January 24, 2020

Longleaf Partners Shareholder Letter

4Q19

Longleaf Partners Funds

Each of our four Funds produced returns in 2019 that materially exceeded our absolute return goal of inflation plus 10%, but each Fund lagged its respective benchmark Index. In our 2018 annual letter, we made three primary observations: First, we noted that 2018 results did not reflect the progress in our portfolios, which we believed laid the foundation to deliver strong absolute returns in 2019. We started 2019 with price-to-values (P/Vs) at historically compelling levels in the high 50s-to-low 60s% and all Funds nearly fully invested. Second, we had several companies that were large detractors in 2018, which we felt were overly discounted with

	1 Year	4Q
Partners Fund	14.81%	9.05%
S&P 500 Index	31.49	9.07
Small-Cap Fund	19.65	9.32
Russell 2000 Index	25.53	9.94
International Fund	20.00	11.80
MSCI EAFE Index	22.01	8.17
Global Fund	20.38	9.84
MSCI World Index	27.67	8.56

Past performance does not guarantee future results.

Average Annual Total Returns (12/31/19) Partners Fund: Since Inception (4/8/87): 9.70%, Ten Year: 7.03%, Five Year: 1.29%, One Year: 14.81%. Small-Cap Fund: Since Inception (2/21/89): 10.67%, Ten Year: 11.98%, Five Year: 6.65%, One Year: 19.65%. International Fund: Since Inception (10/26/98): 7.67%, Ten Year: 5.56%, Five Year: 7.43%, One Year: 20.00%. Global Fund: Since Inception (12/27/12): 6.92%, Ten Year: na, Five Year: 5.78%, One Year: 20.38%. Returns reflect reinvested capital gains and dividends but not the deduction of taxes an investor would pay on distributions or share redemptions. Performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by visiting southeasternasset.com. The prospectus expense ratio before waivers for the Partners Fund is 0.97%. Effective August 12, 2019, Southeastern has contractually committed to limit operating expenses (excluding interest, taxes, brokerage commissions and extraordinary expenses) to 0.79% of average net assets per year. This agreement is in effect through at least April 30, 2021 and may not be terminated before that date without Board approval. The total expense ratio for the Small-Cap Fund is 0.92%. The total expense ratio for the Longleaf Partners International Fund is 1.19% (gross) and 1.15% (net). The expense ratio is subject to fee waiver to the extent normal annual operating expenses exceed 1.15% of average annual net assets. The total expense ratio for the Global Fund is 1.33% (gross) and 1.20% (net). The expense ratio is subject to fee waiver to the extent normal annual operating expenses exceed 1.20% of average annual net assets. These agreements are in effect through at least May 1, 2020 and may not be terminated before that date without Board approval.

strong qualitative drivers and management-led actions that we believed could result in significant outperformance in 2019. Third, we felt the relative return opportunity was compelling, as our portfolios were positioned in areas that were out of favor, rather than the US, large cap, momentum, defensive and/or dividend stocks that led markets for almost a decade.

2019 was a year of exceptionally strong performance for listed equities across almost every geography, even as certain markets were more volatile than others. We would generally expect to outperform coming off near-historic level discounts for our portfolios at the start of the year. However, the market headwinds we wrote about in 2018 (and in many prior letters over the last decade) persisted in 2019, exacerbated by some stock-specific challenges. Our relative returns were impacted as Growth broadly continued its dominance over Value for most of the year, US markets outperformed non-US markets, larger-cap companies outperformed small cap, investors continued to chase yield as interest rates declined and Asian holdings were stressed by the US-China trade war and Hong Kong conflict.

As concentrated, bottom-up business appraisers, we focus on how the companies we own are performing. In 2019, most of our portfolio investments delivered solid double-digit returns. As we predicted, the top contributor to performance for all four Longleaf Partners Funds was among the larger detractors in 2018. We believe we will be sharing similar positive news next year about 2019's detractors.

The Last Decade

2019 marked the end of a tough decade for active, concentrated, value investing. While 2010 saw value – and Southeastern in particular – post a strong year as an extension of 2009's comeback from a dismal 2007 and 2008, the winning investment approach over the rest of the decade could be summarized as, "Buy only US stocks, the bigger/steadier/growthier your strategy, the better". Or simply, "Buy big quality at any price."

The current top 20 companies in the S&P 500 by market cap (excluding Amazon's high price to earnings (P/E) both then and now) have a weighted average next twelve months P/E of just over 26x vs. just over 16x at the start of 2014. Today's market multiples are on after-tax margins that are near peak levels. Most of the companies we own today are comprised of single or low double-digit multiples on margins that can grow meaningfully, even without the benefit of a growing economy. The rest of our portfolio holdings are better-appreciated stocks trading at mid to high teens multiples on mid-cycle margins, which can lead to solid returns as the market leaders did in 2014. It is, however, much harder to compound over the long run when your starting point is a sub-4% implied discount rate on high margins at companies that have already grown to hundreds of billions in market cap. We were too cautious assessing many big companies over the last ten years. Bigger has been better, and our relative results suffered.

Multiple factors drove this “big quality at any price” trend. Interest rates have gone only one way (down), contributing to a lack of stock-specific volatility that would typically benefit bottom-up, fundamental value investors like Southeastern. Low interest rates also made the boring dividend stocks that would usually come our way in the later stages of a bull market overpriced as they became places to reach for yield. The two most influential and fastest-growing market strategies of the past decade have been as opposite in their core tenets as possible: passive, which charges low-to-no fees to own the market with daily liquidity, and private equity (PE), which charges high fees on highly-levered, illiquid capital. Since the global financial crisis, net flows into index funds and exchange-traded funds (ETFs) have totalled $4 trillion, while active funds have lost $148 billion. Passive is fundamentally a strategy that buys more of what has been outperforming, meaning big becomes even bigger. As more and more assets move towards indexing, the overuse of the strategy is likely to hinder its own future success. If an allocator did decide to invest in an active strategy in the last decade, it was likely that they invested in PE. Much like passive, PE was founded on valid principles – pay 6-8x EBITDA on depressed margins, use a reasonable amount of leverage, take a longer-term view to make tough improvements out of the public eye, then monetize at a higher price. But PE has benefitted in the last decade from rising exit multiples, and now the industry is forced to pay materially higher going-in multiples on peak margins with more leverage when interest rates are at all-time lows.

What We Own Today

Quality is critical to Southeastern, but we define it differently than the standard, backward-looking, stock momentum approach that has driven markets. In our bottom-up, fundamental approach, we define a high-quality business as one with a long-term growth tailwind , pricing power or gross profit royalties, network effect benefits, a lack of technological and/or regulatory risks and an ability to grow free cash flow (FCF) higher than revenue with a high incremental return on capital (ROC). High-quality partners are honorable people who think long-term instead of quarter to quarter, are preferably large owners of their stock relative to their net worth and are incentivized on ROC, FCF per share growth and/or total shareholder return. We find that the market tends to focus more on business rather than people quality, but our history has shown that good partners can achieve excess returns beyond what the business quality alone may suggest. This becomes even more evident in cases where we engage with companies to help drive superior outcomes.

Our 45-year history has taught us that the price paid for any investment matters greatly for future returns and risk reduction, and we believe the market is paying a very high price for big, “quality” businesses today, particularly within the US. We track a global master list of thousands of companies that we have assessed using our Business, People, Price criteria. Today, the 800-900 company US-subset of that list trades at a median P/V of 115% and the Non-US subset trades at closer to 100%. We quantify our view of the qualitative by assigning a score of 1 (worst) to 5 (best) for both business and people by analyzing the factors outlined above for each. Interestingly, the 5 (highest) quality score businesses in the US trade on average 10 P/V percentage points higher than the 4 quality score businesses, which are also trading 10 points higher than the 3s. We spend little time on the 2s and 1s. Although the 5s are rightfully worth the highest multiples (and we own some of these), it is hard for something that is both consensus-great today and already huge to stay 26x-PE-multiple-great for a 10 year+ period.

As long-term, concentrated, engaged value investors, we remain focused on identifying new opportunities with the potential to be our next successful long-term holding. We go down the list each day of quality companies we would love to own if market prices cooperate. The relatively low level of new purchases across our Funds in 2019 does not reflect the extensive work of the research team in what was a busy and productive year. In 2019, the team talked with well over 300 companies across the globe. This includes current investments, where we engage with our management partners to ensure we are on the right path for long-term value creation. Prospective investments include both successful prior holdings that have come back in range to be potential “recycled” investments and companies that are newer to us or within industries or regions where we are expanding our expertise and circle of competence, including smaller-cap US technology-related businesses and Japanese companies with value-focused owner-operators and/or independent board members at the helm. In addition to management teams and boards, we met with competitors, former employees, various industry experts and other like-minded, influential investors to help us understand these businesses and vet their management. Nor does our process end when we sell a company. The primary analyst completes a postmortem at the end of our holding period for every investment – whether positive or negative – reviewing our original thesis, devil's advocate work and lessons learned. These reports provide valuable insight that we apply in the future. The result of all this work has led to a global on-deck list that is more robust in recent years.

Company Update

2019 was a year of progress across our Firm, not just within our portfolios. As discussed in our 2018 annual letter, Ross Glotzbach became CEO at the start of the year, and it has been a seamless transition. Despite his CEO and Head of Research roles, Ross still considers "analyst" to be his most important responsibility and devotes 85%+ of his time to research. As part of our multi-year succession plan, Ross increased his ownership stake in the Firm, as did International Fund Portfolio Manager and fellow member of Southeastern's Executive Committee, Josh Shores, and other senior non-research department heads. Additionally, London-based Senior Analyst, John Woodman, was named a Principal in recognition of his contribution over the last several years.

We deepened the research team bench by hiring two new junior analysts in 2019. Taieun Moon joined our Singapore office in the first quarter, and Alicia Cardale joined our London office in the second quarter. Both have hit the ground running and complement our global research efforts with their diverse experience and expertise.

International Fund celebrated its 20th anniversary with solid absolute and strong relative long-term returns. It has benefitted from the positive broadening and deepening of our global research capabilities, with two-thirds of our 15-person research team now focusing outside the US and eight of the 15 holding passports from six different countries. Our Asia Pacific presence has exceeded our expectations by leading to deeper expertise and a greater understanding of cultural nuances within the region, an expanded network, greater portfolio management perspective across the team and more investment ideas for our International and Global Funds.

Finally, we have taken steps to enhance our communications with our clients in the past year. We recently redesigned our website at www.southeasternasset.com to enable better access to portfolio information and communication from your portfolio managers. We also launched The Price-to-Value Podcast in 2018. In 2019, we hosted a series of conversations with our management partners, including Prem Watsa, Will Thorndike, Fred Smith and Lawrence Ho, which we hope gives insight into how these top-notch leaders think. We are grateful to those of you who shared ideas for future podcast topics and welcome you to send any feedback to podcast@seasset.com. We look forward to sharing new episodes with you in 2020 and will continue to strive to provide best in class communications and service for our clients.

Outlook

While a narrow band of high-quality companies have ruled the markets lately, we were heartened by the strong results in the fourth quarter across all our Funds. We expect to report more good news in 2020. We believe the intrinsic values of our companies will grow, their managements will act honorably and allocate capital intelligently and the market will recognise these critical investment attributes, thus delivering excess returns. Please know that as Southeastern's largest client, our capital and careers are aligned with these convictions. We thank you for your long-term support and patience, which we believe will soon be rewarded.

See following pages for important disclosures.

Before investing in any Longleaf Partners fund, you should carefully consider the Fund's investment objectives, risks, charges, and expenses. For a current Prospectus and Summary Prospectus, which contain this and other important information, visit longleafpartners.com. Please read the prospectus and summary prospectus carefully before investing.

RISKS

The Longleaf Partners Funds are subject to stock market risk, meaning stocks in the Funds may fluctuate in response to developments at individual companies or due to general market and economic conditions. Also, because the Funds generally invest in 15 to 25 companies, share value could fluctuate more than if a greater number of securities were held. Mid-cap stocks held may be more volatile than those of larger companies. With respect to the Small-Cap Fund, smaller company stocks may be more volatile with less financial resources than those of larger companies. With respect to the International and Global Funds, investing in non-U.S. securities may entail risk due to non-US economic and political developments, exposure to non-US currencies, and different accounting and financial standards. These risks may be higher when investing in emerging markets.

Information in this letter regarding market or economic trends, or the factors influencing historical or future performance, reflects the opinions of management as of the date of this report. These statements should not be relied upon for any other purpose. Past performance is no guarantee of future results, and there is no guarantee that the market forecasts discussed will be realized. There is no assurance the investment process discussed will consistently lead to successful investing. There is no assurance the Fund objectives will be met.

The S&P 500 Index is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. An index cannot be invested in directly.

The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3,000 Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index. An index cannot be invested in directly.

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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. For example, a ratio of 60% would indicate a stock price at 60% of Southeastern's appraisal. The ratio represents a single data point about a Fund and *should not be construed as something more. P/V does not guarantee future results, and we caution investors not to give this calculation undue weight.*

Price / Earnings (P/E) is the ratio of a company's share price compared to its earnings per share.

Free Cash Flow (FCF) is a measure of a company's ability to generate the cash flow necessary to maintain operations. Generally, it is calculated as operating cash flow minus capital expenditures.

Return on capital (ROC) is a calculation used to assess a company's efficiency at allocating the capital under its control to profitable investments.

EBITDA is a company's earnings before interest, taxes, depreciation and amortization.

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

As of December 31, 2019, the top ten holdings for the Longleaf Partners Fund: CenturyLink, 10.3%; GE, 8.1%; CK Hutchison, 7.8%; Mattel, 7.5%; FedEx, 6.3%; CNH Industrial, 6.0%; CNX Resources, 4.9%; Fairfax Financial, 4.9%; Affiliated Managers Group, 4.6%; Comcast, 4.5%. Longleaf Partners Small-Cap Fund: Kodak, 9.4%; CenturyLink, 9.3%; Graham Holdings, 6.5%; Mattel, 6.1%; Lazard, 5.3%; PotlatchDeltic, 5.1%; CNX Resources, 4.9%; Realogy Holdings, 4.8%; GCI Liberty, 4.7%; Actuant, 4.6%. Longleaf Partners International Fund: EXOR, 9.6%; Domino's, 7.3%; Melco, 7.2%; CK Hutchison, 6.0%; LANXESS, 5.7%; C&C Group, 5.4%; MinebeaMitsumi, 5.2%; Lazard, 4.9%; LafargeHolcim, 4.9%; Becle 4.8%. Longleaf Partners Global Fund: EXOR, 9.0%; CenturyLink, 9.0%; Melco, 7.2%; GE, 7.1%; CK Hutchison, 6.0%; FedEx, 5.4%; CNX Resources, 4.9%.; Fairfax Financial, 4.5%; MinebeaMitsumi, 4.4%; LafargeHolcim, 4.2%. Fund holdings are subject to change and holding discussions are not recommendations to buy or sell any security. Current and future holdings are subject to risk.

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Longleaf Partners Shareholder Letter

4Q18

Widespread market declines hurt investors in public equities in 2018. As the year progressed, trade wars, U.S. interest rate increases, geopolitical unrest, fears of economic slowdowns in multiple countries, including China, and falling oil prices were among the primary headlines pressuring equity prices around the world. The U.S. significantly outperformed other regions in the first nine months of the year, particularly with the strengthening dollar, but the worldwide downturn in the fourth quarter most impacted the U.S. market. By the end of the year, broad indices around the world were in negative territory, but U.S. large caps outperformed once again, further increasing the value disparity in which the S&P 500 has almost tripled the EAFE Index over the last decade.[1] Even so, 2018 was a big deviation from the 16 percent average annual returns for the S&P 500 that U.S. large cap investors had become accustomed to over the prior five years.

	1 Year	4Q
Partners Fund	-17.98%	-20.67%
S&P 500 Index	-4.38	-13.52
Small-Cap Fund	-6.52	-15.55
Russell 2000 Index	-11.01	-20.20
International Fund	-7.08	-9.90
MSCI EAFE Index	-13.79	-12.54
Global Fund	-16.16	-17.22
MSCI World Index	-8.71	-13.42

Past performance does not guarantee future results.

[1] 10-Year cumulative return for S&P 500 was 243% and for MSCI EAFE was 85%. The S&P 500 outperformed the MSCI EAFE Index on an annual basis in seven out the past ten years.

Average Annual Total Returns (12/31/18) Partners Fund: Since Inception (4/8/87): 9.54%, Ten Year: 10.19%, Five Year: -0.52%, One Year: -17.98%. Small-Cap Fund: Since Inception (2/21/89): 10.38%, Ten Year: 14.49%, Five Year: 5.34%, One Year: -6.52%. International Fund: Since Inception (10/26/98): 7.09%, Ten Year: 5.83%, Five Year: 0.33%, One Year: -7.08%. Global Fund: Since Inception (12/27/12): 4.83%, Ten Year: na, Five Year: 0.68%, One Year: -16.16%. *Returns reflect reinvested capital gains and dividends but not the deduction of taxes an investor would pay on distributions or share redemptions. Performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by visiting longleafpartners.com. The total expense ratio for the Partners Fund is 0.95% and 0.92% for the Small-Cap Fund. These expense ratios are subject to fee waiver to the extent a fund's normal annual operating expenses exceed 1.50% of average annual net assets. The total expense ratio for the International Fund is 1.19% (gross) and 1.15% (net). This expense ratio is subject to fee waiver to the extent the fund's normal annual operating expenses exceed the 1.15%. The total expense ratio for the Global Fund is 1.48% (gross) and 1.20% (net). This expense ratio is subject to fee waiver to the extent normal annual operating expenses exceed 1.20%.*

The Longleaf Funds were not immune to the broad price declines. Strong stock performance at several portfolio companies was not enough to offset negative pressures, and all four Funds were down for the year. The International Fund and Small Cap Fund performed significantly better than their respective indices' double-digit retreats, partially due to portfolio companies being acquired. The Partners and Global Funds underperformed the single-digit declines of their benchmarks, in part because of more exposure to stocks outside the U.S. The Funds continued to battle the longstanding challenges of passive inflows at the expense of active managers, growth outperforming value and U.S. stocks overshadowing those offshore. The biggest performance detractors were those companies that missed expectations and/or lowered guidance, which the market punished particularly severely in the fourth quarter. Among the causes for disappointments were revenues associated with emerging markets, particularly China, companies undergoing some type of corporate or industry structural change and industrial businesses. The commentary for each Fund provides a more robust discussion of specific performance drivers.

