

US Large Cap Strategy Commentary 2Q20

For Institutional Investors Only

	Annualized Total Return					
	Qtr (%)	YTD (%)	1 Year (%)	3 Year (%)	5 Year (%)	Since Inception (%)
US Large Cap Strategy (Gross)	17.82	-12.05	-7.39	-2.92	1.60	12.73
US Large Cap Strategy (Net)	17.66	-12.28	-7.89	-3.41	1.08	11.93
S&P 500	20.54	-3.08	7.51	10.73	10.73	11.57

*Since Inception 12/31/1979

The US Large Cap Strategy added 17.66% in the second quarter, while the S&P 500 rose 20.54%. Most companies produced positive results in the quarter, as stocks broadly rebounded post the COVID-19 lows in March and April. However, not owning the market's top contributing Information Technology sector and holding an average 12% cash allocation took a combined -4.1% toll on relative returns in the quarter. While our investments performed nicely from the lows, they were not significant enough to offset the declines in the first quarter. We are confident in the quality of our businesses and in our aligned management teams' ability to build significant future value and drive returns for the Portfolio. In this letter, we will focus first on what drove performance, what detracted and discuss what we do not own (and are happier than ever to avoid today, even as this has contributed to the Portfolio trailing the index). Finally, we will end with what is most important: what we own today, how we have upgraded the Portfolio and why we believe this sets us up for stronger returns going forward.

Performance Review

Although most companies posted positive results in the quarter as markets rebounded, a handful of our companies declined. As we started the year, we felt that the companies we owned were broadly well-prepared for a downturn, but we had not taken into account

Portfolio Characteristics

Price-to-Value	high-50s%
# of Holdings	16
% of Cash	21.0%
Portfolio Yield	2.4%

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the possibility for a once every 50 to 100 years pandemic-led downturn, which uniquely hit a few businesses. At General Electric, the abrupt stoppage in air travel has hit GE Aviation worse than in previous downturns (when profits were actually flat to up). CK Hutchison also continued to be hit on multiple levels, when we felt that this company had already borne an inordinate amount of pain over the previous five years so that its increased focus on steadier telecom and infrastructure would be an advantage in a more normal downturn. We were wrong, and we trimmed what had been an overweight position in CK Hutchison in the first quarter. Park Hotels' 100%-owned model, as well as its focus on conferences and group meetings and trophy assets in hard-hit Hawaii, which we had viewed to be key competitive advantages within our original case, are now extra-difficult places to be in the current environment. In the case of Park, the expected impact to the long-term appraisal was large enough that we sold the company and swapped into Hyatt's better mix of fees and trophy owned assets. Fairfax Financial (FFH), which was a star in the global financial crisis (GFC) downturn, has so far disappointed from a stock price perspective in the current downturn. From a relative perspective, FFH also suffered as a cloud hangs over many insurers due to the ongoing business interruption insurance debate over COVID-19. Additionally, FFH was grouped with emerging market stocks after a decade of value-accretive investments outside of North America amidst an environment where US large cap companies have continued to dominate global markets. We took our time to reassess our FFH case and ultimately decided to buy more, a decision which was bolstered further when CEO/Founder Prem Watsa stepped up with a personal investment of over \$100 million.

To the positive, our relative energy overweight and better stock-specific performance by natural gas company CNX and pipeline operator Williams were a bright spot for absolute and relative performance. We have built on lessons learned in previous downturns in that industry and avoided optically discounted oil companies. Additionally, our newer positions in DuPont and Carrier (which spun out of United Technologies (UTX) at the start of the quarter) were also both top contributors. Our decision to upgrade the Portfolio by adding to Carrier early in the quarter is already paying off.

