US Large Cap Strategy Commentary

2Q21

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					Annualized Total Return		
	2Q (%)	YTD (%)	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)	Since Inception (%)
US Large Cap Strategy (Gross)	4.72	22.62	61.98	11.10	12.61	9.50	13.72
US Large Cap Strategy (Net)	4.57	22.27	61.06	10.51	12.03	8.90	12.91
S&P 500	8.55	15.25	40.79	18.67	17.65	14.84	12.20
Russell 1000 Value	5.21	17.05	43.68	12.42	11.87	11.61	11.84

*Since inception 12/31/1979

The US Large Cap Strategy added 4.57% in the second quarter, taking year-to-date (YTD) returns to 22.27%, while the S&P 500 returned 8.55% and 15.25% over the same periods. Almost every company was positive in the quarter. The Strategy's cash position and lack of information technology holdings together drove the majority of the relative performance drag in a period where growth stocks saw a (we believe temporary) rebound. Despite relative underperformance, it was a solid period for value per share growth at our holdings.

We highlighted several high-conviction companies in last quarter's letter, and all saw positive progress. For example, Mattel reported another good quarter and is well on track to generating more free cash flow (FCF) this year than we initially expected. The company also continues to announce new media projects - including tangible progress for Polly Pocket and Masters of the Universe in the quarter - to monetize the value of its intellectual property. Lumen management spoke publicly of its efforts to realize value from its distinct parts, in line with the 13D that we filed at the end of last year. CNX Resources is taking advantage of gas

Portfolio Characteristics

Price-to-Value	mid-70s%
# of Holdings	15
% of Cash	26.8%
Portfolio Yield	1.6%

price strength to lock in more FCF with accretive hedges. CK Hutchison began buying stock in a material way, with more than $460 million in shares repurchased year-to-date.

The investments in the preceding paragraph have been long-term holdings, but what about our newer purchases? We have heard from long-time Southeastern/Longleaf observers who look at these stock charts and ask, “How can that still be cheap?” We continue to focus on the importance of value growth and dynamically updating our appraisals. MGM for example has seen very strong value growth since our purchase last year as the company’s properties in the US have rebounded much stronger than even the biggest optimists predicted. Management and the board have reduced risk by monetizing more of MGM’s holdings in MGM Growth Properties, its real estate subsidiary. There is still plenty of value to be added in the online division as well. All this leads to a value per share that was in the $30s last year now approaching $50. The company remains attractively discounted, even after price appreciated 109% since we first bought the stock 10 months ago.

But price will always be important to us, no matter how great qualitatively a business or people are or how nice it feels to have price and value momentum. We will gladly sell fully priced winners like Biogen, where positive news sent the company’s stock price to our appraisal in only a few short months, as detailed later in this letter.

More broadly, “value” had a pullback vs. “growth” in the second quarter on the back of lower interest rates and various other factors. Over the last year, we have seen interest rate consensus go from “low rates forever” for most of 2020 to “rates are definitely going up” in February/March of 2021 to now what feels like magical goldilocks thinking for growth stocks in the 1-2% US 10-year range. While we cannot predict precisely what rates will do in the near term, we welcome increased volatility on this all-important valuation input, especially after decades of gradual moves down have made things relatively harder for value-focused public equity investors.

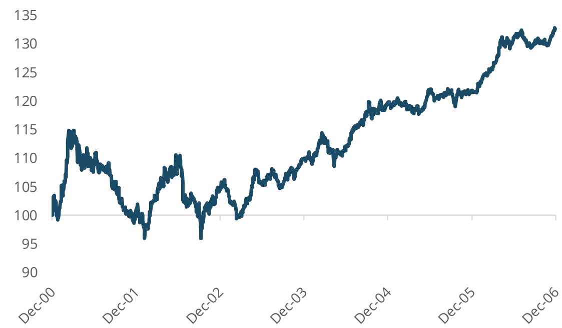
It is also important to remember that, while what matters most will always be our individual holdings, we do not expect value to ever go up in a straight line. The chart below illustrates that point well. It can be easy to forget that, even in the greatest value bull market of our lifetime that started in 2000, there was a several month period after the initial turn in March/April in which growth fought back from similarly absurd relative valuations.