2018 results did not reflect the progress within our portfolios, where we put cash to work and repositioned into more heavily discounted and/or qualitatively attractive opportunities over the course of the year. Early in the year, we locked in gains at several investments that successfully reached our appraisals - Wynn, CONSOL Energy, Sonic and Forest City in the U.S. and Yum China overseas. In the second half, we sold additional non-U.S. winners, including Hikma, Ferrovial, Vocus and Televisa. We deployed cash on hand and proceeds from sales into new investment opportunities that emerged as world uncertainty increased and into existing holdings that became more discounted. We purchased five new companies in the Partners Fund, all of which are "recycled" businesses that we previously owned, five in Small-Cap (two recycles), four in Global (two recycles) and an unusually high thirteen in International (two recycles). We believe these new investments across the Funds add to the foundation for future compounding. Cash ended the year below 5% in Partners, International and Global, and down from 23% to under 9% in Small-Cap. Additionally, portfolio repositioning and value growth amid stock price declines helped the price-to-value (P/V) ratio move into the low-60s% for the International Fund and the 50s% for Partners, Small-Cap and Global, a somewhat rare level that has historically preceded strong returns.

Just as performance did not reflect portfolio enhancements, we believe the stock prices of most companies in the Funds did not indicate the positive progress that our companies and management partners made throughout the year. Stronger CEOs were secured at CenturyLink, GE, CNH and Mattel. Several businesses sold assets for attractive prices, including Allergan, Park Hotels, Kodak, Fairfax, CK Asset, CK Hutchison, EXOR, LafargeHolcim, United Technologies, Baidu and GE. United Technologies, Belmond, thyssenkrupp, Bharti Infratel and GE announced company breakup/simplification plans, while Forest City, Sonic and Belmond were acquired near our appraisal values. Importantly, the primary business segments at most of our core holdings grew – Enterprise at CenturyLink, Cable at Comcast, Search and YouTube at Alphabet, Retail at CK Hutchison, Barbie and Hot Wheels at Mattel, Broadcasting and Kaplan International at Graham Holdings, Botox at Allergan, Ground at FedEx, Core Search at Baidu, Agriculture at CNH, Bearings at MinebeaMitsumi, North American Cement at LafargeHolcim, Aviation and Healthcare at GE, Partner Re at EXOR, North American Fertilizer at OCI and Mass Gaming at Melco. As their stock prices became more discounted, numerous companies we own repurchased shares, thereby increasing the remaining value per share. We believe growing free cash flow and earnings per share eventually should translate into stock prices that properly reflect value, whether by investor re-rating, much higher earnings than currently being delivered or corporate partners taking action to gain value recognition.

Choppy markets and the economic uncertainty that feeds them could last for a while. While many CEOs we talk to are optimistic about revenue growth, they are cautious about rising labor and materials costs on a local level and general increases in barriers to trade and geopolitical friction potentially impacting revenue and margins. We believe the best way to manage against investment risk is to know what we own very well and incorporate conservative-to-skeptical assumptions about the future. Investing in a limited number of companies, having a broad and deep research network and engaging with managements are critical advantages in providing the knowledge that may prevent permanent losses over the long term. In our process we always consider external challenges that could deteriorate competitive positions, such as technology, government regulation, higher tariffs and general geopolitical tensions. Most importantly, we have partnered with management teams who, in our view, can control their own destiny in terms of value realization, and we are working with boards and leaders at certain holdings to accelerate this realization.

We are neither pleased nor complacent about 2018 returns. As your largest co-investors in the Longleaf Funds, it is our view that the momentum style and passive investing that have dominated for the past decade are overdue for a reversal. We believe that the attractive P/V of our portfolios, combined with the underlying strength of the businesses we own and the management teams leading them, can generate strong absolute and relative results going forward and the payoff for 2018 company-level and portfolio-level progress is deferred but not lost.

Enhancing Communications with Clients

Our Governing Principles state that we will “continue our efforts to enhance client and shareholder services” and “communicate with our investment partners as candidly as possible.” To that end, we are adjusting our communications to provide the most relevant information in a timely and convenient manner. Going forward, we will continue to provide a quarterly commentary with detailed discussion of each Fund’s strategy, individual positions and performance each period. We will move our more general quarterly shareholder letter to a year-end review, providing an overview of the year that includes broader market, strategy and portfolio-wide observations.

In addition, we have launched The Price-to-Value Podcast, which is available on our website or wherever you download podcasts. We will produce monthly podcasts to discuss current topics that are top of mind for our clients. Please send any suggestions for topics to podcast@SEasset.com. For those who prefer to read, rather than listen, transcripts are available on our website.

Succession Planning

We have thought a great deal about and discussed Southeastern's management succession and the firm's future leadership for almost a decade. As part of our planning, we are pleased to announce that Ross Glotzbach transitioned from President to CEO of Southeastern, effective January 1, 2019. We have made this important decision now because we believe Ross is the right person to lead our company and because we have developed effective department leaders and officers in COO Steve Fracchia, CFO Jessica Pressgrove, CCO Mike Wittke, General Counsel Andy McCarroll, Head of Risk Management Jim Barton, Jr., Head of Client Relations Gwin Myerberg and Head of Trading Doug Schrank. This experienced team will allow Ross to focus on investing and continue leading our global research efforts.

Ross has been an important contributor to our investment process over the past fifteen years in his roles as an analyst, Co-PM on the Small-Cap Fund (since 2014) and Partners Fund (since 2017) and Head of Research (since 2016). Effective January 1, he also became a Co-PM on the Global Fund. Ross is greatly respected by all our associates, is a humble team builder, leads by asking wise questions and is quick to give credit to others, while immediately taking responsibility for challenges. Most importantly, we are confident that Ross will protect our partnership culture and improve the execution of our long-term, concentrated, engaged value investing disciplines.

We also believe it is important for Southeastern to remain independent, so we can continue to work for our clients without distraction and provide career opportunities for our team members. Ross is assuring the firm's independence by buying a more significant stake in the company from Mason Hawkins, who remains the Chairman and largest shareholder. Vice-Chairman Staley Cates will remain the second largest owner of Southeastern.

These changes and the competency of our department heads will give Mason and Staley more time to do what they love for many years to come - read, think, discuss investment opportunities and engage with our corporate partners. Both continue to serve as Co-PMs on all four Longleaf Partners Funds and sit on Southeastern's Executive Committee, along with Ross, Steve Fracchia and Josh Shores.

We encourage you to listen to the Price-to-Value Podcast Episode 5: Three Generations of Leadership (available on our website or wherever you listen to podcasts) for a more robust discussion with Mason, Staley and Ross about Southeastern's leadership succession and outlook.

It is rare for an investment firm to have three experienced generations of investment leaders actively engaged. Mason, Staley and Ross are committed to ensuring the next four-plus decades at Southeastern are as fruitful as our first 43 years. Our ownership and responsibility transitions enable Southeastern to remain independent. As the largest investors in the Longleaf Funds, it is our belief that the firm's continuity and stability will enable us to deliver superior results, both in the near term and over decades.

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Free Cash Flow (FCF) is a measure of a company's ability to generate the cash flow necessary to maintain operations. Generally, it is calculated as operating cash flow minus capital expenditures.

Earnings per share (EPS) is the portion of a company's net income allocated to each share of common stock.

As of December 31, 2018, the top ten holdings for the Longleaf Partners Fund: CenturyLink, 10.8%; CK Hutchinson, 7.6%; GE, 6.9%; CNX Resources, 6.1%; LafargeHolcim, 5.9%; FedEx, 5.7%; Mattel, 5.7%; Affiliated Managers Group, 4.8%; Alphabet, 4.8%; Fairfax, 4.8%. Longleaf Partners Small-Cap Fund: Graham Holdings, 8.8%; Hopewell, 7.5%; CenturyLink, 7.2%; Liberty Media, 6.7%; OCI, 6.4%; Kodak, 5.1%; Summit, 5.1%; Lazard, 4.9%; Mattel, 4.8%; ViaSat, 4.7%. Longleaf Partners International Fund: EXOR, 7.8%; Melco, 7.2%; CK Hutchison, 6.9%; LafargeHolcim, 6.2%; MinebeaMitsumi, 6.1%; Millicom, 5.8%; Vestas, 5.7%; Belmond, 4.9%; Bollore, 4.8%%; CK Asset Holdings, 4.8%. Longleaf Partners Global Fund: CenturyLink, 8.6%; EXOR, 7.9%; Melco, 7.3%; Vestas, 6.9%; CK Hutchison, 6.9%; GE, 5.8%; FedEx, 5.4%; Fairfax, 4.9%; Alphabet, 4.8%; LafargeHolcim, 4.8%. Fund holdings are subject to change and holding discussions are not recommendations to buy or sell any security. Current and future holdings are subject to risk.

Funds distributed by ALPS Distributors, Inc.

LLP000844
Expires 4/30/2019

October 10, 2018

Longleaf Partners Shareholder Letter

3Q18

All four Longleaf Partners Funds posted positive gains in the third quarter. The International Fund exceeded both inflation plus 10% and the benchmark index. The Partners and Small-Cap Funds met our absolute goal of inflation plus 10% while the Global Fund was slightly below that target. Returns across the Funds were in the low single-digit range, while the relevant indices posted a more disparate 1.36% (MSCI EAFE), 3.58% (Russell 2000), 4.98% (MSCI World) and 7.71% (S&P 500). Southeastern's similar absolute compounding rates were perceived vastly differently with a relative lens.

	3 Year	1 Year	3Q
Partners Fund	14.99%	7.13%	2.70%
S&P 500 Index	17.31	17.91	7.71
Small-Cap Fund	15.86	12.61	2.76
Russell 2000 Index	17.12	15.24	3.58
International Fund	14.28	2.81	3.19
MSCI EAFE Index	9.23	2.74	1.36
Global Fund	17.79	3.95	1.61
MSCI World Index	13.54	11.24	4.98

Past performance does not guarantee future results.

Likewise, over the last 3 years, all four Funds appreciated at mid-to-high teens annual rates – well above the 12%[1] absolute bogey of inflation plus 10% - while the indices had much wider variation. The indices ranged from 9.23% (MSCI EAFE), 13.54% (MSCI World),

[1] 2% inflation using US Consumer Price Index plus 10%.

Average Annual Total Returns (9/30/18) Partners Fund: Since Inception (4/8/87): 10.43%, Ten Year: 8.06%, Five Year: 6.15%, One Year: 7.13%. Small-Cap Fund: Since Inception (2/21/89): 11.11%, Ten Year: 12.64%, Five Year: 10.17%, One Year: 12.61%. International Fund: Since Inception (10/26/98): 7.74%, Ten Year: 4.80%, Five Year: 3.82%, One Year: 2.81%. Global Fund: Since Inception (12/27/12): 8.55%, Ten Year: na, Five Year: 6.41%, One Year: 3.95%. *Returns reflect reinvested capital gains and dividends but not the deduction of taxes an investor would pay on distributions or share redemptions. Performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by visiting longleafpartners.com. The total expense ratio for the Partners Fund is 0.95% and 0.92% for the Small-Cap Fund. These expense ratios are subject to fee waiver to the extent a fund's normal annual operating expenses exceed 1.50% of average annual net assets. The total expense ratio for the International Fund is 1.19% (gross) and 1.15% (net). This expense ratio is subject to fee waiver to the extent the fund's normal annual operating expenses exceed the 1.15%. The total expense ratio for the Global Fund is 1.48% (gross) and 1.20% (net). This expense ratio is subject to fee waiver to the extent normal annual operating expenses exceed 1.20%*

17.12% (Russell 2000) and 17.31% (S&P 500). As the largest owners of the Funds, we are pleased to have compounded our capital at real, double-digit rates over 3 years, a feat even more noteworthy given headwinds of growth stocks dominating value stocks, our higher-than-normal cash balances and, aside from the International Fund, lower portfolio weights in U.S. stocks than the indices.

Focusing on delivering solid real returns, while seeking to minimize risk of capital loss, has always been our primary objective. We have not moved the goal post simply because the Index was higher than our strong absolute numbers in the Partners and Small-Cap Funds. With similar 3-year compounding rates, the Global and International Funds outperformed their benchmark indices. Over most longer-term periods, absolute returns of 10% over inflation will exceed index returns.

Payoff Patterns

Southeastern's long-term, concentrated, engaged value approach has been rewarding over multiple market cycles. Following our investment discipline has positioned us and our clients to benefit when payoffs occur, which is rarely in steady, even increments. Studies have shown that broader market returns have been generated over a small number of days. Not only has our performance often come in big moves over short periods, but because we own a limited number of businesses, each selected for its fundamental, company-specific merits, our idiosyncratic payoff patterns often have little to do with the broader stock market or returns within the company's industry. In the third quarter and over the course of 2018, our biggest performance contributors, including CenturyLink[2], OCI[3], Belmond[4] and Sonic[5], demonstrated how quickly and unexpectedly negative sentiment can turn.

Buying companies at a material discount normally requires a long-term time horizon and a willingness to invest in something that most will not buy because a stock usually becomes significantly undervalued when the business faces a current challenge with no obvious, near-term resolution. For example, when CenturyLink acquired Level 3 on November 1, 2017, analysts focused on the declining legacy landline business and its risk to the dividend. At OCI, after the proposed acquisition by CF Industries fell through in May 2016, the stock remained undervalued, as two massive plants were months from

[2] CenturyLink was held in Partners, Global and Small-Cap Funds.
[3] OCI was held in Global, International and Small-Cap Funds.
[4] Belmond was held in International Fund.
[5] Sonic was held in Small-Cap Fund.

completion, and uncertainty in product prices created more pessimism. In May 2017, we bought the luxury hotel company Belmond well into a strong hotel cycle and with a previous leader who had prioritized management ahead of shareholder value. When we bought Sonic in the third quarter of 2016, investors feared a reinvigorated McDonald's and preferred higher-yielding quick service restaurant peers, especially after weather issues negatively impacted Sonic's drive-in restaurant earnings. Our appraisals of each of these companies incorporated the short-term concerns and were well above their stock prices. We believed value per share would grow over our investment horizon of multiple years.

In our research process, finding a stock selling at a steep discount is only the first step. We must do the in-depth analytical work to understand the current issues weighing on the stock and determine the likelihood of higher cash flow and a stronger competitive position going forward. Additionally, we engage with the company's leaders to determine how they intend to pursue growth in value per share. For a company to qualify for investment, we must believe in a high probability of double-digit value gains over the next 5 years, even though the exact timing is uncertain. At CenturyLink, we knew that, under the leadership of Jeff Storey, costs could be reduced, the Enterprise fiber business could grow at high margins that would make up for declining landline earnings and that the combined company's projected cash flow could cover the dividend. Similarly, we believed OCI's new plants would have a low-cost advantage when completed, the outlook for supply and demand made commodity price recovery likely and CEO Nassef Sawiris was committed to driving higher value through operations, company structure and opportunistic asset sales. In Belmond's case, relatively new CEO Roeland Vos, Chairman Roland Hernandez, whom we knew from our previous successful investment in Vail Resorts, and diminished influence from the company founder made us confident that capital discipline and margin improvement at the company's trophy properties were highly likely. At Sonic, we believed that CEO Cliff Hudson and his team would continue to sell stores to franchisees, the number of store locations would increase and the unique menu and drive-in format provided a longer-term competitive advantage. We were happy to own these out-of-favor companies because we believed their competitive strengths and capable managements meant a high probability of attractive value growth.

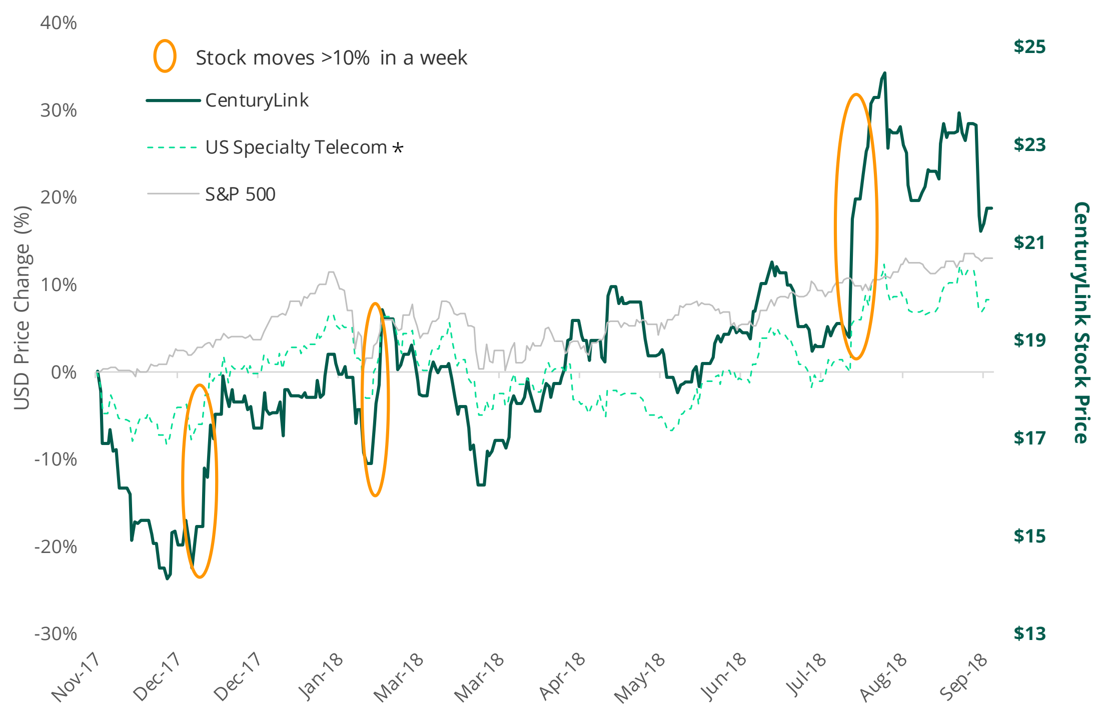
Once we invest in a company, we continue to engage with management and track the business's progress. If the case remains intact with increasing value per share, we patiently wait for the stock price to reflect intrinsic worth, knowing that the timing is unpredictable. The wait, however, can be frustrating if one focuses on daily stock price movement, and we can look wrong in the short term. None of these four stocks moved up in a steady, straight line, and each declined at various points. But, sentiment turned quickly. The total 2018 year to date returns for these top contributors were created in just 3 to 7 days – less than 4% of the 188 trading days this year.