Market Review: What We Do Not Own

Last quarter, we wrote to you about the extreme dislocation in markets and the virtues of not panicking at the bottom. As we said then:

The stock market typically reacts most to the second derivative of a curve – are things accelerating, decelerating or flattening out? While the absolute number of cases and deaths will grow in the near term, there is a chance that the worldwide rate of growth could begin decelerating with aggressive global mitigation measures being taken. This could be perceived positively by markets... [Also], as the number of cases and testing increases around the world, this larger sample size gives the world more data to analyze.... The market hates uncertainty, so while more data very likely will lead to more immediate negatives, the fact that there will be fewer “unknown unknowns” in the months to come will likely be a positive. Additionally, the worldwide focus on developing a COVID-19 vaccine gives us confidence that, as we look into 2021 and beyond, the market should begin discounting a more “normal” world, even if the new definition of normal looks very different than it did in 2019.

Today, we have a different message. 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 are now into the seventh bear market of the last 50+ years. The first six can be broadly grouped into two different categories: those that were started by an external macro shock and those that were started by the popping of a speculative stock market bubble. Four of the six were driven by external shocks and were less kind to value investing in their beginnings. This current downturn has thus far been the fifth in this group. The other two downturns more directly involving bubbles were kinder to value investors initially. We do not have much to add to this great article, which we highly recommend as educational reading:

https://www.researchaffiliates.com/en_us/publications/articles/808-value-in-recessions-and-recoveries.html. The good news for the go forward for our portfolio is two-fold: 1)

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value investing *did* bounce back better than the market in the previous four macro-shock downturns after the initial pain and 2) we think it is likely that there is still a speculative bubble to pop in the near term. We hate how painful it has been over the last decade to get to this point, but we do think that this is a rare moment that is measured in generations.

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. As growth stocks continue to drive the market upwards, we have seen higher multiple, higher return on equity (ROE) stocks particularly outperform. The market has moved from discounting these businesses at a high-single-digit discount rate to a mid-single-digit or lower rate over the last several years. It is also likely that terminal multiples have gone up as well, signaling a dangerous level of overconfidence about what the world will look like 5-10+ years from now for each of these stocks vs. the broader market.

In order to put some more detailed numbers on this concept, meet the “20/20 Club” – those stocks with a PE ratio > 20x and an existing ROE > 20%. Much like how the market became infatuated with stocks like this in the early ‘70s “Nifty Fifty” and again in the late ‘90s with the “Dotcoms,” a period of easy money has served as rocket fuel for these stocks. Here is how the 20/20 Club out of several indices has fared over the last five years:

Name	# w/ Returns	USD Return (%)				Annualized	
		3 Month	1 Year	3 Year	5 Year	3 Year	5 Year
S&P 500		19.87	6.91	35.01	65.53	10.52	10.61
S&P 500 20/20	107	20.16	7.32	67.79	160.79	16.46	16.92
S&P 500 Non-20/20	395	17.56	-10.43	8.53	39.60	0.26	3.77
Russell 2000		22.92	-8.48	4.03	20.90	1.33	3.87
Russell 2000 20/20	73	30.08	16.42	277.21	433.07	31.35	21.61
Russell 2000 Non-20/20	1889	25.53	-14.19	5.97	16.97	-6.28	-3.45
MSCI EAFE		14.82	-5.18	2.40	10.64	0.79	2.04
MSCI EAFE 20/20	97	21.50	12.47	55.61	163.81	13.13	16.24
MSCI EAFE Non-20/20	819	16.03	-6.75	5.15	29.38	-0.77	2.43

Source: Factset

If anything, this effect is understated because money-losing or barely-earning yet high-flying technology and healthcare companies do not make the cut because of their

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current ROEs. The 20/20 Club now has an average forward P/E of 32 vs. the rest of the index at 17 and the Portfolio P/E of 11.6. This gap is enormous and very rare historically.

