently, and Becle's consolidated gross margins remain depressed due to cyclically high agave prices. However, when the commodity's supply catches up and pulls down pricing over the next several years, Becle margins should increase significantly. Rumors of a potential Campari acquisition at a significant premium also helped drive the stock's price appreciation in the quarter.

Melco International, the Macau casino and resort holding company, was one of the top contributors for the quarter, after being the largest detractor in the first quarter. Melco's operating subsidiary Melco Resorts (MLCO) reported better than expected results in the first quarter, with gross gaming revenue (GGR) market share growing quarter-over-quarter. This, combined with optimism on potential easing of travel restrictions, led to a strong price rebound from depressed levels. The Macau operating environment remains challenging due to COVID-19 induced travel restrictions in the region. With China, Hong Kong and Macau borders effectively closed, Q2 GGR was down over 95% year-over-year. Macau has been very effective in containing the spread of the virus, but the casinos are virtually empty and will remain so as long as there is a 14-day quarantine requirement by the neighboring Chinese province of Guangdong, which accounts for nearly half of all Chinese visitation to Macau. Hong Kong has seen a minor second wave of COVID-19 and extended the border restrictions into August. There is increasing optimism, partly fueled by comments from Macau's Chief Executive Ho Iat Seng, of a travel bubble formation between Guangdong and Macau, which could jumpstart the recovery. MLCO management is managing its balance sheet and cash flows well during these tough times, reducing daily cash costs, liquidating its stake in Crown, reducing capex for the year and cancelling quarterly dividends. Today, MLCO has $3.2 billion of available liquidity, which is equivalent to almost two years of fully-loaded cash burn in a zero-revenue scenario. We are encouraged to see our partner CEO Lawrence Ho invested over $50 million of his personal capital in Melco International shares during the quarter - the highest amount of open market purchases by him ever.

Lanxess, a German specialty chemical company, was also a positive contributor for the quarter. While its auto-exposed Engineered Materials business, which accounted for a mid-teens percent of revenues in FY19, naturally suffered in the COVID-19 environment, its other consumer facing businesses have proven more resilient to the downturn. For example, its Consumer Protection Products business, which manufactures disinfectants and biocides, is likely to benefit from a demand uptick created by COVID-19. Unlike other DAX companies, CEO Matthias Zachert has provided guidance, which speaks to his confidence that Lanxess can deliver even in these trying times. During the quarter, Lanxess strengthened its already robust balance sheet, which should help insulate the company from any continued uncertainty or further COVID-19 impact. Management took the decision to suspend the share buyback program and reduced capital expenditure by €50 million, while also executing cost measures of €50-100 million. The company completed the sale of Currenta in April, which generated an additional €150 million in pre-tax profit participation. This ultimately leaves Lanxess with a total liquidity position of €3 billion (cash and financial assets). Zachert has a strong track record of value-accretive M&A, and this environment is likely to create some compelling opportunities which Lanxess is well placed to capitalize on once the dust settles.

Prosus, a global consumer internet group, was another top contributor in the quarter and the strongest year-to-date contributor. The company's 31% stake in Tencent demonstrated significant resilience during the pandemic. Tencent's online advertising and gaming businesses grew revenues by 30% last quarter, as consumers spent more time on their mobile phones during the lockdown. Prosus has both the discipline and financial strength to navigate the current uncertain environment. Over the past year, Prosus made only 54 investments after evaluating over 5,000 potential transactions. At a time when cash is king, Prosus has $4.5 billion in net cash and has access to an undrawn $2.5 billion revolving credit facility. Furthermore, the company has no debt maturing until 2025. Despite a strong track record and solid fundamentals, Prosus continues to trade at a significant discount to its net asset value. Management's compensation is tied to getting shareholder value recognized, and we expect that they will continue to work to close the gap between price and value.

Portfolio Activity

Summary of Trade Activity

New Purchases	Full Exits
Accor	Bollore
Applus Services	OCI
Trip.com Group	C&C
	Trip.com Group

As discussed above, we sold Bolloré and established two new positions in the quarter. Both new positions are "recycled" companies that we know well and have successfully invested in before. One is Applus, a small position currently but hope to increase it. The second is in the global hotel operator, Accor.