Company-specific events that are not closely correlated to broader stock markets, or even a company's industry group, usually create our payoffs. In CenturyLink's case, Jeff Storey became the CEO ahead of schedule, and the company's strong results reflected cost reductions and the ability to maintain the dividend. At OCI, the successful completion and ramp up of the Iowa nitrogen plant in 2017 and the Texas methanol plant in 2018 were two discrete events that drove stock surges and contributed to a longer, ongoing price gain as the market digested them. At Belmond, the board announced it had hired bankers to review "strategic options" for the company. After Sonic's substantial share repurchases, owned store conversions to franchisees and improving sales helped increase earnings, Inspire Brands offered to buy the company at our appraisal price.

The charts below illustrate the sudden and uncorrelated payoffs at each company, highlighting cases where the stock rose more than 10% in a week. The graphs show the company's stock price movement versus its broader index and its industry group performance.

CenturyLink Price Chart

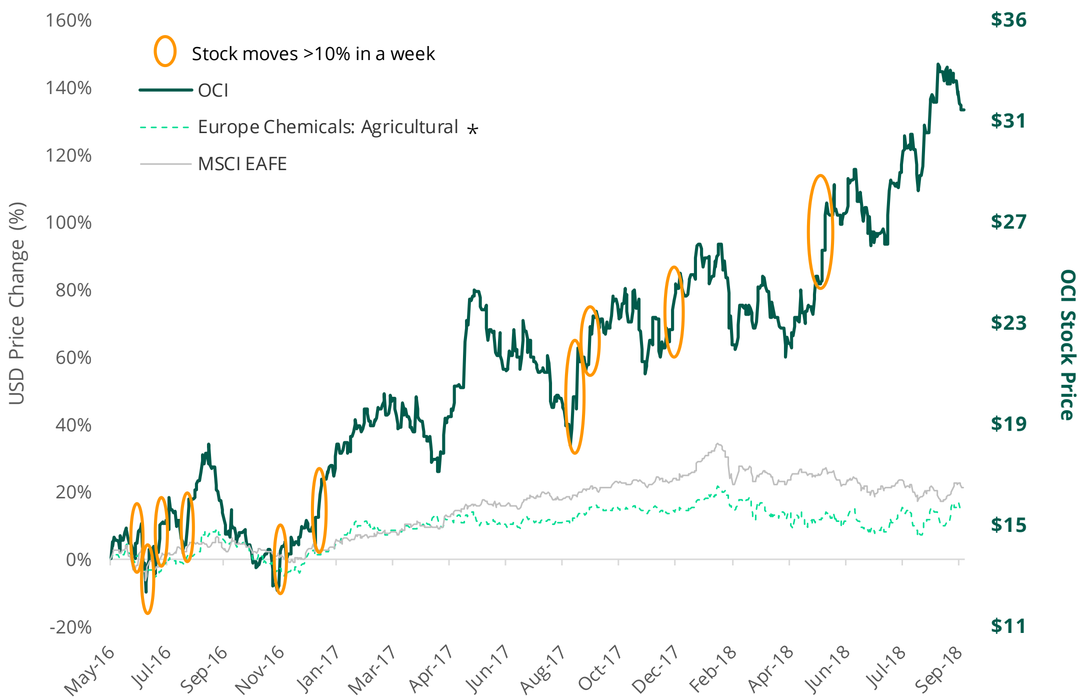
Since Level 3 acquisition (11/1/2017 to 9/30/2018)



Source FactSet
** FactSet Market Index*

OCI Price Chart

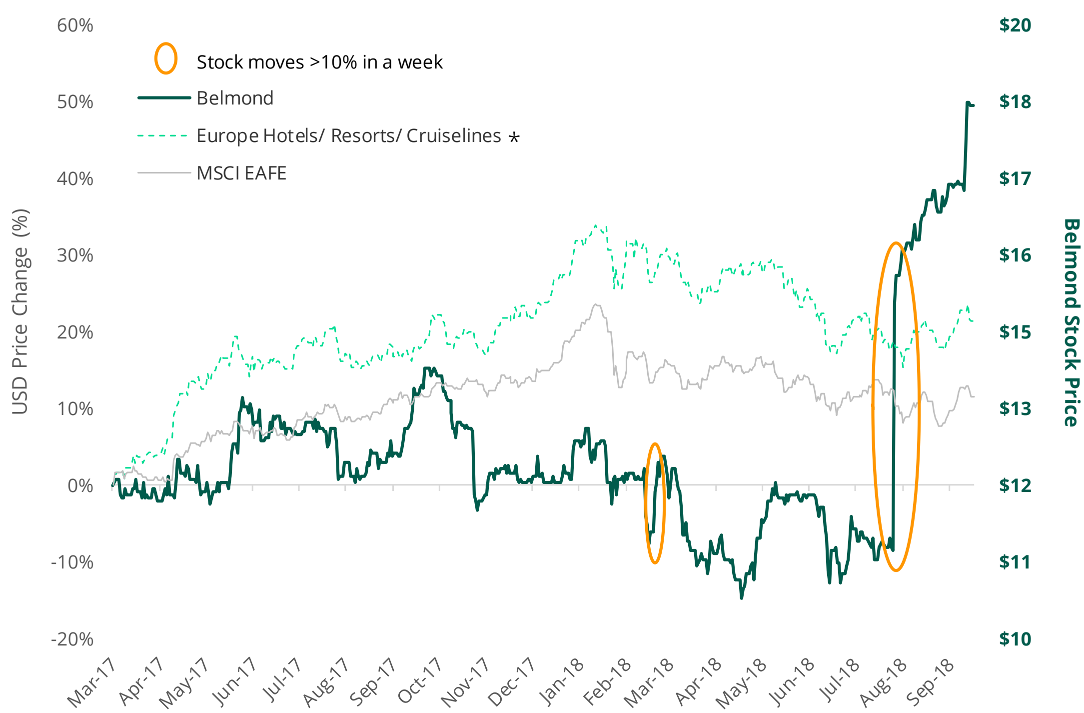
Since failed CF acquisition (5/23/2016 to 9/30/2018)



Source FactSet
** FactSet Market Index*

Belmond Price Chart

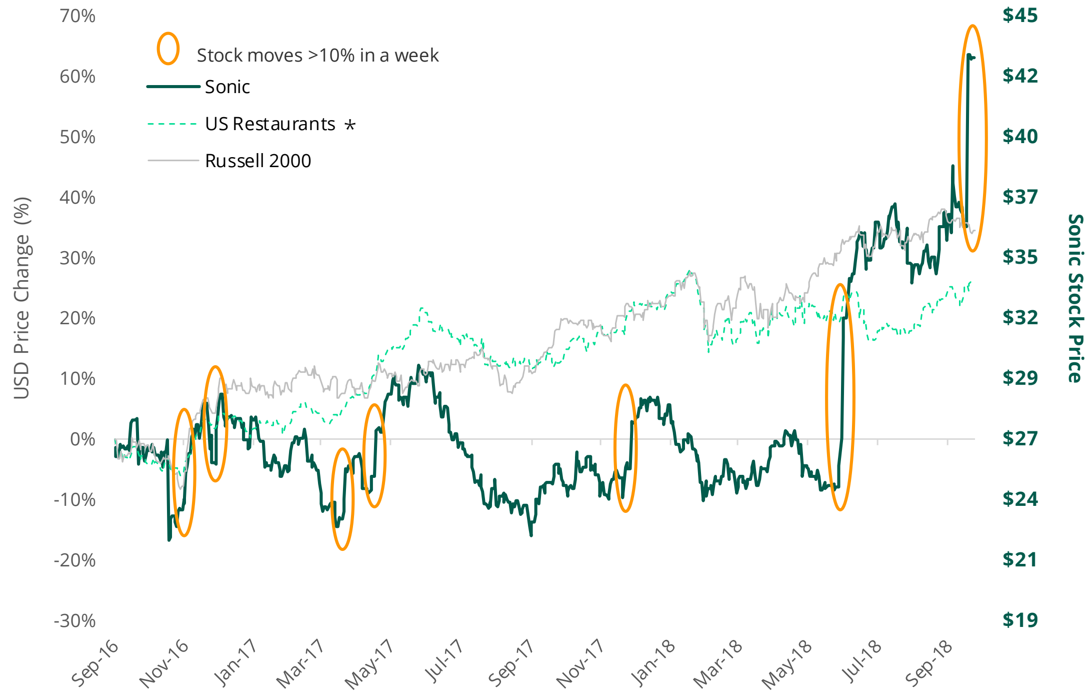
Since Southeastern purchase (3/15/2017 to 9/30/2018)



Source FactSet
** FactSet Market Index*

Sonic Price Chart

Since Southeastern purchase (9/7/2016 to 9/30/2018)



Source FactSet

** FactSet Market Index*

The recent performance bursts at these companies indicate how quickly and unexpectedly prices can rise, but this year's payoffs are not necessarily a victory lap. Stock price moves can take longer than we would like. We owned CenturyLink's predecessor, Level 3, for a number of years while the company's founder reduced industry capacity through consolidation, before Jeff Storey became CEO and drove higher revenues over the fiber network. We must constantly reassess each investment to determine if, and when, value growth is no longer a high probability because payoffs ultimately follow the direction of corporate value. We sold Sonic because it is being purchased by a private company paying fair value. We still own the other three companies, since their prices remain below our appraisals, which are growing. Additionally, we believe each company has unique upside potential beyond our long-hand appraisal, and our management partners are capable of extracting that upside, regardless of what happens in broader stock markets.

Outlook

When we invested in the businesses responsible for the Funds' recent returns, we did not know when their overly discounted stock prices would rebound. We were buying competitively advantaged companies led by good stewards, who we felt had the potential to grow value per share over time. We believed that at some point, the intrinsic value of the company would be reflected in the stock price. Today, we have a similar view of our current holdings, which is why we are optimistic about our prospects for long-term future returns. We remain engaged with our management partners, who are properly focused on shareholders, and who, we believe, will play an important role in driving value recognition. We are confident the payoffs can come, albeit not in a pattern or timeframe we can predict or that looks like market indices.

We are further encouraged about future returns, as we continue to find more qualifying investments. In spite of rising indices in the U.S., select good businesses are discounted, even as their values increase. The EAFE Index's positive performers have been limited, and we have more opportunities than we have cash in the International and Global Funds. We believe we can compound at attractive rates in unexpected bursts over the next 5 years across the Longleaf Funds. Given the deeper discounts and broader opportunity set, the payoff patterns outside of the U.S. could be particularly compelling.

See following page for important disclosures.

Before investing in any Longleaf Partners fund, you should carefully consider the Fund's investment objectives, risks, charges, and expenses. For a current Prospectus and Summary Prospectus, which contain this and other important information, visit longleafpartners.com. Please read the prospectus and summary prospectus carefully before investing.

RISKS

The Longleaf Partners Funds are subject to stock market risk, meaning stocks in the Funds may fluctuate in response to developments at individual companies or due to general market and economic conditions. Also, because the Funds generally invest in 15 to 25 companies, share value could fluctuate more than if a greater number of securities were held. Mid-cap stocks held may be more volatile than those of larger companies. With respect to the Small-Cap Fund, smaller company stocks may be more volatile with less financial resources than those of larger companies. With respect to the International and Global Funds, investing in non-U.S. securities may entail risk due to non-US economic and political developments, exposure to non-US currencies, and different accounting and financial standards. These risks may be higher when investing in emerging markets.

There is no assurance the investment process discussed will consistently lead to successful investing. There is no assurance the Fund objectives will be met.

The S&P 500 Index is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. An index cannot be invested in directly.

The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3,000 Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index. An index cannot be invested in directly.

MSCI EAFE Index (Europe, Australasia, Far East) is a broad based, unmanaged equity market index designed to measure the equity market performance of 22 developed markets, excluding the US & Canada. An index cannot be invested in directly.

MSCI World Index is a broad-based, unmanaged equity market index designed to measure the equity market performance of 24 developed markets, including the United States. An index cannot be invested in directly.

As of September 30, 2018, the top ten holdings for the Longleaf Partners Fund: CenturyLink, 11.8%; CK Hutchinson, 7.5%; LafargeHolcim, 6.5%; FedEx, 6.3%; Mattel, 6.1%; CNX Resources, 5.4%; GE, 5.3%; Park Hotels, 4.9%; Fairfax, 4.9%; Allergan, 4.8%. Longleaf Partners Small-Cap Fund: CenturyLink, 7.8%; OCI, 7.7%; Liberty Media, 6.3%; Graham Holdings, 6.2%; Mattel, 5.3%; Park Hotels, 5.2%; Realogy Holdings, 4.7%; ViaSat, 4.7%; Neiman Marcus, 4.7%; Hopewell, 4.3%. Longleaf Partners International Fund: OCI, 8.0%; EXOR, 8.0%; CK Hutchison, 7.3%; LafargeHolcim, 6.6%; Belmond, 5.5%. Melco, 5.1%, Thyssenkrupp, 5.1%; Baidu, 4.9%; Millicom, 4.7%; CK Asset, 4.7%. Longleaf Partners Global Fund: CenturyLink, 9.7%; EXOR, 7.7%; CK Hutchison, 6.5%; OCI, 6.1%; FedEx, 5.5%; Comcast, 5.3%; GE, 5.1%, Fairfax, 4.9%; Allergan, 4.8%; Vestas Wind Systems, 4.8%. Fund holdings are subject to change and holding discussions are not recommendations to buy or sell any security. Current and future holdings are subject to risk.

The statements and opinions expressed are those of the author and are as of the date of this report.

Mutual Funds distributed by ALPS Distributors, Inc.
LLP000801
Expires 1/31/2019

July 11, 2018

Longleaf Partners Shareholder Letter

2Q18

Longleaf Partners Funds

In the second quarter, the prospect of a trade war, the strengthening U.S. dollar, and the highest oil prices since 2014 weighed more heavily on stocks outside of the U.S., especially those with Emerging Market exposure, and were most favorable to U.S. small caps. A number of investments in each Fund rose double-digits, and we had few meaningful detractors over the last quarter. In spite of double-digit cash, a currency headwind from a few foreign holdings, and limited Information Technology (IT) that continued to dominate the indices, both the Partners and Small-Cap Funds exceeded our absolute goal of inflation plus 10%. The Partners Fund was behind the S&P 500 Index by a mere 6 basis points, and the Small-Cap Fund outperformed the Russell 2000. Currency and trade fears pressured absolute returns in the International and Global Funds, but the International Fund exceeded the MSCI EAFE Index. The Global Fund fell short of the MSCI World Index, which was primarily driven by its 60% U.S. weighting, as well as its large IT exposure.

	One year	2Q
Partners Fund	7.71%	3.37%
S&P 500 Index	14.37	3.43
Small-Cap Fund	11.87	8.86
Russell 2000 Index	17.57	7.75
International Fund	5.25	-0.06
MSCI EAFE Index	6.84	-1.24
Global Fund	5.38	0.95
MSCI World Index	11.09	1.73

Past performance does not guarantee future results.

Average Annual Total Returns (6/30/18) Partners Fund: Since Inception (4/8/87): 10.43%, Ten Year: 5.72%, Five Year: 7.59%, One Year: 7.71%. Small-Cap Fund: Since Inception (2/21/89): 11.10%, Ten Year: 10.93%, Five Year: 11.15%, One Year: 11.87%. International Fund: Since Inception (10/26/98): 7.68%, Ten Year: 2.77%, Five Year: 5.71%, One Year: 5.25%. Global Fund: Since Inception (12/27/12): 8.64%, Ten Year: na, Five Year: 8.94%, One Year: 5.38%. *Returns reflect reinvested capital gains and dividends but not the deduction of taxes an investor would pay on distributions or share redemptions. Performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by visiting longleafpartners.com. The total expense ratio for the Partners Fund is 0.95% and 0.92% for the Small-Cap Fund. These expense ratios are subject to fee waiver to the extent a fund's normal annual operating expenses exceed 1.50% of average annual net assets. The total expense ratio for the International Fund is 1.19% (gross) and 1.15% (net). This expense ratio is subject to fee waiver to the extent the fund's normal annual operating expenses exceed the 1.15%. The total expense ratio for the Global Fund is 1.48% (gross) and 1.20% (net). This expense ratio is subject to fee waiver to the extent normal annual operating expenses exceed 1.20%*

The outcomes at the businesses we own, not broader market trends, determine our long-term investment results. Wide dispersion and more concentrated returns in most markets, as well as increased volatility, particularly in the last weeks of the quarter, created a favorable environment for finding investment opportunities and adding to some existing holdings. Cash reserves declined in the Partners, Small-Cap and International Funds, with the International Fund now having more ideas than cash.

Several longstanding themes have dominated markets for a while – migration to passive investing, shortened time horizons, outperformance of "growth" over "value," and pursuit of private equity over public markets. We have discussed some of these market forces in recent quarter-end letters. In May, our Vice-Chairman, Staley Cates, spoke at the Value Investor Conference that took place in Omaha, concurrent with Berkshire Hathaway's annual meeting weekend. In his presentation entitled, "*Why We Believe Active Long-Term Value Investing in Common Stocks Will Actually Work*," he summarized the investing environment and illustrated our belief that what have been headwinds for capable and active long-term, concentrated, engaged value investors should reverse and help drive the excess returns we expect to deliver.

Why We Believe Active Long-Term Value Investing in Common Stocks Will Actually Work

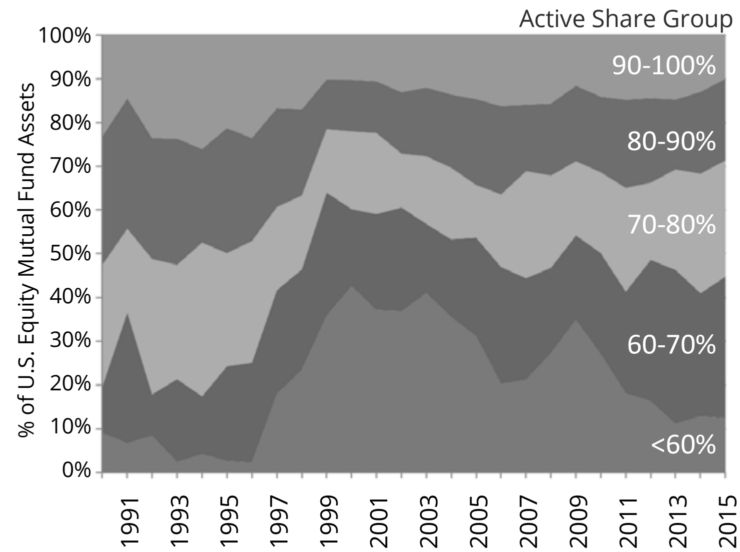
Active investing is out of favor; long-term investing (or really, long-term anything) is out of favor; value investing as we practice it is out of favor; and, investing in common stocks is out of favor compared to private equity. Doing all four of these things really makes us the skunk at the party.