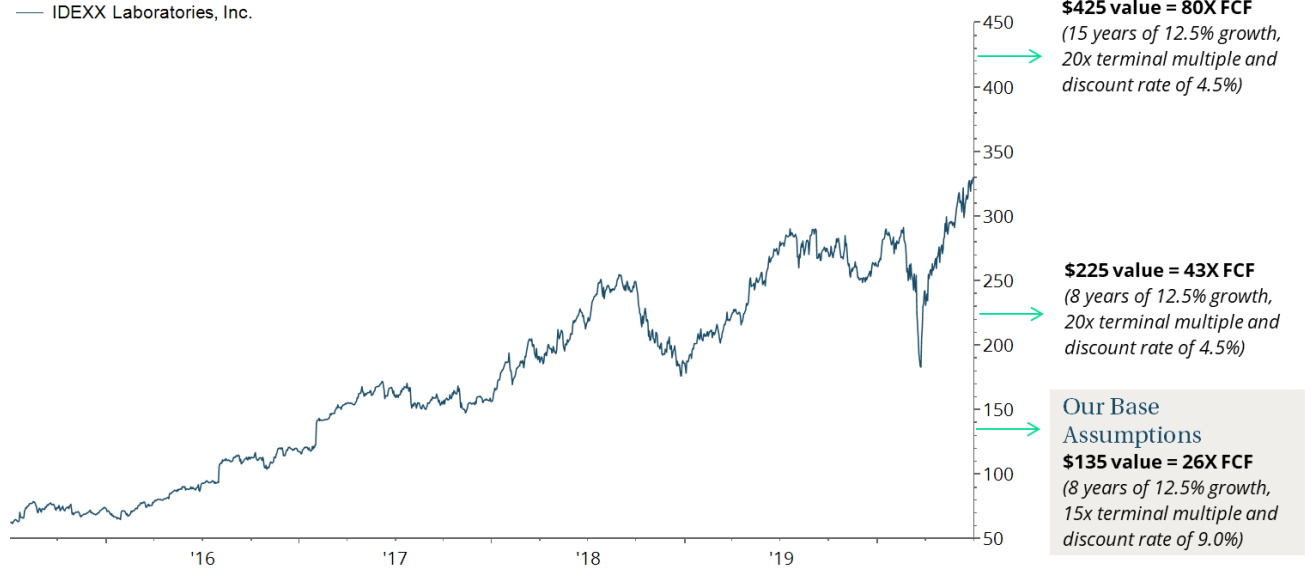
We thought it might help to illustrate this point in more detail with a specific company that we love qualitatively but don't own: Idexx, the great animal diagnostics company. It is near the top of our list in terms of growth runway and competitive position, and we expect the company to continue to meet its projected low double-digit profit growth in the near term.

We know that owning stocks with growing earnings per share (EPS) is good at the right price. But what is "low double-digit profit growth for a while" worth? In analyzing Idexx, we start by running our typical discounted cash flow (DCF) model, with the high end of our usual conservative assumptions: 12.5% profit growth for 8 years, discounted back at 9%, using a relatively high (by our standard) 15x terminal value because the quality of the business is so great. Over the last decade, we have stuck to an average high single digit discount rate, rather than chasing down to the low single digits, because the equity risk premium has averaged 300-500bps as far back as there are records. Even in the context of today's 30-year US treasury yield of 140bps and 10-year yield of 65bps, we still believe a 4-6% risk free rate (RFR) makes sense vs. a long look back at history and/or a 1% population growth + 1-2% productivity growth + 2-3% inflation. We have also stuck to an initial term of 5-10 years of growth because things can change a lot beyond that timeframe. Finally, we cap our max terminal value at around the long-run average market price-to-earnings (P/E) ratio, defined roughly as "mid-teens". Using our typical approach gives you a 26x free cash flow (FCF), or a conservative value of approximately \$135.

But, what if we are being too conservative? The chart below shows what happens when we change the assumptions in the model. Tinkering with the inputs can quickly yield much higher - though we would submit unsustainably so - outputs:

Price Chart and Potential Value Ranges for IDEXX Laboratories

02-Jul-2015 to 30-Jun-2020
 — IDEXX Laboratories, Inc.



Source: FactSet Prices

Change up the growth numbers a bit for other market favorites beyond FAAANM, like Visa, Master Card, Workday, ServiceNow, Intuit, Autodesk, Adobe, Shopify, Dollar General, Costco, Wal-Mart, Zoetis, Rollins, Brown Forman, etc., and you can see how they get their current multiples and how the S&P 500 P/E multiples quickly get into nosebleed territory. There are non-US equivalents in certain cases, but the S&P 500 is home to the most overvaluation today. These specific examples are all great companies. Value investors, like ourselves, have undoubtedly suffered by missing out on their run. However, we believe there is a big difference between “owning a great company at a fair price” and owning these companies that have been the prime driver of the market over the last few years at today’s full valuations. Today, these stocks are reminiscent of the aforementioned bubbles in the mid-late ‘90s and the early-mid ‘70s, when stock performance became way too concentrated as people paid up for “certainty.”