Value Relative to Growth in Year 2000

1/1/2000 to 12/31/2000 (daily)

Value Relative to Growth from 2001 to 2006

1/1/2001 to 12/31/2006 (daily)

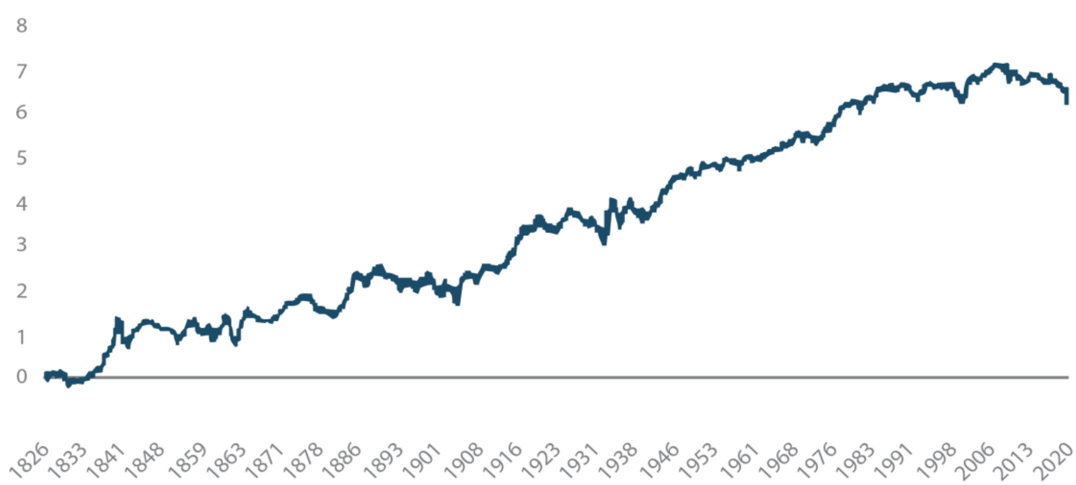


Source: Factset

However, value ultimately prevailed (with even more ups and downs in 2001-02), and the next several years looked like the previous 200 years for value. (Note the chart below is a reprint from our "Why We Believe Value Will Work Again" white paper published in December 2020.)

The Value Factor

Cumulative Excess Return of Value vs Growth



Source: TwoCenturies

Joining the macro with the stock specific, we continue to like our portfolios on both an earnings multiple and earnings growth basis vs. the growth and value parts of the index.

Implied Returns Based on Various P/E Assumptions

	2022 P/E		P/E Change	Performance from P/E Change
	Current	Assumption		
S&P 500	20.7	16.7	-4.0	-19%
S&P 500 Growth	27.3	20.0	-7.3	-27%
S&P 500 Value	16.2	14.3	-2.0	-12%
US Large Cap Strategy	11.5	14.3	+2.8	+24%

Source: FactSet. Actual investment results and performance are not guaranteed
The US Equity Account is Southeastern's largest US Equity account.

Contribution to Return

2Q Top Five

Company Name	Total Return (%)	Contribution to Return (%)
Biogen	51	1.65
MGM Resorts	12	0.60
Williams	14	0.49
CNH Industrial	8	0.42
Douglas Emmett	8	0.38

2Q Bottom Five

Company Name	Total Return (%)	Contribution to Return (%)
CNX Resources	-7	-0.38
Hyatt	-6	-0.23
CK Hutchison	-1	-0.02
Fairfax Financial	1	0.05
Mattel	1	0.10