Active Investing

Over the last 11+ years, net flows into index funds and exchange traded funds (ETFs) have totaled $2.5 trillion, while active funds have lost $500 billion. We have no disagreement with the fundamental assertions of indexing - its odds of success are better, its fee advantage is hugely important to compounding, and dependable long-term active outperformers are outliers who are hard to find. Not only is John Bogle a great guy and perfect spokesman, but Warren Buffett also has fanned the flames with his successful bet versus the hedge fund guys. We agree with the premise implicit in that bet - if there are too many managers for any pool of capital, the pool just turns into the index, making the best case return the index performance minus the fees of those managers. But, that premise is different than saying that concentrated and active bets cannot ever win, which would seem to be why all of Berkshire Hathaway's equities are not indexed.

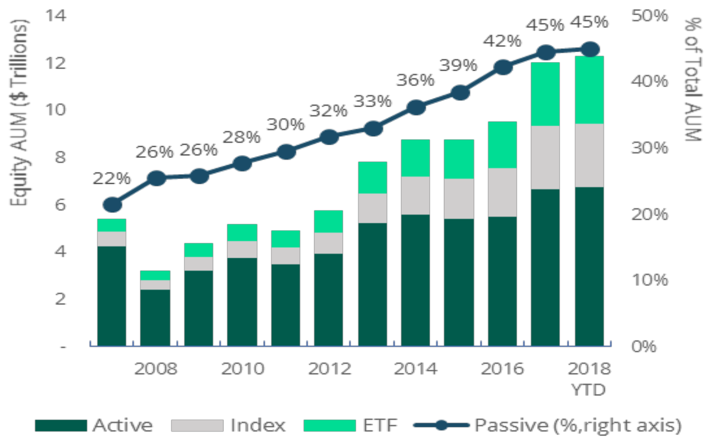
In our view, indexing has gone to a further extreme than is widely acknowledged, threatening its future success. Most indexing proponents agree that passive assets crossing a certain line ironically would make indexing's future success less likely. They maintain that indexing is still underpenetrated with a lot of runway before becoming self-defeating based on the tally of index funds plus the ETFs that are basically passive. We add to the count the unadvertised and uncounted group of "closet indexers." We include managers with an active share of 70, maybe even 80. That measure differs from the 60 level that the inventors of Active Share define as closet indexers. We use 70+ for two main reasons: 1) the range of those managers' results around the index return is incredibly tight, and 2) a large majority of those managers hold on average more than100 stocks, and we submit that anyone with over 100 stocks is aiming to hug and barely beat the index. Adding the 50% of "active" managers who are closet indexers with 60-80 Active Share to the 45% of assets in passive ETFs and index funds means that the effective indexing percentage today is approximately three-fourths of fund assets, a level that makes future success more in doubt.

Percentage of Mutual Fund Assets by Active Share Group



Cremers, Martijn and Petajisto, Antti, How Active is Your Fund Manager? A New Measure That Predicts Performance (March 31, 2009).; Cremers, Martijn, "Active Share and the Three Pillars of Active Management: Skill, Conviction and Opportunity" (December 28, 2016). Financial Analysts Journal.

Active vs. Passive Equity
Assets Under Management (AUM)



Source: Morningstar
Annual AUM; 2018 YTD data at 5/31/2018

Long-Term Investing

Time horizons for investors have moved meaningfully shorter with the average holding period for stocks going from 3 years in 1980 down to 10 months in 2017. Today's quant power and amazing amount of available data are unprecedented but usually focus on short-term metrics. Drones over factories, retail parking lot measurements, and social media traffic studies can shed light on the current quarter but do not clarify the long-term. Like with the weather forecast, you can count on today's and probably next week's, but not the three-year prediction because there are too many future variables and moving parts.

The short-term mindset makes our best places to hunt for bargains those situations that feature time horizon arbitrage, i.e., companies where most analysts dislike the stock because of this year's problems, but where even those bearish analysts would admit that the negatives should clear in 3-5 years. Time horizon arbitrage is the most common opportunity among the businesses we own today. For example, Comcast's near-term outlook is clouded by whether or not the company will overpay for Sky, or even all of Fox, but the 3-5 year outlook is fantastic because of broadband, even with linear video shrinking. Mattel's year will be weak because of the Toys "R" Us bankruptcy, but old-fashioned toys are actually growing, and long-term management should cut major costs and harness new value from great, undermanaged brands. At LafargeHolcim, a new CEO is re-setting expectations while having a tough year in some emerging markets, but long-term the company has one of the best emerging market businesses we have seen. Ferrovial's UK services business, a small part of the company, is under pressure with the uncertainty surrounding Brexit, which will be resolved soon. Meanwhile, Ferrovial's cash flow from toll roads and airports should grow significantly over the next three years. The recent weakness of the British Pound and Euro, plus a potential trade war between China and United States, have weighed on CK Hutchison. Because of the company's well-balanced mix of businesses across the globe, the short-term challenges facing some segments do not alter the long-term attractiveness of the entire portfolio, and even in the near term, the *company expects to deliver strong year-on-year organic earnings growth, partially helped by commodity price recovery.*

Even when fund managers want to take the long view and have the pain tolerance to practice it, they can face institutional constraints and/or client time horizons that are an obstacle. It is not enough to be a long-term investor; you have to also have a client base that will think and act long-term. Southeastern has tried to match our time horizon with our clients' by foregoing the types of capital pools not philosophically aligned, closing our strategies when the track record is easy to sell, and never allowing loads or 12b-1 marketing fees at the Longleaf Partners Funds. Being careful about client alignment has resulted in Southeastern having an average separate account tenure of 17 years.

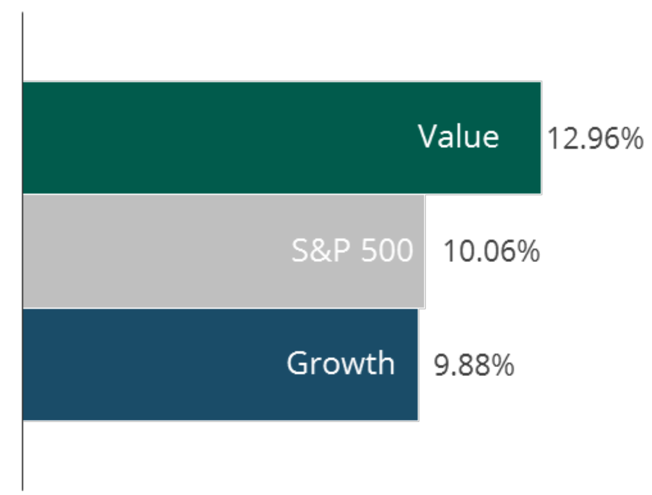
Value Investing

Over the last ten years, "growth" has outperformed "value" across most public equity universes by a substantial amount, ranging from a 1.3% difference per year in the MSCI EAFE Index, 1.4% in Russell 2000, 2.1% in MSCI World, to as much as a 3.3% annual difference in the S&P 500. Our form of value investing, where we calculate an intrinsic valuation of a business and then pay a big discount, is even more out of fashion. Many consider a single point estimate of value arbitrary. They view appraising a business down to a single number as a static waste of time, because real life is actually full of ranges and scenarios. They also disregard the idea of buying "60-cent dollars," believing multiples do not matter as much as the franchise, moat, and/or competitive advantage that will drive the long-term outcome. We concur with the importance of business quality and strength, but the price paid also impacts results.

Just as passive proponents have adopted Buffett to argue against active investing, many investors reference Buffett to dismiss value investing. The first thing I ever read at Southeastern was Buffett's "The Super Investors of Graham and Doddsville." He persuasively argued in favor of value investing as implemented differently by various students of Ben Graham. At that point, Buffett was synonymous with value investing. But, his brilliant 1989 letter discussed lessons learned from the previous 25 years, talking about "cigar butts," "bargain-purchase folly," and that "It is far better to buy a wonderful company at a fair price than a fair company at a wonderful price." His repetition of that theme in the years since has conditioned many to dismiss the price paid as unimportant. Whether or not that is what Buffett meant, it has been *the prevalent interpretation. The quality of a business and its ability to grow have substantial impact on our investment outcome, but the price paid relative to value is also critical for several reasons. First, the very long-term evidence suggests buying undervalued companies has earned better returns. Value stocks have outperformed growth stocks by almost 3% per year since 1926, even incorporating growth's dominance in the last decade. More specifically, we and our best value peers have long-term records beating various benchmarks over decades, even with the challenged numbers of the last five to ten years. Second, the discipline of determining a single-point estimate of value enables us to know the discount we are paying, even though we recognize that the appraisal reflects probabilities not certainties. Our mindset is similar to the insurance industry where actuaries grant that the world they underwrite has multiple scenarios and different probabilities of various claims, but at the end of the day, they need to quote a price on a policy with a relevant margin of safety built in. We acknowledge uncertainty but still need to nail down our best estimate of a company's value to know that we are paying a big discount. In spite of people's interpretations, Buffett exhibits a valuation based discipline, using a single-point measure of 1.2X book value to dictate Berkshire Hathaway's share repurchase policy. Third, real value investing has a humility not present in today's more popular method of heavily weighing the qualitative factors of the business and minimizing the importance of valuation. Paying a low multiple admits to not knowing the future. The discount helps guard against a negative outcome rather than banking on the future to turn out as we predict. Conversely, paying a fair or high price based on confidence in a business's great prospects means more room to suffer if things actually go wrong.*

Annualized Total Return Since 1926

At 6/30/2018



Source: Southeastern Asset Management using the Fama-French data set for value and growth beginning July 1926, Ibbotson's Yearbook for annual S&P 500 total returns from July 1926 and Factset for S&P 500 Year-to-date

More can go wrong than most assume, especially when dealing with longer term forecasts. The multiple paid is short-hand for the present value of a company's discounted cash flow (DCF), mostly comprised of the terminal value (Years 5+ through perpetuity). Today's high multiples *extrapolate great circumstances for many years. Not only is accurately forecasting into perpetuity next to impossible, but also the number of "wonderful companies" that can sustain moats for that long is small. Unforeseen competitive disruptions make moats vulnerable, especially beyond five years. Seemingly unassailable quality businesses for the long term unexpectedly had moats erode or destroyed within less than ten years in numerous relatively recent examples. The great companies of only a decade ago included packaged food companies subsequently hurt by healthy eating, soft drink companies hurt by sugar worries, beer companies hurt by microbrewers, tobacco hurt by regulation, brands and retailers smoked by Amazon, media companies threatened by cord cutting, advertising companies disintermediated by Google and Facebook, and banks whose cultures were supposed to be their competitive advantage but weren't.*

Trying to discern the future cannot possibly incorporate all the potential disruptions that can occur. Over the past decade, many qualitative assessment misses were bailed out as all multiples rose because of rates dropping through the floor, making moat or franchise assessments of little importance to successful returns in those industries. Managers who say convincingly today that value does not matter much at their holdings because the outcome is all about their compounding machines probably have lower odds of being right in the long-term than they think, and from this point, they will not get bailed out by rates and multiples. This seems a modern day replay of Ben Graham's quote published in The Intelligent Investor:

> *"Today's investor is so concerned with anticipating the future that he is already paying handsomely for it in advance. Thus what he has projected with so much study and care may actually happen and still not bring him any profit. If it should fail to materialize to the degree expected, he may in fact be faced with serious temporary and perhaps even permanent loss."*

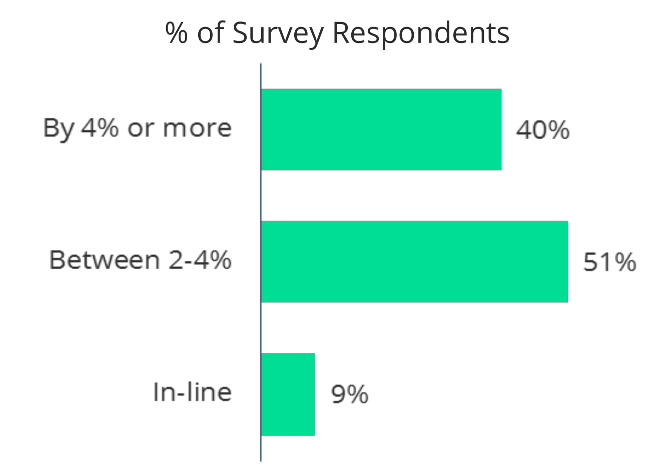
Insisting on paying a discount does not remotely dismiss the importance of demanding a high-quality business. The people running it are also every bit as important, if not more so. Their allocation of capital and reinvestment rate will make our appraisal wrong, either on the high side or the low side. We require a quality business and management because they increase the probability that the company's future value per share and our outcome will be better than expected. And we must purchase that quality at a discount to our appraisal to have a margin of safety in the event of unexpected challenges in the unknowable future.

Finding all three criteria - strong business, great people, and discounted price - is extremely hard, which is why we have concentrated portfolios. To find a few qualifying investments each year, something in the near-term must be obscuring their high quality or status as a "wonderful company." If the strength is obvious, as Buffett said, "You pay a very high price in the stock *market for a cheery consensus." We try to find hidden quality and therefore, a low price. For example, most investors do not consider CenturyLink to be of high quality, nor Park Hotels, nor Hikma. CenturyLink is still covered by ILEC (incumbent local exchange carrier) analysts and compared to ILECS; Park Hotels is treated as just another owned-hotel company near the top of the cycle; and Hikma is viewed as another generic drug company under pressure. Those perceptions allowed us to pay a large discount and low going-in multiples. All three companies own unique, valuable assets that should become apparent over time. The metro fiber assets within CenturyLink are some of the best infrastructure in the world. Park's Hilton Hawaiian Village is an irreplaceable property of the first order. While Hikma's generics division will hurt this year's earnings, the company's much more important injectables business is a true healthcare franchise with meaningful competitive barriers.*

Private Equity

Amid the passive mania and out-of-favor traditional value investing, institutions have turned to private equity (PE) for higher returns. A recent Preqin survey of institutional investors found favorable expectations for PE that are mind-boggling and probably rooted in past robust returns. Critical tailwinds for PE, however, have now turned into headwinds. Most importantly, PE leverage levels have been far higher than the overall market's, and that leverage has been a major driver of PE returns. As interest costs dropped with historically low rates and low junk spreads, PE had the double benefit of ever-lower interest expense while exit multiples rose in tandem. As rates rise, this math goes the other way, taking interest expense up and multiples down. Another tailwind-turned-headwind is the current elevated entry point. High multiples have benefitted PE exits hugely, but now the industry sits on a committed trillion dollars and is facing those same multiples at the beginning of any investment.

How Much Will Private Equity Outperform the Public Equity Market?



Source: Preqin Investor Outlook: Alternative Assets 2018

PE also has several structural negatives that investors may not always overlook. PE firms somehow have been immune to industry pressure on appropriate fee levels. Putting PE's high fees on businesses whose actual earnings performance and enterprise value changes will not *depart that dramatically from public companies in the aggregate will be a potential major drag on PE performance. Additional PE disadvantages include a lack of liquidity, lack of transparency, and the need for a transaction to get paid.*

Where PE has gotten the biggest hall pass is net asset value pricing, whose static nature creates a fake illusion of low volatility. With self-reported occasional pricing instead of daily market pricing, PE clients avoid the nuisance and heartburn of the volatility that comes with public markets, even though the underlying private businesses certainly have the same core enterprise volatility as their public peers. If anything, PE's companies have structurally higher net equity value volatility due to the leverage.

In our opinion, PE's best attributes are the management teams brought to the table and the more perfect information from due diligence compared to what public market companies provide. We similarly emphasize the quality of our corporate partners and engage with them. If we select properly, the public realm offers partners whom PE could never secure with its rolodex. Only in the public markets can we have proven owner-operators like Fred Smith of FedEx, John Malone, Greg Maffei and Chase Carey at Formula One, Victor Li and his team at CK Hutchison and CK Asset, Jan Jenisch at LafargeHolcim, Lawrence Ho at Melco, and John Elkann at EXOR. In cases where better governance or management is needed, our size, engaged long-term approach, and contact network help us strengthen leadership. If things go wrong, we can get involved to try to fix those situations. Every case is different, but with our constructive engagement, we can help our outcomes in a similar way to PE.

Our investment process also minimizes the PE information advantage. Southeastern has an extensive global research network built over decades that gives us great intelligence on companies of interest. Our clients are the best source of information. We also visit companies all the time. Not only do those visits help us know the management teams better, but we learn valuable information about their customers, competitors and other companies. Company A talking about Company B or Company C's CEO is under no Regulation Fair Disclosure (commonly referred to as Reg FD) obligation, nor will those comments be broadcast, nor are they inside information. These insights from our research contacts are a unique advantage, not just compared to PE, but to other public equity managers.

While public market information lacks the same depth gained through PE due diligence in data rooms, public market volatility offers far greater opportunity to occasionally buy quality assets at panic prices. By contrast, most PE purchases occur in some form of auction, with a knowledgeable seller. We believe any PE information advantage is more than offset by our price advantage.