On the other side of the coin, not all low-multiple stocks are created equal. While we evaluate every company on a bottom-up basis and are hesitant to rule out entire sectors of the market, there are certain industries that make up a meaningful part of

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the index where we intentionally remain relatively underweight. Some of the lower multiple groups in the S&P 500 are mature health care companies, oil majors and banks. We have trouble capitalizing some of the high returns in mature health care these days, as the US health system is not working for its high cost. We believe there is a greater than 50% probability we will see an administration change coming out of the November elections, which would likely lead to further changes to the system. That said, we do have one on-deck company that we have vetted within this industry, which we think could be unique. We have always had a hard time understanding why the oil majors trade where they do and still struggle with them today. It seems possible that these are owned for their (now even more unsustainable) dividends and/or for shadow-indexing purposes. The world has changed in a big way for companies focused on oil and for many others in the energy industry that do not have strong balance sheets. Banks also look statistically cheap now. The current downturn could be uniquely bad for this industry, as banks are hit from a variety of angles in the small business, consumer and real estate lending worlds, growing digital trends are eroding their brand power and finally a potential administration change could put their dividends at risk. We also see higher tax rate risk for all three of these industries. Our relative underweight to these areas will likely have a strong impact on our relative returns going forward because these groups make up over 30% of the market cap of the S&P 500 Value Index and approximately 23% of the stocks in this index, and we often see value peers owning even greater weightings than this.

A key lesson that we have learned over the past decade is that future value growth is more important than a single point in time price discount. Our greatest investment successes have come from companies where our appraisal value has steadily grown, and our management teams have taken steps to get that value recognized. Our greatest mistakes have come from focusing too much on the discounted price at the expense of business and people quality and value growth. Today, we are firmly focused on future value growth, but we doubly benefit from deep discounts across the board in the current environment.

What We Do Own: Looking to the Future

Back to what we do own, we will start by reviewing CenturyLink (CTL), one of the largest positions in the Portfolio. We get the most questions from clients about CTL and share

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your frustration with the stock price over the course of our ownership. Even as price performance has been disappointing, our appraisal value has grown over the last year. We have not simply been sitting back and watching the price decline, as highlighted by the timeline of the last two-plus years:

- 4Q17** CTL enters the Portfolio as a result of the merger between our initial investment in Level 3 Communications and CenturyLink.
- 3Q18** The stock price appreciated 34% since the successful merger, and we put in an order to take some profits by trimming the position. CFO Sunit Patel left shortly thereafter for Sprint/T-Mobile, and the stock dropped back below our limit before we completed the trade.
- 1Q19** As the stock price dropped further, the company made the unfortunate decision to cut its dividend from a perceived position of weakness. Southeastern filed a 13D to engage with the company on a variety of issues, including upgrades to the board and potential steps to crystallize value.
- 3Q19** The company worked to sell a variety of assets and improve its board, and the stock began to respond positively.
- 1Q20** Positive board improvements came through with the addition of Hal Jones (former CFO of Graham Holdings, whom we know well and recommended) and the elevation of Mike Glenn (another great former Southeastern partner from his time at FedEx) to Chairman, but the macro environment has made accretive deals more difficult.
- Today** The board is working together to explore a variety of options and understands the urgency of value realization. We think it is a good sign that they included the following slide in their most recent, fiber-focused presentation at the end of June, at our recommendation:

Valuation Overview

\$ in billions, except per share amounts

	1Q20 LTM Adj. EBITDA ^{(1),(2)}	Multiple		Implied EV	
		Low	High	Low	High
Level 3	\$ 3	10.0x	12.0x	\$ 29	\$ 35
CenturyLink	6	5.0x	6.0x	31	37
Consolidated	\$ 9	6.6x	7.9x	\$ 60	\$ 72