Biogen, a biotechnology company specializing in therapies for the treatment of neurological diseases, contributed in a way that warrants a longer than usual writeup. When we first began buying the company in early January, the stock scored well on all three Business, People and Price criteria, but the range of outcomes was wider than most investments for us. On the business, while the company has had a leading position in neuroscience for decades, it had become a collection of assets that was hard for the stock market to value. This led to most short-term investors focusing on year-over-year (YOY) earnings declines in 2021 and pipeline uncertainty. We focused most on strong cash flows from Biogen's Multiple Sclerosis franchise, a growing yet hidden biosimilars business, and a pipeline that we believed was actually quite interesting and diversified beyond the manic market focus on Aducanumab, a proposed treatment for Alzheimer's. On the people front, we also liked what the board and management had been doing (large, discounted repurchases and prudent internal and external investments) and not doing (no big, dumb M&A or unsustainable dividends). Our single point appraisal was around $375/share, but we saw a range at the low end of slightly above $250 if the pipeline totally failed or approaching $500 if the company saw a reasonable amount of pipeline success. We also thought that we were effectively paying a very low double-digit multiple of FCF/share. It is important to note that we were not betting on our science expertise or any other predictions that fall outside our circle of competence. Rather, we used our bottom-up appraisal skills to find a security that was mispriced at that given moment - we had followed the company for over 10 years before our purchase - and that shorter-term investors were afraid to own due to the potential for near-term stock price volatility. We started with a partial position, as we felt the wider-than-usual range of outcomes and uncertainty around the stock could lead to the chance to fill it out at a better price later.

On June 7, the FDA approved Aducanumab (now known as Aduhelm) after a contentious process that has yet to fully play out. The stock shot upward, and our single point value increased to $425. With the stock trading at that level, we exercised our price discipline and sold our position. In this era of “multi-decade-compounders at any price” and given Southeastern’s history of being long term, it feels weird to be in and out of something so quickly. But it also feels OK to be able to use our appraisal skills to secure a payoff for our long-term clients. The company’s stock price has fallen since our sale, and we will continue to watch the price-to-value (P/V) gap going forward.

MGM, the casino and online gaming company, was a top contributor as it reported a solid first quarter with Vegas EBITDAR (earnings before interest, taxes, depreciation, amortization and restructuring or rent costs) doubling sequentially and Regional EBITDAR actually growing strongly YOY due to exceptional cost control. The second quarter saw clear signs of even more growth with a strong rebound in travel to the company’s US properties. MGM also continued to de-risk its value and balance sheet by selling over $1 billion of fully valued shares of its real estate subsidiary MGM Growth Properties in the quarter. On the first day of July, the company announced a transaction to consolidate and sell the real estate of its CityCenter project at a price that was accretive to our value per share.

Williams, the natural gas pipeline operator, was also a positive contributor. The value grew slowly but steadily thanks to continued cash flow growth at Williams's main Transco pipeline, as well as good volume trends (up 11% YOY) in its Northeast assets. The stock traded up with gas price strength as the quarter went on. We believe that management is open to more transactions to grow and simplify value per share, and as industry conditions improve, this becomes more likely.

Portfolio Activity

Summary of Trade Activity in 2Q

New Purchases	Full Exits
No New Purchases	Biogen

As discussed in detail above, we sold our position in Biogen in the quarter. It has been harder to find strong US large-cap on-deck qualifiers as the year has gone on, but we have a number of companies in the Strategy where we hope to have the opportunity to fill out our positions. We have also added several businesses to the on-deck list in financial services, industrials, retail/consumer packaged goods, health care and media. We remain disciplined on the price we will pay and are watching and waiting for prices to cooperate so we can put our cash to work.

Outlook

Our outlook on the stock market and the Strategy is not dramatically different than it was the last time we wrote to you. Our confidence in the specific company opportunities in the Strategy has only grown, as our businesses made solid progress in the quarter, and we believe the Strategy is more attractively positioned - qualitatively and quantitatively - than both the market and the average "value" strategy. We believe the recent pullback in value's performance of the last month or so is a temporary blip, and that the strong performance that began in the second half of 2020 marks a longer-term reversion to the mean for value vs. growth.