Watching highly successful investors at Berkshire, Fairfax and Markel make capital allocations to purchase private companies has made the concept of PE look better. Fund managers love many public conglomerates or "platform" companies because they are viewed as a higher form of PE, with more operational expertise and relationships with sellers who do not want to sell to PE. Although none of these great insurance and industrial companies are practicing or endorsing the fee and leverage part of PE, their purchases add to the widespread perception that buying private companies is superior to buying common stocks. It also leads to copycats, pushing multiples up for everyone. [End of remarks]

Summary

Many have given up on active, long-term, engaged value investing in public equities just at the point when we believe it offers the best risk/reward proposition. Indexing's multi-year momentum has pushed more assets into fewer stocks because they have gone up and left behind an expanding universe of highly competitive, well-governed and managed businesses with unique advantages that are materially underpriced in their publicly traded securities. Examples, some of which Staley highlighted, sell for large discounts to our growing appraisals and include:

- CenturyLink (CEO Jeff Storey) owns unique metropolitan fiber and conduit assets within its global broadband network
- CK Hutchison (Chairman Victor Li) holds key and valuable multinational assets (ports, telco, retail, infrastructure, energy)
- CNX (Chairman Will Thorndike, CEO Nick Deluliis) owns low cost Appalachian acreage with significant natural gas reserves and strategic pipeline assets via CNX Midstream Partners
- FedEx (Chairman and CEO Fred Smith) has the lowest cost package delivery business in an oligopoly with high barriers to entry
- Ferrovial (Chairman Rafael del Pino) designs, builds and operates large scale toll roads with long leases containing price escalators and partially owns London Heathrow airport
- LafargeHolcim (CEO Jan Jenisch) owns many nonpareil cement and aggregate assets in North America, Europe and Emerging Markets
- Mattel (Chairman and CEO Ynon Kreiz) owns highly valuable toy brands including Barbie, Hot Wheels, Fisher-Price, Thomas and Friends, and American Girl and related intellectual property
- Millicom (CEO Mauricio Ramos) owns high-speed data networks in select, growing Latin American countries with limited competition
- Park Hotels & Resorts (CEO Tom Baltimore) owns trophy Hilton Hawaiian Village and well-located convention hotels in highly traveled U.S. cities

Companies such as these will determine our long-term performance. A market correction and/or a refocus on intrinsic business values would drive additional excess relative returns for us and our clients.

See following page for important disclosures.

Before investing in any Longleaf Partners fund, you should carefully consider the Fund's investment objectives, risks, charges, and expenses. For a current Prospectus and Summary Prospectus, which contain this and other important information, visit longleafpartners.com. Please read the prospectus and summary prospectus carefully before investing.

RISKS

The Longleaf Partners Funds are subject to stock market risk, meaning stocks in the Funds may fluctuate in response to developments at individual companies or due to general market and economic conditions. Also, because the Funds generally invest in 15 to 25 companies, share value could fluctuate more than if a greater number of securities were held. Mid-cap stocks held may be more volatile than those of larger companies. With respect to the Small-Cap Fund, smaller company stocks may be more volatile with less financial resources than those of larger companies. With respect to the International and Global Funds, investing in non-U.S. securities may entail risk due to non-US economic and political developments, exposure to non-US currencies, and different accounting and financial standards. These risks may be higher when investing in emerging markets.

The S&P 500 Index is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. An index cannot be invested in directly.

The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3,000 Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index. An index cannot be invested in directly.

MSCI EAFE Index (Europe, Australasia, Far East) is a broad based, unmanaged equity market index designed to measure the equity market performance of 22 developed markets, excluding the US & Canada. An index cannot be invested in directly.

MSCI World Index is a broad-based, unmanaged equity market index designed to measure the equity market performance of 24 developed markets, including the United States. An index cannot be invested in directly.

Fama-French Growth vs. Value is measured using Fama-French's High minus Low (HML) framework. HML is one of three factors in the Fama-French model (see Fama, Eugene F., Kenneth R. French. "Common Risk Factors In the Returns On Stocks and Bonds." Journal of Financial Economics 33, no.1 (1993): 3-56) and accounts for spread in returns between value *and growth stocks. Companies with high book value to market value ratios are known as value stocks, and companies with low book value to market value ratios are known as growth stocks. The portfolios used to calculate the chart uses all stocks traded on the NYSE and NASDAQ. Performance is calculated based on data from Kenneth French's website (mba.tuck.dartmouth.edu/pages/faculty/ken.french/index.html).*

"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.

Active Share measures how much an equity portfolio's holdings differ from those of the benchmark index.

Discounted cash flow (DCF) is a valuation method used to estimate the attractiveness of an investment opportunity. DCF analysis uses future free cash flow projections and discounts them to arrive at a present value estimate, which is used to evaluate the potential for investment.

Book Value is the value of an asset as carried on a company's balance sheet.

As of June 30, 2018, the top ten holdings for the Longleaf Partners Fund: CenturyLink, 10.0%; CK Hutchinson, 6.6%; CNX Resources, 6.4%; Mattel, 6.1%; LafargeHolcim, 6.1%;Comcast, 6.0%; FedEx, 5.7%; Fairfax, 4.9%; United Technologies, 4.9%; Park Hotels, 4.7%. Longleaf Partners Small-Cap Fund: CenturyLink, 6.9%; Park Hotels, 6.9%; OCI, 6.6%;Liberty Media, 6.4%; Graham Holdings, 6.3%; Sonic, 5.5%; Mattel, 5.4%;ViaSat, 4.9%; CNX Resources, 4.8%, Neiman Marcus, 4.7%. Longleaf Partners International Fund: EXOR, 8.3%; OCI, 7.0%; CK Hutchison, 7.0%; LafargeHolcim, 6.7%; Hikma Pharmaceuticals, 5.5%; CK Asset, 5.1%; Ferrovial, 4.9%; Baidu, 4.9%; Fairfax, 4.8%; Belmond, 4.7%. Longleaf Partners Global Fund: CenturyLink, 8.7%; EXOR, 6.8%; Comcast, 5.9%; Allergan, 5.5%; Fairfax, 5.2%; OCI, 5.2%;FedEx, 5.2%; General Electric, 5.2%, Ferrovial, 4.7%; CNX Resources, 4.6%. Fund holdings are subject to change and holding discussions are not recommendations to buy or sell any security. Current and future holdings are subject to risk.

The statements and opinions expressed are those of the author and are as of the date of this report.

Mutual Funds distributed by ALPS Distributors, Inc.

April 16, 2018

Longleaf Partners Shareholder Letter

1Q18

Longleaf Partners Funds

In a tumultuous quarter for markets, we made positive progress identifying new qualifiers and putting some of our cash reserves to work. Benchmark indices fell, while the Longleaf Partners Funds delivered flat to negative returns. Around one-third or more of each Fund's holdings posted positive results, and cash reserves helped buffer market declines. The International and Global Funds outperformed their respective indices because of both the strong performance of our overweight position in EXOR and the absence of any large non-U.S. detractors. The Partners and Small-Cap Funds lagged their respective indices due to a lack of any major outperformers, as well as declines in a few stocks, including newer investments in the Partners Fund. Our limited investment in Information Technology stocks impacted relative returns across all Funds. Even after technology stocks lost steam in the last weeks of March, Info Tech was the largest contributor and one of only two positive sectors in the S&P 500 and MSCI World Indices, and one of only three positives in the MSCI EAFE and Russell 2000 Indices.

	One year	1Q
Partners Fund	8.27%	-2.61%
S&P 500 Index	13.99	-0.76
Small-Cap Fund	3.77	-1.05
Russell 2000 Index	11.79	-0.08
International Fund	14.18	0.00
MSCI EAFE Index	14.80	-1.53
Global Fund	14.75	-1.27
MSCI World Index	13.59	-1.28

Average Annual Total Returns (3/31/18) Partners Fund: Since Inception (4/8/87): 10.40%, Ten Year: 5.68%, Five Year: 6.49%, One Year: 8.27%. Small-Cap Fund: Since Inception (2/21/89): 10.88%, Ten Year: 10.02%, Five Year: 9.83%, One Year: 3.77%. International Fund: Since Inception (10/26/98): 7.78%, Ten Year: 2.61%, Five Year: 5.51%, One Year: 14.18%. Global Fund: Since Inception (12/27/12): 8.88%, Ten Year: na, Five Year: 8.52%, One Year: 14.75%. *Returns reflect reinvested capital gains and dividends but not the deduction of taxes an investor would pay on distributions or share redemptions. Performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by visiting longleafpartners.com. The total expense ratio for the Partners Fund is 0.95% and 0.91% for the Small-Cap Fund. These expense ratios are subject to fee waiver to the extent a fund's normal annual operating expenses exceed 1.50% of average annual net assets. At March 31, 2018 the total expense ratio for the International Fund was 1.33%. Effective April 1, 2018, the total gross expense ratio for the International Fund is 1.19% with a total net expense ratio of 1.15%. This expense ratio is subject to fee waiver to the extent the fund's normal annual operating expenses exceed the 1.15%. The total expense ratio for the Global Fund is 1.52%. This expense ratio is subject to fee waiver to the extent normal annual operating expenses exceed 1.65% of average annual net assets. Effective May 1, 2016, Southeastern agreed to voluntarily reduce the expense limit to 1.20%. This voluntary fee waiver for the Global Fund may be discontinued at any time.*

The quarter began where 2017 left off, as upward stock momentum continued through January. February, however, brought a much more volatile two months with stock swings so wide late in the quarter that we had to draft multiple iterations of this commentary. The threat of global trade wars in the face of U.S. tariffs, anticipation of where Brexit negotiations will lead, and renewed U.S. inflation that stoked global concerns around higher interest rates and a weaker U.S. dollar injected fear into markets and led to long overdue volatility.

Since September of last year, increased volatility enabled us to buy 11 new companies across the Funds, 5 in the last three months. We rarely have the luck of precisely capturing the lowest price for new purchases, and the majority of our newer names remain near or below our initial cost. Purchasing a company at the very bottom is difficult, especially when a stock has had a large decline from peak to trough in a somewhat short period - i.e., General Electric (GE) from $32 to under $13, Mattel from $48 to $13, Allergan from $340 to $145, Comcast from $43 to $33, Hikma from £27 to below £9, Vestas Wind Systems from 620kr to 365kr and Realogy from roughly $55 to $24. We believe that these new additions set the stage for strong future performance, as we averaged into our current positions and were not buying anywhere near the highs.

Over the last several years, as cash reserves built in the absence of qualifiers, some argued that the combination of Business/People/Price is impossible – that quality businesses do not get cheap, and therefore, that paying up for quality is the only way to go. The first quarter, however, proved otherwise, as we purchased growing, market leading businesses at attractive discounts, and some market favorites began to falter as the quarter went on. Our consistent approach sometimes requires patience and discipline but has delivered over Southeastern's 40+ year history. We believe that if we adhere to our three criteria, while always working to improve our execution as we learn from both successes and mistakes, we can build portfolios that focus on both preserving capital from permanent loss and delivering successful long-term returns.

Business

The Funds' current portfolios are populated with what we view as high quality companies whose durable competitive advantages should produce strong returns in the years to come. For example, the natural monopoly search businesses at Alphabet and Baidu, the difficult-to-replicate assets at Ferrovial, CenturyLink, Comcast and CK Asset Holdings, and the pricing power/consolidated industry structures at FedEx, LafargeHolcim, Vestas, CNH Industrial, Allergan, GE and United Technologies imply strong value growth prospects. It is important to remember that long-term quality is linked much more to organic growth and returns on capital over our multi-year holding periods than to quarter-to-quarter stock price stability. We are not afraid of value growth in a less than straight line at some of the above companies that might be viewed as more cyclical than others.

The other major component of a strong company, financial flexibility, impacts how the company can respond to adversity and opportunistically build long-term value per share. Most of the Funds' investees have conservative leverage such that management can consider a wide range of capital allocation options to compound value beyond what operations will organically produce. The value of this ability to go on offense can be further magnified by short-term volatility. Capital allocation leads to the importance of people.

People

People determine much of our outcome but are the hardest aspect of a company to assess. Properly aligned partners with a shareholder mind set and record of compounding value provide upside to our return opportunity and a higher degree of confidence in our prospective returns. We call upon our 40+ year cumulative network of contacts to help us better understand the history, character, decision-making, priorities and personalities of the CEOs and board leaders at our companies. Additionally, we have become even more engaged with our management partners to ensure we share similar views of the pursuit of value per share growth and to bring resources where we can add value. In a number of cases, our global network has produced qualified board members who bring substantial expertise and assistance.

The Funds have an unusually long list of heavily aligned leaders who have meaningful capital to allocate and a demonstrated commitment to building shareholder value. These include Prem Watsa at Fairfax, John Elkann at EXOR, Victor Li and Canning Fok at CK Hutchison and CK Asset, Brian Roberts and Steve Burke at Comcast and Fred Smith at FedEx. We also were thrilled to see Jeff Storey named CEO of CenturyLink ahead of schedule during the quarter. Not only do we have partners who can grow value per share, but many have demonstrated a willingness to proactively take measures to close meaningful gaps between their stock price and intrinsic value per share. CONSOL Energy's management and board split its gas and coal assets; Baidu held an initial public offering (IPO) of the iQiyi streaming platform; GE's new CEO has targeted sales of $20B in non-core assets; Millicom's leaders have sold most of the company's African assets; and Ferrovial's owner-operators have historically monetized pieces of London's Heathrow airport and the Toronto 407 toll road at prices well above what the stock price implied. We also have leaders in place who are repurchasing deeply discounted shares or are authorized to do so and understand that this could offer a low risk/high return option for compounding value per share. Just as our partners must be disciplined in what price they will pay for their stock, our entry price matters.

Price

Buying discounted securities is the foundation of Benjamin Graham's value investing approach. Paying less than the intrinsic worth of a business should help mitigate permanent capital loss in the event that the business faces unanticipated challenges. To vastly oversimplify, given our conservative assumptions and an 8-10% normal discount rate, most of our appraisals are in the neighborhood of 15-20X free cash flow (FCF) after adjusting for non-earning assets. We generally will enter at a low double-digit multiple. The discount is a critical piece, but not the only thing that shapes our outcome – cheap is not enough without the requisite business and people criteria discussed above.

Determining a single appraisal number is false precision but a worthwhile discipline. The value of a business is really a range based on the probabilities of differing outcomes, and the exercise of calculating an appraisal helps clarify the biggest value drivers. If a stock declines, assessing any differences in these drivers is as important as the deeper discount in deciding whether to buy more. Similarly, before selling a core holding that is approaching our appraisal, we reassess the range of outcomes to try to insure our conservatism is not short changing our long-term compounding opportunity.

Summary

The Funds today provide an attractive discount, selling for at or below 70% of the aggregate appraisal values of our holdings. This price to value (P/V) is around the historic average from which Southeastern has delivered solid long-term returns. We believe the discount is understated and the Funds more compelling than average, given our expected level of value growth from both organic FCF and anticipated accretive capital allocation by our high quality partners.

We welcome the long-awaited market volatility that enabled us to buy several new companies without compromising our Business/People/Price criteria and to enlarge our on-deck list of prospective qualifiers. While broad stock pullbacks can be a short-term performance headwind, they often offer an opportunity to build the foundation for stronger future compounding. Our long-term investment outcomes will be reliant on management teams' actions and company-specific events. Periods of market volatility have generally provided attractive entry points for our clients, and as the largest investors across the Funds, your partners at Southeastern are hoping for a little more market turmoil to position the portfolios for even better long term return potential.

See following page for important disclosures.

Past performance does not guarantee future results.

***Before investing in any Longleaf Partners fund, you should carefully consider the Fund's investment objectives, risks, charges, and expenses. For a current Prospectus and Summary Prospectus, which contain this and other important information, visit longleafpartners.com. Please read the Prospectus and Summary Prospectus carefully before investing*.**

RISKS
The Longleaf Partners Funds are subject to stock market risk, meaning stocks in the Fund may fluctuate in response to developments at individual companies or due to general market and economic conditions. Also, because the Funds generally invest in 15 to 25 companies, share value could fluctuate more than if a greater number of securities were held. Mid-cap stocks held by the Funds may be more volatile than those of larger companies. With respect to the Small-Cap Fund, smaller company stocks may be more volatile with less financial resources than those of larger companies. With respect to the International and Global Funds, investing in non-U.S. securities may entail risk due to non-US economic and political developments, exposure to non-US currencies, and different accounting and financial standards. These risks may be higher when investing in emerging markets.

The statements and opinions expressed are those of the author and are as of the date of this report.

The S&P 500 Index is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3,000 Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index. MSCI EAFE Index (Europe, Australasia, Far East) is a broad based, unmanaged equity market index designed to measure the equity market performance of 22 developed markets, excluding the US & Canada. MSCI World Index is a broad-based, unmanaged equity market index designed to measure the equity market performance of 24 developed markets, including the United States. An index cannot be invested in directly.

P/V ("price to value") is a calculation that compares the prices of the stocks in a portfolio to Southeastern's appraisal of their intrinsic values. The ratio represents a single data point about a Fund and should not be construed as something more. P/V does not guarantee future results, and we caution investors not to give this calculation undue weight.

Free Cash Flow (FCF) is a measure of a company's ability to generate the cash flow necessary to maintain operations. Generally, it is calculated as operating cash flow minus capital expenditures.

As of March 31, 2018, the top ten holdings for the Longleaf Partners Fund: CenturyLink, 8.5%; CK Hutchinson, 7.2%; LafargeHolcim, 6.6%; FedEx, 5.8%; Allergan, 5.8%; CNX Resources, 5.4%; Park Hotels, 5.1%; Fairfax, 4.9%; United Technologies, 4.8%; Mattel, 4.7%. Longleaf Partners Small-Cap Fund: Graham Holdings, 6.9%; ViaSat, 6.6%; CenturyLink, 6.5%; Park Hotels, 6.5%; OCI, 6.0%; Hopewell Holdings, 5.4%; Neiman Marcus, 4.8%; CNX Resources, 4.8%; Realogy Holdings, 4.7%; Eastman Kodak, 4.6%. Longleaf Partners International Fund: EXOR, 8.3%; LafargeHolcim, 7.2%; Hikma Pharmaceuticals, 6.6%; CK Hutchison, 6.3%; Fairfax, 5.9%; OCI, 5.7%; CK Asset, 5.2%; Ferrovial, 4.6%; Great Eagle, 4.6%; Melco, 4.5%. Longleaf Partners Global Fund: CenturyLink, 7.7%; EXOR, 7.3%; Allergan, 5.6%; FedEx, 5.6%; Fairfax, 5.3%; LafargeHolcim, 5.2%; CK Hutchison, 5.1%; Ferroival, 4.8%; Comcast, 4.6%; General Electric, 4.6%. Fund holdings are subject to change and holding discussions are not recommendations to buy or sell any security. Current and future holdings are subject to risk.

Funds distributed by ALPS Distributors, Inc.

LLP000762
Expires 07/31/2018

December 31, 2017

4Q17

Longleaf Partners Funds Shareholder Letter

For a second consecutive year, all four Longleaf Partners Funds delivered solid absolute results in 2017, with the Longleaf Partners, Longleaf Partners International and Longleaf Partners Global Funds exceeding our annual absolute goal of inflation plus 10%. The Global Fund also outperformed its benchmark index for the year. As is normally the case with our concentrated portfolios, business fundamentals at our companies largely accounted for performance. Our absolute returns were particularly notable in a market environment where stocks others call "growth" outperformed stocks categorized as "value" by over 1200 basis points (bps) in the U.S. and 700 bps elsewhere. Information Technology (IT) was a meaningful part of growth's momentum as the sector far outpaced all others. This impacted our relative returns, as did our high cash balance in all four Funds throughout the year.