Using Level 3 as a proxy for fiber assets based on publicly disclosed financial results

Historical multiples for Level 3 and remaining CenturyLink entities yield a range of Enterprise values significantly higher than current market value

	Low	High
Implied EV	\$ 60	\$ 72
- Net Debt ⁽³⁾	(\$33)	
Equity Value	\$ 26	\$ 38
÷ Shares Out. ⁽⁴⁾	1.1	
Share Price	\$ 24	\$ 35

1) Based on Adj. EBITDA as reported in the Level 3 1Q20 10-Q and 3Q19 10-K and CenturyLink 1Q20 10-Q and 3Q19 10-K
 2) Non-Cash Compensation, transformation costs, and special items are excluded from Adj. EBITDA.
 3) Based on CenturyLink 1Q20 10-Q. Debt excludes unamortized discounts and debt issuance costs. For additional information about CenturyLink's debt see note 5 to the consolidated financial statements in CenturyLink's 1Q20 10-Q.
 4) Diluted shares outstanding in billions as of 1Q20

Source: CenturyLink Company Presentation. "The Platform for a Digital World: Diving Greater Value with CenturyLink Fiber Investments." www.ir.centurylink.com/events-and-presentations/default.aspx. June 30, 2020.

Management put out an appraisal, which is crude in the name of being totally defensible. Our own detailed work has a high-\$30's value, slightly higher than the high end on the above slide. The next twelve months FCF/share is now \$2.50 vs. \$2.75-3.00 in 3Q18 – a number that is way out of whack with the stock price performance over that timeframe, during which we have also received \$2.58/share of dividends. CenturyLink is seeing increased demand for its fiber infrastructure in the current environment, as video conferencing and streaming are growing strongly across the globe, and end providers are running short on bandwidth.

In last quarter's letter, we described three buckets of stocks in our portfolios post-COVID: 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. Over the course of the quarter, we have improved the quality of the Portfolio and believe that this will lead to better prospective returns from here. We

would add the following important notes to our current expectations for the various groups of stocks within the COVID-19 environment.

1. Stocks that seem like they are 100% binary today as it relates to the virus might be more nuanced as the year plays out. For example, when Carrier spun out of UTX at the start of the quarter, it was viewed as an overleveraged company that was vulnerable to the economy stopping as people deferred HVAC (heating, ventilation and air conditioning) spending. That perception changed quickly however, as HVAC spend has so far hung in better than expected, the company renegotiated a debt covenant, management purchased shares personally and the market began to focus on the best in class Carrier brand name's long term staying power. Going forward, we could see stocks like GE transition away from virus-correlated large daily price swings, as large parts of GE's value are much less long-term impacted than the market seems to be saying today.
2. If stocks might stay in the "virus binary" category for a while in the market's perception, then we want to own only those companies that have trophy assets, great partners and balance sheets that let them go on offense. Hyatt is a good example in this category, and it again highlights why we swapped out of Park Hotels.
3. We are also going to see the importance of great partners more than ever. It has been wonderful to see big owners like Prem Watsa at FFH step up with big insider buys. Additionally, Jay Horgen at AMG wisely cut the dividend in favor of increased share repurchase at the right price and has also purchased shares personally this year.
4. Sometimes surprisingly good things happen to specific investees that don't fall into any of these categories. For example, while it had been a painful wait to see CNX outperform, at long last natural gas sentiment shifted positively due to a variety of hard-to-foresee factors, plus the company delivered another solid quarter based on what was in their control.

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5. As we said last quarter: if things change for real (not just a stock moving around day to day), we will change the Portfolio accordingly. We had more activity than usual on this front in the quarter.