We first invested in Accor in mid-2008 through March 2013. This period saw external pressure by Colony Capital, led by Sebastien Bazin, to shift to an asset-light business model of hotel operations and spin out the "hidden gem" independent voucher business, which became Edenred. We supported both of these actions and developed an appreciation for Mr. Bazin's successful approach. After we exited the position when it reached our appraisal value, he was appointed CEO of Accor. The transition from external capital allocator to operating executive was not a simple process. We kept up with him and the company in the intervening years, but the discount to value and business/people opportunity never aligned until COVID-19 disrupted the hospitality scene. Today, Accor runs an asset-light management and franchise model on 96% of rooms. The company has an even stronger portfolio of brands post its Fairmont Raffles and Movenpick acquisitions. These deals complete the company line up. An expanding focus and pipeline in high-quality luxury and upscale, which comprises 41% of fee income, with the pipeline skewed further towards this category, is coupled with the strongest liquidity in the global hotel industry with over €2bn cash on hand. Our past and current experience with Mr. Bazin indicate a shareholder value-focused management. He has a history of buybacks and has returned 20% of the market cap to shareholders via buybacks and dividends over the last three years. We do not profess to know how the pandemic will ultimately play out, but we are confident that asset-

light, large scale hotel brands will still be valuable franchises on the other side. Accor is well placed to take advantage. Over the long term, it could be a consolidation target.

Outlook

The second half of 2020 has the potential for additional geopolitical drama and market uncertainty. A presidential election in the US in the face of a continuing global pandemic and a developing cold war between the US and China, coupled with unprecedented monetary and fiscal intervention, translates into an extraordinarily broad range of possible outcomes. While we cannot predict the direction or shape that markets will take in the near-term, our decades of experience tell us that the best place to be in an uncertain environment is in high-quality, well-financed, owner-oriented companies bought at a discount to intrinsic value held for the long term. The Portfolio trades at a price-to-value (P/V) ratio in the low-60s%, the Portfolio has 5.0% cash and we look to take advantage of our robust on-deck list. Even after a strong relative and absolute second quarter, the first three months of the year left us in a hole on our near-term trailing performance numbers. We are confident that ground can continue to be recovered.

See following page for important disclosures.

Southeastern Asset Management can be found in our ADV Part 2, available at www.adviserinfo.sec.gov. 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. Portfolio information is based on a sample account at June 30, 2020. 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 NON-U.S. EQUITY COMPOSITE
ANNUAL DISCLOSURE PRESENTATION

Year End	Total Firm Assets (USD) (millions)	Composite Assets (USD) (millions)	Number of Accounts	MSCI EAFE (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			
2019	12,481	451	5	22.0%	18.6%	17.6%	1.3%	13.4%	10.8%
2018	13,881	386	5	-13.8%	-5.7%	-6.4%	0.8%	13.1%	11.2%
2017	18,203	453	5	25.0%	28.0%	27.0%	1.9%	15.1%	11.8%
2016	19,302	354	5	1.0%	13.4%	12.5%	1.3%	15.4%	12.5%
2015	20,315	298	5	-0.8%	-4.0%	-4.8%	2.0%	14.0%	12.5%
2014	30,542	313	5	-4.9%	-7.5%	-8.2%	1.3%	13.9%	13.0%
2013	34,914	325	<5	22.8%	30.0%	28.8%	na1	16.5%	16.3%
2012	31,752	281	<5	17.3%	24.2%	22.8%	na1	18.4%	19.3%
2011	31,485	455	6	-12.1%	-19.3%	-20.1%	0.6%	20.9%	22.4%
2010	34,639	546	6	7.8%	17.3%	16.1%	1.2%	24.7%	26.2%

na1 - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

Institutional Non-U.S. Equity Composite - Portfolios included in this composite contain not only companies headquartered outside of the U.S., but also U.S. domiciled companies with more than half of revenues, profits, or appraised value derived from non-U.S. locations. These portfolios normally contain 18-22 securities. 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 EAFE Index with net dividends. Southeastern Asset Management, Inc. ("Southeastern") claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Southeastern has been independently verified for the periods January 1, 2001 through December 31, 2019. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Institutional Non-U.S. Equity Composite has been examined for the periods July 1, 2002 through December 31, 2019. The verification and performance examination reports are available upon request. 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 complete list of composite descriptions is 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. Policies for valuing portfolios, calculating performance, and preparing compliant presentations 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 Non-U.S. Equity Composite was created on July 1, 2011.