	One Year	4Q
Partners Fund	**15.51%**	**3.62%**
S&P 500 Index	21.83	6.65
Small-Cap Fund	**8.99**	**1.74**
Russell 2000 Index	14.65	3.34
International Fund	**24.23**	**-0.31**
MSCI EAFE Index	25.03	4.23
Global Fund	**26.33**	**2.64**
MSCI World Index	22.40	5.51

Past performance does not guarantee future results.

Most investments positively contributed to our positive returns during the year. Several of our management partners drove value recognition through mergers, acquisitions, spin-offs, or asset sales, including at Scripps Networks, Fairfax Financial, Deltic Timber, United Technologies and CONSOL Energy in North America, CK Asset, Baidu, and Hopewell in Asia, and Stada in Europe. Some of our biggest performers benefitted as the time horizon arbitrage gap closed. Because stock prices normally reflect earnings expectations for several quarters, our approach of appraising value growth over 3-5 years often provides the opportunity to arbitrage short-term versus longer term assumptions. In 2017, we saw big gains when businesses that previously had non-earning assets (NEAs) as they had invested for future growth, such as Wynn Resorts, United Technologies, EXOR and Melco, or facing cyclical lows, like CNH and OCI just 12-24 months ago, had their capital projects start generating strong earnings and/or their business cycles begin to turn.

Our high cash position throughout the year, as well as our limited exposure to IT, dampened relative performance. Cash is a by-product of our disciplined process. It often grows in periods when many companies are rising closer to our appraisals and high market levels make strong businesses hard to find at deep discounts. Cash provides the ammunition to purchase new investments when they qualify and poses no risk of capital loss while we patiently search for the next opportunities that meet our strict criteria.

A narrow group of companies led the indices higher. This concentration lowered stock correlations, contributing to several new qualifiers and an expanded on-deck list for us, but weighing on our relative results during the year and the fourth quarter. We owned few IT investments — a large part of growth's dominance over value — which was 2017's strongest performing sector by far in the S&P 500, MSCI World, and MSCI EAFE indices. This single sector accounted for approximately 40% of the S&P 500's and over 25% of the MSCI World's one year return. Additionally, because U.S. companies have been fully priced for a while, the Partners, Small-Cap and Global Funds held a higher proportion of companies domiciled elsewhere that already pay less than the current 35% U.S. rate. We, therefore, did not benefit as much from the U.S. market rally driven by tax reform prospects. In the fourth quarter, as capital chased the momentum of IT and companies with higher U.S. tax rates and ignored a few good

Average Annual Total Returns (12/31/17) Partners Fund: Since Inception (4/8/87): 10.58%, Ten Year: 4.74%, Five Year: 9.43%, One Year: 15.51%. Small-Cap Fund: Since Inception (2/21/89): 11.02%, Ten Year: 8.79%, Five Year: 12.60%, One Year: 8.99%. International Fund: Since Inception (10/26/98): 7.89%, Ten Year: 1.37%, Five Year: 6.99%, One Year: 24.23%. Global Fund: Since Inception (12/27/12): 9.61%, Ten Year: na, Five Year: 9.63%, One Year: 26.33%.

Returns reflect reinvested capital gains and dividends but not the deduction of taxes an investor would pay on distributions or share redemptions. Performance data quoted represents past performance. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by visiting longleafpartners.com.

As reported in the Prospectus dated May 1, 2017, the total expense ratios for the Longleaf Partners Funds are: Partners Fund 0.95%, Small-Cap Fund 0.91%, International Fund 1.33%, and Global Fund 1.52%. The expense ratios are subject to fee waiver to the extent a fund's normal annual operating expenses exceed the following percentages of average annual net assets: Partners Fund 1.50%, Small-Cap Fund 1.50%, International Fund 1.75%, and Global Fund 1.65%. Effective May 1, 2016, Southeastern agreed to voluntarily reduce the expense limit to 1.20%. The voluntary fee waiver for the Global Fund may be discontinued at any time.

businesses, we bought four new companies at deep discounts across the Funds, as well as several qualifiers in our Asian and European regional strategies.

Temporarily holding cash or not participating in the broad areas driving markets may impact short-term relative results but has little long-term effect on concentrated, bottom-up owners of qualified public companies. Much more important to our investment outcomes are the businesses we own. Our largest holding across the Partners and Global Funds, and third largest in the Small-Cap Fund, CenturyLink (CTL - formerly Level 3), was one of our few investments that declined during the year, even though the stock rallied over 22% from its November low after CTL's purchase of Level 3 closed. Throughout, our investment case grew more compelling. The merger of Level 3's fiber network with Qwest's assets that CTL had previously acquired created a uniquely competitive global fiber network that has particular strengths in the higher margin, growing Enterprise segment. Level 3's CEO Jeff Storey becoming President and COO and eventual CEO of CTL and Sunit Patel maintaining the CFO position in the combined company were critical to our support for the deal. Their leadership makes us confident that CTL management will be able to drive mid single-digit Enterprise revenue growth at high contribution margins, cut costs substantially and deliver the projected $1 billion in deal synergies, much of which will be created by moving traffic onto the company's combined network from third parties.

Despite CTL's stronger positioning, the stock price fell, in part because Level 3 customers delayed new purchases until it was clear who would lead the combined company. But the primary price pressure was due to fears that CTL would not be able to sustain its double-digit dividend yield (a valid concern without the Level 3 acquisition). This worry heightened after the stocks of two mostly unrelated and massively overleveraged regional operators which were more closely aligned with CTL's legacy landline business than the fiber business, saw their stocks collapse after dividend cuts. Storey and Patel confirm that the dividend is safe based on the combined EBITDA of the Level 3 and CTL fiber networks, the synergies from the deal, and the use of Level 3's net operating losses (NOLs) to reduce taxes. By our estimates, once the synergies are realized, the company should deliver over $3/share of Free Cash Flow (FCF) after capex, which will amply cover the $2.16 dividend. We see material additional upside not built into our appraisal based on Patel's record of cost cutting after mergers and the multiple players that would benefit from owning this network. When the stock price dramatically disregarded the positive fundamentals and our assessment of CTL's intrinsic value, management and the board appeared to share our enthusiasm as demonstrated by significant December insider purchases as soon as the blackout period that prohibited purchases was lifted.

Southeastern's Private Equity Approach to Public Markets

CTL illustrates Southeastern's long-term, engaged, concentrated, ownership-oriented value investment discipline. In many ways, our approach is more comparable to how private equity (PE) invests than to the strategies of most public equity managers. A number of our client partners characterize us as taking a PE approach to public markets. The characterization is especially relevant in today's environment, where public equity markets are moving primarily due to momentum, passive flows, and broad optimism rather than on fundamentals. We would go a step further and say that, while our investment discipline is very similar to PE, we offer significant advantages, and the perceived "benefits" of PE – less reported volatility and market correlation – are a mirage.

Southeastern's similarities to PE start with the basic view that we own businesses, not tradeable pieces of paper. We concentrate in our best ideas and, as a result of our deep dive research and engagement, know our companies intimately and work closely alongside our management partners. What we own is based on the bottom up fundamentals of a business without regard to the sectors or countries that are in a market index. We underwrite our appraisals in the same manner as PE, using discounted FCF and sum-of-the-parts valuations-calculations based on in-depth research that includes knowledge of competitors, key suppliers, major customers and company management. We own companies where we believe that the value will grow over the minimum 3-5 year time horizon we have for being owners.

An important parallel to PE but large differentiator to most public equity managers is the emphasis we place on corporate managements/boards and our level of engagement with them. As significant owners of the business, when we believe it can be helpful, we use our over four decades of experience, cumulative knowledge and widespread global network to seek a positive investment outcome. As is true with PE, and as our 2017 performance illustrates, our returns are dependent on results and events at the limited number of businesses we own rather than broad market drivers.

While similar in approach, we believe the Longleaf Funds offer advantages to PE. Shareholders have more portfolio transparency, better liquidity, and a lower fee structure. More importantly, we believe that our risk/reward profile is much more attractive. First, rather than PE's often recruiting temporary hired guns to run their businesses, in public companies we have the opportunity to partner with founders and owner-operators such as Li Ka-shing (CK Hutchison and CK Asset), John Elkann (EXOR), Fred Smith (FedEx) or John Malone (Formula One). These aligned managers not only have deep institutional knowledge, but true commitment to long-term value growth, given that their net worth is tied to the company. Second, PE does not have the ability to take advantage of manic public market prices that create a large margin of safety between the price paid and intrinsic worth. In fact, if buying a public company, PE usually pays a premium to the stock price and an amount relatively close to fair value. Third, by owning public equities, we have more flexibility to manage fund risk. For example, when a company has appreciated, leaving less margin of safety in the price, we can easily lock in some of our gains and reduce the weight of the company in our portfolio. Fourth, without a large discount to intrinsic value, PE takes on further risk by using leverage to amplify returns. While that approach makes the math work when things go well, as it has in the sustained U.S. bull market of the last almost 10 years, the leverage also quickly threatens permanent capital if the case turns negative and/or the multiples that people are willing to pay decline. A look at risk-adjusted or unlevered returns would make the case for PE even less compelling relative to owning public companies. A highly geared balance sheet also limits the flexibility of the underlying portfolio company both to go on offense and to endure challenges. Leverage is likely to become an even less attractive tool as interest rates rise and with the new U.S. limits on interest expense deductibility. Fifth, PE funds have a finite life that creates an incentive to invest capital and unwind investments, even at points in time when prices are unattractive. And, unwinding essentially requires the creation of some sort of transaction, whereas transactions are only one of the potential ways the Funds' investments reach our appraisal values.

The primary perceived advantages of PE are related — less volatility and returns that are uncorrelated to public market equities. However, the numbers do not support the uncorrelated argument. When looking at the last approximately 30 years, U.S. private equity returns have been over 70% correlated to large cap U.S. equities, 65% correlated with U.S. small cap equities, and even 67% correlated to global equities. Over the last 5 years, U.S. PE returns and those of the U.S. large and small cap indices have been within a narrow range of 13.3% - 14.2%, with PE at the low end. Comparable correlation and return data for Non-U.S. Private Equity is difficult because the benchmark includes Venture Capital as well.

Some of the assumptions about low correlations are related to the lower volatility in PE's reported returns. Cash flows, market shares, margins, and earnings of a publicly held company are not inherently more volatile than those of a privately held one. Because businesses are worth the earnings stream they produce, private and public companies should be worth similar multiples every day. But, because PE managers do not price daily, and the valuation methods they use are often based on their own internal views rather than an external daily mark to market, PE's reported returns appear smoother than what the exact same company priced daily in public markets would be. Factors unrelated to the business can swing short-term stock prices, but PE pricing does not take that into account. A company owned by a PE fund for 5 years with a 60% return could report a consistent rate of approximately 10% returns per year, while that same company, if public, with the same 60% return over 5 years, would have been deemed "riskier" because the stock market repriced it every day. For those willing to take a 5+ year view of owning a business, price volatility is an opportunity, not a risk, and one which owners of publicly traded companies can much more readily exploit. It has never been clear to us why investors are more willing to take a longer term horizon in privately held leveraged businesses than in financially sound publicly held ones.

2017 Recap & Looking Ahead

Following double-digit returns in 2016, we delivered solid absolute returns in 2017, in spite of the dominance of momentum investing, abnormally low volatility in public equities (lower even than normal private equity smoothing), the ascendance of IT stocks and high cash balances. We also added several building blocks to the Funds for future compounding. As market correlations declined, particularly in the latter part of the year, we found more prospective qualifiers.

Owning publicly traded businesses using PE's long-term, research-driven, and engaged approach makes us confident in the risk/reward proposition of the Funds over the next 5+ years, particularly relative to both the lofty valuations in public markets and the illiquid, levered profiles of PE funds. We have cash available to be nimble and a well-developed on-deck list of prospective businesses to own. Our investments have a margin of safety with stock prices on average at less than 75% of our conservative appraisals. Our companies' values should continue to build from their FCF coupons, which we expect to grow over the next 3+ years because various businesses currently have temporarily depressed earnings, investments with returns that are 12-36 months out, or upside from the changes in the U.S. tax laws. Most of our investees have the balance sheet strength to go on offense when opportunity is presented. Our management partners can continue to make intelligent capital allocation moves that are unrelated to, and therefore uncorrelated with, the broader stock market. Furthermore, be assured that we are prepared to be engaged with our corporate partners on your behalf to help generate the equity returns you and we expect. As the largest investor group in the Funds, your partners at Southeastern enter 2018 optimistic and wish you a Happy New Year.

See following page for important disclosures.

Past performance does not guarantee future results.

Before investing in any Longleaf Partners fund, you should carefully consider the Fund's investment objectives, risks, charges, and expenses. For a current Prospectus and Summary Prospectus, which contain this and other important information, visit longleafpartners.com. Please read the Prospectus and Summary Prospectus carefully before investing.

RISKS

The Longleaf Partners Funds are subject to stock market risk, meaning stocks in the Fund may fluctuate in response to developments at individual companies or due to general market and economic conditions. Also, because the Funds generally invest in 15 to 25 companies, share value could fluctuate more than if a greater number of securities were held. Mid-cap stocks held by the Funds may be more volatile than those of larger companies. With respect to the Small-Cap Fund, smaller company stocks may be more volatile with less financial resources than those of larger companies. With respect to the International and Global Funds, investing in non-U.S. securities may entail risk due to non-US economic and political developments, exposure to non-US currencies, and different accounting and financial standards. These risks may be higher when investing in emerging markets.

The statements and opinions expressed are those of the author and are as of the date of this report.

The S&P 500 Index is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3,000 Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index. MSCI EAFE Index (Europe, Australasia, Far East) is a broad based, unmanaged equity market index designed to measure the equity market performance of 22 developed markets, excluding the US & Canada. MSCI World Index is a broad-based, unmanaged equity market index designed to measure the equity market performance of 24 developed markets, including the United States. An index cannot be invested in directly.

"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.

Free Cash Flow (FCF) is a measure of a company's ability to generate the cash flow necessary to maintain operations. Generally, it is calculated as operating cash flow minus capital expenditures.

EBITDA is a company's earnings before interest, taxes, depreciation and amortization.

One basis point is equal to 1/100th of 1%, or 0.01% (0.0001)

Venture capital is financing that investors provide to start up companies and small businesses that are believed to have long term potential.

As of December 31, 2017, the top ten holdings for the Longleaf Partners Fund: CenturyLink, 8.1%; FedEx, 7.6%;CK Hutchinson, 7.0%; LafargeHolcim, 6.4%; CK Asset, 6.1%; Fairfax, 5.8%; Mattel, 5.2%; United Technologies, 4.9%; Alphabet, 4.8%; CNX Resources, 4.8%. Longleaf Partners Small-Cap Fund: ViaSat, 7.4%; OCI, 7.3%; CenturyLink, 6.5%; Graham Holdings, 6.3%; Mattel,5.3%; Hopewell Holdings, 5.1%; CNX Resources, 4.8%; Neiman Marcus, 4.7%; Liberty Media Formula One, 4.7%; Park Hotels, 4.7%. Longleaf Partners International Fund: EXOR, 9.0%; LafargeHolcim, 7.4%; OCI, 6.9%; CK Hutchison, 6.5%; Fairfax, 6.2%; Hikma Pharmaceuticals, 5.9%; CK Asset, 5.3%; Baidu, 4.8%; Great Eagle, 4.7%; Ferrovial, 4.3%. Longleaf Parterners Global Fund: CenturyLink, 7.8%; FedEx, 6.9%; Fairfax, 5.5%; EXOR, 5.5%; LafargeHolcim, 5.3%; CK Hutchison, 5.3%; OCI, 4.9%; CK Asset, 4.3%; Alphabet, 4.3%; United Technologies, 4.1%. Fund holdings are subject to change and holding discussions are not recommendations to buy or sell any security. Current and future holdings are subject to risk.

Funds distributed by ALPS Distributors, Inc.

September 30, 2017

3Q17

Longleaf Partners Funds Shareholder Letter

In the third quarter, we compounded our shareholders' capital across all four Longleaf Partners Funds. Performance gains, however, were somewhat muted by the larger-than-normal cash held across the Funds. Markets outside of the U.S. led year-to-date returns throughout 2017, but U.S. small cap stocks beat both U.S. large cap and non-U.S. markets in the third quarter following the September small cap rally associated with prospective corporate tax cuts. Longleaf International Fund outperformed EAFE. In the Longleaf Partners, Longleaf Partners Small-Cap, and Longleaf Partners Global Funds, which underperformed their relevant indices, our largest holding, Level 3 Communications (LVLT),[1,2,3] was the primary source followed by the cash headwind. LVLT will become a more normal weight when CenturyLink (CTL) closes its purchase of LVLT, paying cash for approximately half of the acquisition. In the quarter, LVLT's price reflected concerns about final deal approvals and a potential CTL dividend cut post-deal. We anticipate that the deal will close, the prospective cash flow will easily cover the dividend, and the new CTL will be the preeminent global fiber network solutions company with an extraordinarily capable management team.

	YTD	3Q
Partners Fund	**11.47%**	**3.25%**
S&P 500 Index	14.24	4.48
Small-Cap Fund	**7.13**	**2.08**
Russell 2000 Index	10.94	5.67
International Fund	**24.61**	**5.64**
MSCI EAFE Index	19.96	5.41
Global Fund	**23.08**	**3.01**
MSCI World Index	16.01	4.84

Past performance does not guarantee future results.

With the ongoing multi-year bull market in the U.S. and the more recent rise in global markets, finding meaningfully discounted strong businesses led by good management partners has become more challenging. We have trimmed or sold numerous successful investments over the last year but found few qualifying replacements. Our cash levels, therefore, remain our largest positions across all four Funds as we adhere to our multi-decade discipline – when nothing meets our criteria, we patiently wait rather than putting capital at a higher risk of loss by compromising on the margin of safety.