Contribution to Return

2Q Top Five

Company Name	Total Return (%)	Contribution to Return (%)
CNX Resources	63	4.81
DuPont	57	2.89
Carrier	65	2.47
Williams	37	2.31
Affiliated Managers Group	26	1.24

2Q Bottom Five

Company Name	Total Return (%)	Contribution to Return (%)
General Electric	-14	-1.33
Fairfax Financial	2	-0.08
Park Hotels & Resorts	0	-0.04
Raytheon Technologies	6	0.01
CK Hutchison	-1	0.04

CNX, the Appalachian natural gas producer, was the top contributor in the quarter. The company reported strong free-cash flow and earnings before interest rate, tax, depreciation and amortization (EBITDA) growth in the first quarter. CNX has demonstrated a path to reach \$500-\$730 million annual pretax cash earnings over the next several years, assuming modest \$2.45-\$3.00/mcf gas prices. If the commodity price continues to disappoint going forward, CNX maintains the industry's best hedging book, as well as one of its lowest leverage ratios. CNX bonds trade close to par, while inferior exploration and production peers face near-term bankruptcy risks. CNX also recently announced cuts to its six-year capital expenditure plans, which should increase cash profitability on flat gas production. CEO Nick Deluliiis and Chairman Will Thorndike have taken decisive actions to restore long-term profitability during an excruciating year for the energy industry. They have more moves to make this year from a position of relative strength.

DuPont, the industrial conglomerate, was another strong contributor to performance. Coronavirus-driven lockdowns led to 10-15% revenue declines across its businesses in April, but revenues have improved quickly in May and June. In Transport, revenues declined the most as auto production froze, while Safety & Construction and

Electronics were more resilient as demand for Tyvek wrap and semiconductors held steady. Recently returned CEO Ed Breen took advantage of the crisis by shrinking DuPont's unnecessarily wide product assortments, while simultaneously increasing the company's investments into sales and R&D. The actions set up DuPont for better profitability and growth for years to come. DuPont's Nutrition segment is also on track to close its value-growing merger with highly-valued International Flavors and Fragrances. DuPont has no significant debt maturities until the end of 2023 and is well positioned to navigate even an extended crisis.

Carrier, the HVAC manufacturer that was spun out of United Technologies at the beginning of April, was a positive contributor. Though it was initially overshadowed by the simultaneous spin of more expensive Otis Elevators, which we sold soon after its distribution, Carrier is a high-quality business. We bought additional Carrier shares when the stock traded at less than half our appraisal and a 7x trailing P/E, against similar competitors trading at 13-17x. Carrier owns strong brands and has a reasonable debt load. As a result of COVID Shutdowns and abnormally high growth in last year's first quarter, Carrier's first-quarter 2020 organic revenue declined 9% year-over-year, and its operating income 12%. The company still earned healthy FCF. In March and April, CEO Dave Gitlin conserved cash by deferring capital expenditures and implementing permanent cost savings. We expect Carrier's financial performance to improve significantly for the next several years as a focused independent company.

Williams, the natural gas pipeline company, was also a top performer. The company's midstream assets in the Gulf of Mexico, Northeast and Transco (arguably the best pipeline in the world, bi-directionally linking South Texas to New York City) grew EBITDA by a mid-single digit percentage. Natural gas demand has remained strong throughout the last several months. One of the reasons we had the opportunity to buy Williams at a discount was its exposure to customer Chesapeake Energy. However, when Chesapeake's bankruptcy became official at the end of the quarter, Williams' stock barely reacted as the market is coming to understand that this is not going to significantly impact Williams' long term FCF and value per share. Despite the Williams stock appreciation this quarter, shares still trade for a significantly higher dividend yield and lower EBITDA multiple than the industry's and stock's own historical averages. The majority of Williams' pipelines are growing their cash flows this year, and the company's leverage is conservative.

General Electric, the industrial conglomerate, was the top detractor in the quarter. GE's Aviation segment, its most valuable, manufactures and maintains commercial and military jet engines. Aviation revenues will take years to recover back to 2019 levels, though they have already bottomed, and passengers have gradually begun to fly again. CEO Larry Culp responded to the COVID-19 crisis with decisive steps to control costs, and long-term GE Aviation earnings before interest and taxes (EBIT) margins should recover to over 20% once the industry recovers. With leading positions in narrow-body jets, GE Aviation has decades of strong growth ahead despite COVID-19's sharply negative impact. GE's Healthcare and Power sales slowed during the first quarter as hospitals postponed elective surgeries and plants deferred maintenance services, but the revenues of both businesses should bounce back later this year. COVID-19 has delayed GE's ability to deleverage to its 2.5x industrial net debt/EBITDA target, but the balance sheet is strong enough to survive the downturn, and GE recently issued bonds with a 2050 maturity. Our appraisal of the value declined moderately and assumes a slow multi-year rebound for Aviation but is still more than 80% above the stock's current price.