We wrote in our 4Q20 letter about the work we have done to formalize the way we incorporate environmental, social and governance (ESG) issues within our firm and our investment process in the last several years. We are excited to share our first Annual ESG Report, which highlights some of the progress we have made and the work we are doing to keep improving in this area. In addition to our annual ESG report, we will be sharing a semi-annual carbon footprint report going forward and will continue to discuss our engagement efforts with our management partners on these important issues in our quarterly letters and the Price-to-Value Podcast.

Speaking of podcasts, we thought it would be good to close with a recent interview that our Vice-Chairman Staley Cates did with Bob Huebscher of Advisor Perspectives. It is a great summary of what we are all about at Southeastern and why we remain very excited about our future.

See following pages for important disclosures.

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P/V (“price-to-value”) is a calculation that compares the prices of the stocks in a portfolio to Southeastern’s appraisal of their intrinsic values. The ratio represents a single data point about a 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 US EQUITY COMPOSITE
ANNUAL DISCLOSURE PRESENTATION

Year End	Total Firm Assets (USD) (millions)	Composite Assets (USD) (millions)	Number of Accounts	S&P 500 (with dividends)	Annual Performance Results Composite Gross	Annual Performance Results Composite Net	Composite Dispersion	Composite 3-Yr Annualized EX-Post Standard Deviation	Benchmark 3-Yr Annualized EX-Post Standard Deviation
2020	10,270	619	12	18.4%	16.2%	15.6%	5.5%	22.8%	18.5%
2019	12,481	902	16	31.5%	15.2%	14.6%	1.8%	14.6%	11.9%
2018	13,881	1,778	24	-4.4%	-16.0%	-16.4%	1.3%	12.4%	10.8%
2017	18,203	3,235	27	21.8%	16.9%	16.4%	2.2%	12.6%	9.9%
2016	19,302	3,951	35	12.0%	20.1%	19.5%	4.9%	13.2%	10.6%
2015	20,315	4,251	47	1.4%	-11.9%	-12.4%	2.1%	13.0%	10.5%
2014	30,542	7,339	72	13.7%	6.2%	5.6%	1.0%	11.1%	9.0%
2013	34,914	7,524	74	32.4%	32.5%	31.7%	1.8%	15.8%	11.9%
2012	31,752	7,665	83	16.0%	16.7%	16.0%	2.0%	17.4%	15.1%
2011	31,485	7,347	82	2.1%	-1.5%	-2.1%	2.1%	22.5%	18.7%

<u>Institutional U.S. Equity Composite</u> - Portfolios included in this composite normally contain 15-25 securities. Sector and industry weightings and market cap size are a by-product of bottom-up investment decisions. Assets held in non-U.S. investments generally do not exceed 30% of portfolios. Cash is a by-product of a lack of investment opportunities that meet Southeastern's criteria. The benchmark used for comparison is the S&P 500 with 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, 2020. 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 U.S. Equity Composite has had a performance examination for the periods January 1, 2001 through December 31, 2020. The verification and performance examination reports are available upon request.

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Prior to 2012, results were based on fully discretionary portfolios under management with a minimum ending market value of $10 million at the end of each quarter, including portfolios with market values below $10 million if the decline below this threshold was due solely to unrealized losses. Portfolios that fell below this threshold due to market volatility remained in the composite for a period of up to one year. If the market value of the portfolio had not corrected and increased above the minimum within one year, then it would be excluded from the composite going forward until the minimum value was once again satisfied. Beginning in January 2012, there is no longer a minimum market value threshold considered for composite inclusion. Portfolios are managed without regard to tax considerations and have a base currency of U.S. dollars. Effective July 1, 2008, portfolios hold only cash (or equivalents) and securities traded in the United States. Prior to July 1, 2008, portfolios held only cash (or equivalents) and equity securities traded on a U.S. exchange. 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 is a flat rate of 0.75%. Actual investment advisory fees incurred by clients may vary.

The Institutional U.S. Equity Composite was created July 1, 2011. The inception date for this composite is December 31, 1979.