Liquidity in a portfolio is a byproduct of our bottom up process. Southeastern has not become more reluctant to invest, nor has market structure changed such that fear and uncertainty will no longer price companies at 60-70% of intrinsic worth. We are confident that we will find new qualifiers, as we have in the past when cash has been this high. Stocks become discounted for numerous reasons ranging from simple, company-specific earnings misses to complex, broad geopolitical or natural events that generate fear in particular industries or overall markets.

Over 42 years of investing, we have found undervaluation in almost every imaginable way, but Southeastern's approach lends itself especially well to three consistent sources of opportunity: 1) unraveling complex companies and/or reporting, 2) partnering with extraordinarily capable corporate leaders who can build value per share in ways that do not fit easily into spreadsheet models, and 3) arbitraging time horizons.

Complexity

Companies with complex structures (as opposed to complex products such as biotech or information technology) can be overlooked because they require time, multi-industry knowledge, and global perspective to appraise properly. Stock analysts often determine "price targets" by putting an industry

1 Owned in Longleaf Partners Fund 2 Owned in Longleaf Partners Global Fund 3 Owned in Longleaf Partners Small-Cap Fund 4 Owned in Longleaf Partners International Fund

Average Annual Total Returns (9/30/17) Partners Fund: Since Inception (4/8/87): 10.54%, Ten Year: 3.44%, Five Year: 9.33%, One Year: 13.74%. Small-Cap Fund: Since Inception (2/21/89): 11.05%, Ten Year: 7.57%, Five Year: 12.99%, One Year: 11.29%. International Fund: Since Inception (10/26/98): 8.01%, Ten Year: 1.34%, Five Year: 8.78%, One Year: 24.22%. Global Fund: Since Inception (12/27/12): 9.54%, Ten Year: na, Five Year: na, One Year: 25.05%.

Returns reflect reinvested capital gains and dividends but not the deduction of taxes an investor would pay on distributions or share redemptions. Performance data quoted represents past performance. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by visiting longleafpartners.com.

As reported in the Prospectus dated May 1, 2017, the total expense ratios for the Longleaf Partners Funds are: Partners Fund 0.95%, Small-Cap Fund 0.91%, International Fund 1.33%, and Global Fund 1.52%. The expense ratios are subject to fee waiver to the extent a fund's normal annual operating expenses exceed the following percentages of average annual net assets: Partners Fund 1.50%, Small-Cap Fund 1.50%, International Fund 1.75%, and Global Fund 1.65%. Effective May 1, 2016, Southeastern agreed to voluntarily reduce the expense limit to 1.20%. The voluntary fee waiver for the Global Fund may be discontinued at any time.

multiple on near-term earnings estimates, and most investment firms organize their analysts by industry and/or geography. Thus, a company such as CK Hutchison[1,2,4] that has wireless telecom, retail, and port operations around the world as well as infrastructure and energy assets, cannot be properly appraised with a single multiple for a single industry in a single country.

Southeastern's structure enables us to unearth this type of mispricing because our analysts around the world operate as a team to review our prospective investments, and each analyst is a generalist, with cumulative years of experience appraising a wide variety of businesses. This means we create detailed appraisals of each business segment rather than applying an industry multiple across corporate earnings. Our generalist team approach also has an advantage over coverage by industry-specific analysts when a company shifts its primary business focus, as when CK Hutchison spun off its property business, which made properly assessing the remaining segments even more important.

Other examples of multi-industry complexity and change in focus include EXOR[2,4] and Graham Holdings[3]. Ten years ago, many viewed EXOR as a way to own Fiat, a car company with limited models and distribution. But Chairman and CEO John Elkann and Vice Chairman Sergio Marchionne successfully split Fiat into its better recognized parts of Ferrari, Fiat Chrysler Automobiles, and CNH Industrial. Last year, the purchase of PartnerRe made it the largest part of EXOR's value, thereby requiring reinsurance industry knowledge to properly analyze the company. Our generalist team could quickly incorporate the value of this significant acquisition into our EXOR case given the analysts' coverage of previous reinsurance investments such as Everest Re, Odyssey RE within Fairfax, and Berkshire Reinsurance within Berkshire Hathaway. To appraise Graham Holdings, formerly The Washington Post, knowledge of the newspaper and cable industries (the two largest parts that the company sold and spun out, respectively) is of limited help in determining the value for the remaining disparate businesses of television stations, for-profit education, industrial companies, and other ventures. Our history of analyzing each segment of the company as well as our experience as generalists covering multiple related businesses allowed us to quickly assess Graham's worth as the company changed focus.

Complex reporting also can lead to undervaluation when accounting obscures the true free cash flow of a company. LafargeHolcim[1,2,4] amortizes acquisition intangibles and large upfront spending for its cement plants, causing current earnings per share, which most cement analysts use as the foundation for their stock recommendations, to be well below the free cash flow power of the company.

Leadership

Superior management teams and owner-operators who are willing to think and act unconventionally for the benefit of shareholders can create discount opportunities, because standard valuation metrics do not adequately encompass what investors are getting. Last year, Chairman John Malone and CEO Greg Maffei of Liberty Media Corporation divided the company into three different tracking stocks. The most complex, Liberty Media Group, also had the most upside potential for smart capital allocation due to its large level of cash and investments. The company quickly announced its purchase of the global racing circuit Formula One[3] and adopted the name for the combined entity. Even better, Malone and Maffei recruited Chase Carey, an all-time great Southeastern partner during his time as CEO at DirecTV, to be CEO. Our partners created instant value in an unexpected way, but also laid the foundation for significant future upside.

Similarly, although Prem Watsa, CEO of Fairfax Financial,[1,2,4] has proven his ability to compound shareholder capital over multiple decades, this insurance company became deeply discounted earlier this year. A few recent years of lackluster investment returns and a new acquisition penalized the stock price, which only reflected capitalizing Fairfax's current earnings without giving credit for the large amount of non-earning cash that Watsa has available to put to work at much higher returns.

Southeastern puts significant weight on the quality of corporate leaders and spends time productively engaging with our management partners. Our process provides an advantage in identifying leaders whose value may be underestimated in the stock price. Numerous sources give us insight into the potential impact of management. We study their capital allocation record. We ask for first-hand knowledge from our large network of investee, client, and industry relationships. We also draw upon our own previous interaction with people, which often leads to re-investing over time with those who have demonstrated exceptional abilities.

Time Horizon

Even though the market eventually can cut through a company's complexity and properly weigh value created by great partners, market prices normally reflect expectations for earnings over the next few quarters at most. Southeastern assesses how a company's value per share will grow over the next 3-5+ years. Arbitraging this investment time horizon difference surfaces many opportunities for a patient investor focused on the intrinsic worth of a company. For example, a cyclical business such as CNH Industrial's[1,2] agricultural equipment has depressed near-term earnings that should recover as corn and other commodity prices rise above multi-year lows.

1 Owned in Longleaf Partners Fund 2 Owned in Longleaf Partners Global Fund 3 Owned in Longleaf Partners Small-Cap Fund 4 Owned in Longleaf Partners International Fund

Another source of understated earnings power is a company investing in longer term growth by spending today for future high returns. Large projects such as the Macau casinos that Wynn Resorts[1,2,3] and Melco International[2,4] completed over the last few years or the new fertilizer plant that OCI[2,3,4] recently finished are examples of significant corporate spending over several years that was given little market value until each project came within months of generating earnings. Those projects were accounted for in the capital expenditures line. In cases where companies have charged projects with longer-term payoffs on the income statement, such as at Alphabet[1,2] and Baidu[4], Southeastern's approach gave us an edge in identifying these growing companies at deep discounts. We took a longer-term view of the projects, unraveled the complexity in reporting (see the first source of opportunity above), and trusted the proven, aligned leaders at both companies (see second source above). Sell side analysts developed a more positive view of each company as projects moved closer to completion and our partners took unexpected actions - Alphabet separated the reporting of its more important Google search and YouTube businesses from its more complicated "Other Bets," and Baidu rationalized some of its Online to Offline investments. (Note that our 2017 First Quarter Letter focused on the opportunity in underearning or nonearning assets – NEAs - largely related to time horizon arbitrage.)

The Search for Opportunity

Our team continues to hunt for the exceptions. The above sources of opportunity exist whatever market valuations are; they simply are more difficult to identify in a broad-based bull market that lifts all boats. Qualifying companies based on business and management quality and determining intrinsic worth never is wasted work, because the cumulative knowledge prepares us when unexpected mispricing occurs. Thus far in 2017, our analysts have covered significant ground. We have updated many appraisals on our master list of approximately 1500 companies around the globe and have done the initial work on several hundred others. We have taken a deeper dive on well over 100 companies, assessing the qualitative aspects of the cases. This has included tapping into our contact network for added insight. We have met with numerous management teams – both those we invest with currently (who often spark new ideas when we ask whom they respect) – and prospective investees. Over twenty have been close enough to meeting our criteria to warrant assigning a devil's advocate. Our regional Asia Pacific and European strategies have generated opportunities to consider, primarily for the Global and International Funds, with Asia remaining the most discounted area overall (our Asia Pacific strategy has only 8% cash). In spite of our research efforts, across the Longleaf Partners Funds, we have purchased only five new names this year.

Our ongoing work has resulted in an on-deck list of at least fifteen companies that meet our qualifications and are within 10% of the discount we require to purchase. This list includes several obvious areas of uncertainty, such as a variety of businesses that may be impacted by Amazon's retail model, the development of ride sharing and electric vehicles, continued low energy prices, and the multitude of viewing options for media content. We also are close on several complex companies that are refocusing away from some of their legacy businesses.

Southeastern and our clients face a paradox: when cash is high, the pressure to buy a new company is strongest, but it is generally the time to maintain the most discipline because opportunities are likely to get better. One important way that we have maintained our discipline is in resisting a change to our 9% discount rates (in U.S. dollar terms), because we believe that the low interest rates following the Global Financial Crisis (GFC) are not permanent, and that owners of companies continue to expect this level of return for the business risks they assume. Even when we have tested the impact of lowering our discount rate by 10+%, appraisals become only marginally higher – not enough to generate numerous new qualifiers. Our purchases this year demonstrate that we can find select mispricing anomalies and that we are not reliant on a market change for new qualifiers. Just as in times past, high cash levels are temporary. Our concentrated approach means a 20% cash level requires only four new qualifiers to get fully invested. At previous times when cash positions exceeded 20%, we have returned to less than 5% cash in as short as two quarters and as long as eleven.

Southeastern does not speculate on when or how the next investments will come our way. As the year-to-date returns indicate, even with cash, we have the potential to generate strong absolute results given the quality and value growth at the businesses we own. Additionally, qualifying opportunities that replace the cash should provide a source of future compounding. Most importantly, as the largest investor group across the Longleaf Partners Funds, we will follow our long-held discipline to maintain our commitment to preserving capital and generating attractive long-term returns for our shareholder partners and ourselves.

See following page for important disclosures.

1 Owned in Longleaf Partners Fund 2 Owned in Longleaf Partners Global Fund 3 Owned in Longleaf Partners Small-Cap Fund
4 Owned in Longleaf Partners International Fund

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RISKS

The Longleaf Partners Funds are subject to stock market risk, meaning stocks in the Fund may fluctuate in response to developments at individual companies or due to general market and economic conditions. Also, because the Funds generally invest in 15 to 25 companies, share value could fluctuate more than if a greater number of securities were held. Mid-cap stocks held by the Funds may be more volatile than those of larger companies. With respect to the Small-Cap Fund, smaller company stocks may be more volatile with less financial resources than those of larger companies. With respect to the International and Global Funds, investing in non-U.S. securities may entail risk due to non-US economic and political developments, exposure to non-US currencies, and different accounting and financial standards. These risks may be higher when investing in emerging markets.

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The S&P 500 Index is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3,000 Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index. MSCI EAFE Index (Europe, Australasia, Far East) is a broad based, unmanaged equity market index designed to measure the equity market performance of 22 developed markets, excluding the US & Canada. MSCI World Index is a broad-based, unmanaged equity market index designed to measure the equity market performance of 24 developed markets, including the United States. An index cannot be invested in directly.

"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.

Free Cash Flow (FCF) is a measure of a company's ability to generate the cash flow necessary to maintain operations. Generally, it is calculated as operating cash flow minus capital expenditures.

Earnings per share (EPS) is the portion of a company's net income allocated to each share of common stock.

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

The devil's advocate role challenges the assumptions on an investment case, brings up risks of owning the company, and incorporates the internal and external arguments against buying a particular stock.

As of September 30, 2017, the top ten holdings for the Longleaf Partners Fund: Level 3, 9.8%, CK Hutchinson, 7.0%, FedEx, 6.6%, Alphabet, 6.0%, CONSOL Energy, 5.8%, CK Asset, 5.6%, Fairfax, 5.5%, United Technologies, 4.8%, LafargeHolcim, 4.8%, CNH Industrial, 4.7%. Longleaf Partners Small-Cap Fund: Level 3, 7.4%, OCI, 6.3%, Graham Holdings, 6.1%, ViaSat, 5.9%, CONSOL Energy, 5.0%, Hopewell Holdings, 5.0%, Liberty Media Formula One, 4.8%, Eastman Kodak, 4.8%, Wynn Resorts, 4.3%, Park Hotels, 4.1%. Longleaf Partners International Fund: EXOR, 9.1%, LafargeHolcim, 7.4%, CK Hutchison, 6.5%, OCI, 6.3%, Fairfax, 5.9%, Baidu, 5.3%, CK Asset, 5.2%, Melco International, 4.8%, Great Eagle, 4.7%, Yum China, 4.4%. Longleaf Parterners Global Fund: Level 3, 9.7%, FedEx, 6.4%, EXOR, 5.8%, LafargeHolcim, 5.6%, CK Hutchison, 5.5%, Fairfax, 5.5%, OCI, 4.6%, Wynn Resorts, 4.2%, CK Asset, 4.1%, Yum China, 4.1%. Fund holdings are subject to change and holding discussions are not recommendations to buy or sell any security. Current and future holdings are subject to risk.

Funds distributed by ALPS Distributors, Inc.

LLP000680
Expires 1/31/2018

June 30, 2017

2Q17

Longleaf Partners Funds Shareholder Letter

All four Longleaf Partners Funds continued to generate positive absolute returns in the second quarter with our gaming related investments meaningfully contributing and helping drive year-to-date (YTD) results ahead of our inflation plus 10% goal, with the exception of the Small-Cap Fund. The Global and International Funds also outperformed their benchmark indices by a wide margin in both the quarter and YTD with particular strength from Asian holdings. Cash was a notable drag on the Funds' relative performance given the positive returns of the indices. Cash is a temporary by-product of our investment discipline and gives us liquidity to take advantage of new opportunities. The Funds' performance results are even more impressive when adjusting for risk because we generated the returns with a notable cash weighting that was not susceptible to capital loss.

	YTD	2Q
Partners Fund	**7.97%**	**3.91%**
S&P 500 Index	9.34	3.09
Small-Cap Fund	**4.95**	**0.98**
Russell 2000 Index	4.99	2.46
International Fund	**17.96**	**8.42**
MSCI EAFE Index	13.81	6.12
Global Fund	**19.48**	**9.92**
MSCI World Index	10.66	4.03

Past performance does not guarantee future results.

We have delivered substantial absolute returns over the past 12 months, and we believe we can continue to generate good results because our companies have the potential to compound their values above our 8-9% discount rates over the next 3-5 years. Our confidence is based on the following:

- The Funds remain at a 20-25% discount to our conservative appraisals.
- Many of the businesses we own have non-earning or under-earning assets that should generate higher earnings over the next 3 years.
- Several of our larger holdings have recently been or currently are involved in merger activity that should result in upside not assumed in already stated deal synergies.
- Our corporate partners are prudently reinvesting their balance sheet cash and free cash flow production to increase value per share.
- Our ongoing engagement with management teams runs deep at a number of our investments, which we believe helps shape positive outcomes.

The eight-plus year bull market in the U.S. has made finding qualifying opportunities more difficult, particularly in larger cap companies. In addition, this year's strong returns in most markets outside of the U.S. have made our on-deck list of prospective investments light around the world. Because we have sold and trimmed businesses whose prices have moved closer to our appraisals, our cash reserves are higher than normal. In June, we closed the Longleaf Partners Fund due to limited new investments and a high cash position.

Perspective on the U.S. Market

We believe that the U.S. market, using the S&P 500 Index as a proxy, has significant risk embedded today. In part, the flood of money into passive strategies has helped extend the bull market beyond normal valuation metrics. Because passive investing has become so pervasive, when the momentum shifts in the opposite direction — which usually happens unexpectedly — capital

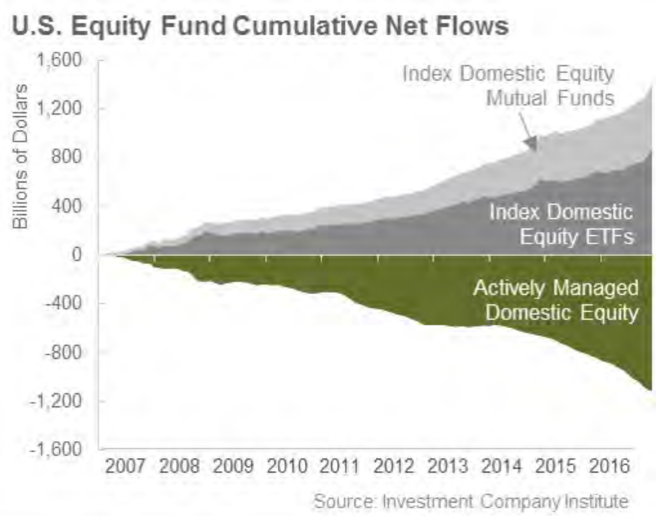
Average Annual Total Returns (6/30/17) Partners Fund: Since Inception (4/8/87): 10.52%, Ten Year: 2.96%, Five Year: 9.82%, One Year: 22.35%. Small-Cap Fund: Since Inception (2/21/89): 11.08%, Ten Year: 7.56%, Five Year: 13.63%, One Year: 14.78%. International Fund: Since Inception (10/26/98): 7.81%, Ten Year: 0.88%, Five Year: 9.81%, One Year: 32.35%. Global Fund: Since Inception (12/27/12): 9.38%, Ten Year: na, Five Year: na, One Year: 42.89%.

Returns reflect reinvested capital gains and dividends but not the deduction of taxes an investor would pay on distributions or share redemptions. Performance data quoted represents past performance. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by visiting longleafpartners.com.