Portfolio Activity

Summary of Trade Activity	
New Purchases	Full Exits
	Park Hotels & Resorts
	Otis
	Raytheon Technologies

This quarter was in many ways the opposite of the first quarter that started with more cash than usual and ended essentially fully-invested, as markets declined. In the second quarter, we started with more ideas than money but ultimately ended up building cash as we sold three companies and trimmed our top performers as the quarter went on. This is frustrating to us, but we must stick to our discipline. We are keenly focused on continually upgrading the quality of the Portfolio. We have done the work to build out a compelling on-deck list and can act quickly as stock prices cooperate. We believe that the current environment of uncertainty will yield the

necessary price volatility for us to put the cash to work, as we did at the start of the second quarter.

As we discussed above, we sold Park as the company's group meeting and Hawaii focus is expected to have a larger impact to our appraisal given the current environment.

We exited Otis as it spun out of UTX above our opinion of its fair value and joined the 20/20 Club. It was a harder decision to exit Raytheon Technologies, as it did not reach fair value in the quarter (although still a higher P/V than most other holdings), but we ultimately concluded that the commercial aerospace business was changed for the worse and we already had a superior business in that industry at GE. The now more important defense business was not one we are as comfortable with for multiple reasons – especially given social concerns around the missile business and some of its key customers. Additionally, we felt the solid management team did not have enough ways to go on offense.

Outlook

We are confident that our underpriced, good businesses and their competent and shareholder-oriented management teams will produce above average returns. While our on-deck list unsurprisingly has fewer names than we had in March, they are uniquely competitive companies that we believe we will have the opportunity to own. A lot of the work we have done pre-qualifying the qualitative will not have been wasted on those stocks where prices rocketed higher in May and June, as we could get other shots at them and think it more likely than not that these shots could come quickly with the increased market volatility of this year. Some are closer than others, and we expect to see at least one to two new companies in the Portfolio over the next quarter. Examples on our on-deck list include the aforementioned large health care company, and we also have pre-qualified but are waiting on price another company that would be classified as health care but is really more of a consumer product company. We also did a good amount of work on a company that is transitioning from hardware to software and are excited about its business and people, but its price has not cooperated. A real estate/resources company has been on our radar for a long time but needs to show further progress on capital allocation, and we are monitoring

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management's next steps closely. We have delved into a company with good people that we feel is unfairly lumped in with balance-sheet-heavy financials when it is actually more of a fee business, but the price is not right yet. A communications/media conglomerate is undergoing positive changes, so we are doing more work to get to the right decision. And the list goes on.

Our portfolio of competitively-entrenched and growing – but currently out of favor – businesses now has a forward P/E of 11.6 vs. the S&P 500 at 23.4. We made meaningful progress in upgrading the strength and quality of the Portfolio this quarter. Today we have approximately 21.0% in cash to put to work in new opportunities that qualify on our Business, People, Price criteria. We are confident we will have the opportunity to be a liquidity provider amid the current environment of heightened global uncertainty. While US large cap market favorites have gone to even higher prices on potentially lower earnings, we believe the quality of the businesses we own will be recognized and that our patience will be rewarded.

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 U.S. 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		Composite Dispersion	Composite 3-Yr Annualized EX-Post Standard Deviation	Benchmark 3-Yr Annualized EX-Post Standard Deviation
					Gross	Net			
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%
2010	34,639	8,085	88	15.1%	15.8%	15.1%	2.8%	29.8%	21.9%

Institutional U.S. Equity Composite - 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. ("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 U.S. Equity Composite has been examined for the periods January 1, 2001 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. 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 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

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performance, and preparing compliant presentations 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.