As reported in the Prospectus dated May 1, 2017, the total expense ratios for the Longleaf Partners Funds are: Partners Fund 0.95%, Small-Cap Fund 0.91%, International Fund 1.33%, and Global Fund 1.52%. The expense ratios are subject to fee waiver to the extent a fund's normal annual operating expenses exceed the following percentages of average annual net assets: Partners Fund 1.50%, Small-Cap Fund 1.50%, International Fund 1.75%, and Global Fund 1.65%. Effective May 1, 2016, Southeastern agreed to voluntarily reduce the expense limit to 1.20%. The voluntary fee waiver for the Global Fund may be discontinued at any time.

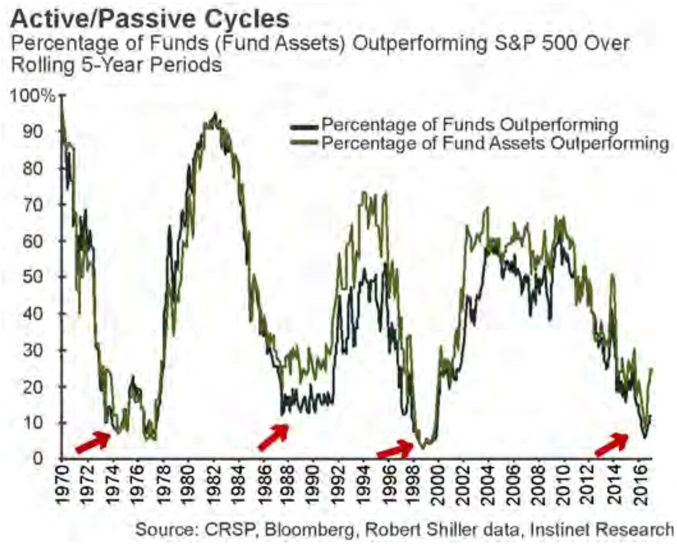
flows could move out just as quickly, causing significant losses for those invested in the index.

Passive investing is lower cost than active management and appropriate in many cases. But, when any strategy becomes a "no brainer," usually the trend has become overextended. The flows out of active strategies and into passive over the last 10 years have accelerated, as shown in the chart below. Because the S&P 500 and most indices are market cap weighted, the largest stocks have become ever larger, pushing prices beyond justifiable valuations with the momentum of inflows.



Passive investments have grown larger and more quickly than the above chart of mutual funds and ETFs indicates because it does not include UCITS funds, target date funds that replicate indices, the equity holdings of central banks around the world, which generally employ indices, or the universe of managers whose portfolios mimic the index with less than 80% Active Share. Active Share (AS) measures the proportion of a fund's portfolio that differs from the index. The academics who introduced AS say that index funds have 0-20% AS and also categorize managers with 20-60% AS as "closet indexers" because their portfolios do not contain enough differentiation to drive index outperformance. We believe most managers between 60-80% essentially shadow the index as well. They average over 100 stocks, which makes it harder to distinguish from an index, and their historic returns have not differed meaningfully from those of managers with less than 60% AS. The combined asset total of all U.S. equity index and pseudo-index assets makes extrapolating the passive growth of the last ten years dangerous as it ignores the real risk of overextension, given we are already in what we would call a passive indexing bubble.

The active/passive debate is not new. As the chart on the next page shows, performance runs in cycles, and active management is at a low point today. Late in the passive cycle,



active investing typically has been declared dead. That declaration has been followed by a strong active management comeback with corresponding disappointment for those who capitulated and owned the index, particularly at its most inflated levels.

Beyond the magnitude of passive assets, other indications of significant risk in U.S. indices include:

- Valuations as commonly measured by Price/Earnings ratios (P/E) are almost 19x today, well above the 15x average over the last 10 years and the longer term 25-year average of under 17x, which includes multiple bull and bear markets. Considering that today's earnings reflect margins at historically high levels, the current P/E is even more risky.

- The more meaningful and alarming measure of Enterprise Value/Earnings Before Interest and Taxes (EV/EBIT) adjusts for the current lower-than-normal interest rate costs of companies by removing interest payments from earnings and looking at overall debt (EV = the value of a company's debt + its equity price). EV/EBIT has averaged around 12x over the last 10 years and the longer term, but today it stands at almost 15x, a premium that is not justified simply by the market giving credit for any potential tax reform.

- Complacency is high among investors around the world with YTD volatility close to a multiyear low in Europe, Asia, and the U.S. The VIX, which tracks U.S. expected volatility, is near an all-time low.

- The spread of bullish versus bearish sentiment is over 36%, a level considered in the "danger zone," and not far from the bullish levels that preceded other market corrections.[1]

1 Investors Intelligence, "Advisors Sentiment" by John Gray, 28 June 2017

- The current U.S. bull market has lasted 100 months, much longer than the historic average of 55, and the gain has been 326%, over 50% above the bull market average of 185%.

Our Positioning

We have no ability to predict short-term market moves. We, therefore, spend all of our time focused on analyzing individual companies and invest with no regard for how our Funds look versus an index. We believe, however, that our bottom-up intrinsic value investing approach has positioned the Funds with less risk of permanent capital loss than the relevant indices across all of our strategies.

- Because of the difficulty around the world in finding new investments that meet our criteria, the Funds hold higher-than-normal cash that will be deployed when we find the next qualifier but also will serve as a buffer in a market downturn.
- If there is a market correction, our stocks will not be immune, but our high 95+% Active Share across all of the Partners Funds means the Funds have a much better chance of performing differently when the passive momentum turns negative.
- Across the Funds, the balance sheets of our companies are in good order, and interest coverage for our U.S. large cap holdings is almost four times higher than at the last market peak just before the Global Financial Crisis.
- The Global Fund has 35-40% of investments based in the U.S. versus almost 60% for the MSCI World Index, which means less exposure to the most overextended market; and, we believe those U.S. companies we do own are better positioned than the largest cap names that dominate the index.
- The Partners Fund owns mostly companies that have not been bid up as heavily by indexing, with roughly a quarter of the holdings domiciled outside of the U.S. and most others representing a negligible fraction of the cap-weighted benchmark's holdings. Additionally, several of our companies pay no dividend, meaning that the large group of yield-seeking investors (another trend that we do not undertake to discuss here) have bid up the primary competitors with larger dividend yields.

We own select businesses whose fundamentals meet our criteria of strong competitive position with growing intrinsic value, solid management partners, and a stock price that is discounted relative to the value of the company's free cash flow and/or asset values. We are confident that our companies across all four Longleaf Partners Funds will compound their values at solid rates over the next 3-5 years, and that we will be advantaged liquidity providers in the event of an index correction.

Transitions at Southeastern

Our clients have benefitted from the successful investment approach and partnership-oriented culture that have consistently guided Southeastern for over forty years. More recently, we have broadened the capabilities and responsibilities across the next generation of our research team members and focused analysts where they can add the most value. We are making the leadership transitions noted below which will enable the more senior members of our team to be more deeply involved in investing — the passion that first brought them to Southeastern. We are structuring Southeastern to ensure that the culture and approach that have made us successful in the past are firmly in place as we serve our clients for the next forty years.

Mason Hawkins remains Chairman and CEO of our firm, and Staley Cates is transitioning from President to Vice Chairman, where his focus will be on what is most beneficial to clients and what he enjoys the most – finding investments and managing portfolios. Mason and Staley remain co-managers on the Longleaf Partners Funds. Staley is also managing a sub-advisory account that follows Southeastern's value discipline and has the flexibility to invest in both equities and derivatives. This is another example, along with our Asia Pacific and concentrated European strategies, of allowing senior team members to manage a portfolio outside of the team process that clearly expresses their investment conviction and contributes investment ideas for Southeastern's broader strategies.

Ross Glotzbach is assuming the title of President, alongside his current role as Head of Research. Ross will work with Southeastern's Executive Committee to coordinate the firm's management functions. This expanded responsibility acknowledges Ross's leadership and importance to the future of our firm. In recognition of his research productivity and successful investment contributions, Ross, who currently serves as a co-manager on Longleaf Partners Small-Cap Fund, will also become a co-manager of Longleaf Partners Fund and the Longleaf Partners U.S. UCITS Fund.

Josh Shores, a 10-year veteran of Southeastern who has covered investments outside of the U.S., first from Memphis, and more recently from London, is moving back to Memphis. His inclusion on the firm's Executive Committee, which includes Mason, Staley, Ross, and COO/CFO Steve Fracchia, helps ensure a global perspective in our business decisions, as Josh serves as a conduit to our London and Singapore based teams. Additionally, Josh will become a co-manager on Longleaf Partners International Fund and will continue to focus on investments outside of the U.S. Scott Cobb will step away from co-managing the International Fund to allow him the time and focus required to engage more deeply with corporate managements in his role as Managing Partner on our concentrated, engaged European strategy. Scott will continue to lead our research efforts in

Europe and his work remains an important source of potential investments for the International and Global Funds. Ken Siazon continues as a co-manager on Longleaf International and as lead manager for our Asia Pacific Strategy. As has always been the case, the full research team shares ideas and discusses opportunities for the benefit of our clients across all of the Funds we manage.

These transitions expand responsibility and career opportunity across our research team and ensure future continuity. Our structure also focuses the organization on what is most important: finding great investments with a team of most capable investment professionals. As the largest investors in the funds we manage, we are confident that Southeastern is positioned to deliver superior long-term results for all our clients.

See following page for important disclosures.

Past performance does not guarantee future results.

Before investing in any Longleaf Partners fund, you should carefully consider the Fund's investment objectives, risks, charges, and expenses. For a current Prospectus and Summary Prospectus, which contain this and other important information, visit longleafpartners.com. Please read the Prospectus and Summary Prospectus carefully before investing.

RISKS

The Longleaf Partners Funds are subject to stock market risk, meaning stocks in the Fund may fluctuate in response to developments at individual companies or due to general market and economic conditions. Also, because the Funds generally invest in 15 to 25 companies, share value could fluctuate more than if a greater number of securities were held. Mid-cap stocks held by the Funds may be more volatile than those of larger companies. With respect to the Small-Cap Fund, smaller company stocks may be more volatile with less financial resources than those of larger companies. With respect to the International and Global Funds, investing in non-U.S. securities may entail risk due to non-US economic and political developments, exposure to non-US currencies, and different accounting and financial standards. These risks may be higher when investing in emerging markets.

The statements and opinions expressed are those of the author and are as of the date of this report.

The S&P 500 Index is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3,000 Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index. MSCI EAFE Index (Europe, Australasia, Far East) is a broad based, unmanaged equity market index designed to measure the equity market performance of 22 developed markets, excluding the US & Canada. MSCI World Index is a broad-based, unmanaged equity market index designed to measure the equity market performance of 24 developed markets, including the United States. An index cannot be invested in directly.

Price / Earnings (P/E) is the ratio of a company's share price compared to its earnings per share.

EV/EBITDA is a ratio comparing a company's enterprise value and its earnings before interest, taxes, depreciation and amortization.

VIX is the CBOE Volatility Index, which reflects the market's expectation of near-term S&P 500 volatility based on a range of index options.

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

Return on capital (ROC) is a calculation used to assess a company's efficiency at allocating the capital under its control to profitable investments.

Funds distributed by ALPS Distributors, Inc. ALPS is not a distributor of the Longleaf Partners UCITS Funds.

LLP000646
Expires 10/31/2017

March 31, 2017

1Q17

Longleaf Partners Funds Shareholder Letter

We are pleased to report that in the first quarter of 2017, all four Longleaf Partners Funds continued to make good progress toward delivering our annual return goal of inflation plus 10% following substantial absolute results in 2016 as well as benchmark outperformance by the Partners, International and Global Funds. The Small-Cap, Global, and International Funds exceeded their respective benchmarks — the Russell 2000, MSCI World, and MSCI EAFE indices — in the quarter, and although compounding at a strong rate, the Longleaf Partners Fund fell short of the S&P 500 Index after substantially outperforming the previous twelve months.

	One Year	1Q
Partners Fund	**20.23%**	**3.90%**
S&P 500 Index	17.17	6.07
Small-Cap Fund	**19.71**	**3.93**
Russell 2000 Index	26.22	2.47
International Fund	**18.70**	**8.80**
MSCI EAFE Index	11.67	7.25
Global Fund	**29.22**	**8.70**
MSCI World Index	14.77	6.38

Past performance does not guarantee future results.

The large majority of our holdings across all of the Funds posted positive returns that reflected company-specific progress. Our two gaming-related investments —Wynn Resorts in the Partners, Small-Cap, and Global Funds and Melco International and K. Wah International (through its partial ownership of Galaxy) in the Global and International Funds — were among our most substantive performance contributors. Macau, where these companies operate, continued to grow, with industry gross gaming revenue accelerating above consensus estimates in the last two months to approximately 18% growth year-over-year. Wynn's and Melco's newer properties are ramping up more quickly than previously expected. The MSCI EAFE Index, which represents developed markets outside of the U.S., had larger gains than the S&P 500. Likewise, our investments based in Europe and Asia, including those held in the U.S. Funds, were a notable source of our appreciation. The Longleaf Partners Fund's low Information Technology exposure, elevated cash balance (which the Small-Cap and International Funds also have) and energy-related holdings impacted its relative results over the last three months.

As we have mentioned in recent quarters, we continue to find more opportunities outside of the U.S., and we were pleased to initiate two non-U.S. positions in the first quarter. We identified no new U.S. qualifiers. We also continued to trim and sell those businesses that approached our appraisal values. As a result, our cash reserves remained significant across all of the Funds with the exception of Global. Cash is the residual of our longstanding investment discipline to buy only when a large discount exists between price and value and to sell when no margin of safety remains. We have found that the low return on holding cash over limited periods is dwarfed by the opportunity from the next discounted qualifying investment that our liquidity buys. We continue to search for stocks that meet our criteria and are confident we will find them, whether because of company-specific opportunities or broad market corrections.

Non-Earning Assets

Over our 42 year history, we have found undervalued opportunities to put our cash to work in different ways. One common source of new investment qualifiers has been identifying and analyzing non-earning assets (NEAs). Stock prices rarely reflect much value for assets that are not currently earning or are under earning their potential. In some cases, no credit is warranted. Passive and most quantitative approaches

Average Annual Total Returns (3/31/17) Partners Fund: Since Inception (4/8/87): 10.47%, Ten Year: 3.37%, Five Year: 7.82%, One Year: 20.23%. Small-Cap Fund: Since Inception (2/21/89): 11.14%, Ten Year: 7.80%, Five Year: 14.07%, One Year: 19.71%. International Fund: Since Inception (10/26/98): 7.44%, Ten Year: 0.91%, Five Year: 5.95%, One Year: 18.70%. Global Fund: Since Inception (12/27/12): 7.54%, Ten Year: na, Five Year: na, One Year: 29.22%.

Returns reflect reinvested capital gains and dividends but not the deduction of taxes an investor would pay on distributions or share redemptions. Performance data quoted represents past performance. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by visiting longleafpartners.com.

As reported in the Prospectus dated May 1, 2016, the total expense ratios for the Longleaf Partners Funds are: Partners Fund 0.93%, Small-Cap Fund 0.91%, International Fund 1.28%, and Global Fund 1.54%. The expense ratios are subject to fee waiver to the extent a fund's normal annual operating expenses exceed the following percentages of average annual net assets: Partners Fund 1.50%, Small-Cap Fund 1.50%, International Fund 1.75%, and Global Fund 1.65%. Effective May 1, 2016, Southeastern agreed to voluntarily reduce the expense limit to 1.20%. The voluntary fee waiver for the Global Fund may be discontinued at any time.

ignore NEAs. NEAs can provide attractive mispricing, however, especially in a long-running bull market where investors increasingly pay higher multiples for current earnings.

NEAs range from straightforward excess cash on the balance sheet to more complicated, multiyear inventories of land or natural resources. Our favorite types of NEA investments are developed assets temporarily earning far less than their potential, as have been the case in hotels during recessionary periods, cement and aggregates assets during 2008-2011, or film libraries at entertainment companies. A second group of NEAs includes significant multi-year capital projects that are not yet complete or fully optimized. Examples we currently own include major renovations and new real estate developments, next generation jet engines and satellites, and new methanol and fertilizer plants. Third, significant ownership stakes in public businesses that are themselves undervalued can provide opportunities, as has been the case at larger holding companies, such as EXOR and Liberty Media. Fourth, companies with tax loss assets (like those at Level 3 Communications) do not usually get credit until it becomes clear how and when they will be used. Fifth, large cash holdings at investees, especially in a low interest rate environment, represent an under earning asset. Lastly, a less predictable type of NEA — that we have learned to be wary of over the years but feel we have positive examples of currently — includes undeveloped real estate such as land banks, and natural resources such as undrilled oil and gas reserves.

Southeastern's approach lends itself to NEA successes because of our:

- Long-term investment horizon in line with our 3-5 year average holding period, which is rare with most investors' focus on earnings over a period of months,
- Absolute value mindset to appraise unique assets that don't often have "comps," which differs from the more prevalent focus on relative valuation,
- Qualitative assessment (that cannot be captured in a spreadsheet) of management's ability to grow and realize NEA value, and
- Constructive work with managements and boards to increase our probability of a favorable outcome, especially as it relates to capital allocation and value recognition.

Identifying and appraising NEAs requires in-depth analytical work. Quantitative screens based on current P/Es, earnings growth, return on capital, price momentum, or other simple measures do not identify opportunities where companies may be temporarily under earning relative to their assets or when increased earnings and/or monetization will occur. It is unlikely that a "catalyst" for that incremental cash flow will be staring us in the face within months, but this is where our long-term, patient approach gives us an advantage.

No two situations are exactly the same, which is why our bottom-up, absolute value appraisal approach is required. NEAs can be worth anywhere from a negative number to multiples of a company's current stock price. If we cannot predict with a high degree of certainty an asset's path to its earnings power, our appraisal will reflect a range in the value of that NEA. We use the bottom end of the range in determining whether the stock price meets our required discount, while viewing the top end as upside for which we are not willing to pay until we gain more evidence that the value will be unlocked. Appraising NEAs helps us understand not only a business' intrinsic worth, but also the implied metrics in the stock price. As a simple example, we subtract the value of net cash from a company's market cap to clearly understand the multiple we are paying for the business operations. Without proper adjustments, a P/E can look misleadingly high, and a simple screen misses these types of opportunities.

Our management partners always impact our investment outcome, but companies with substantial exposure in NEAs heighten management's importance because unlocking the value of NEAs is often the driver of stock price appreciation. The timing of NEA recognition directly affects our investment return, which is why the less predictable, multi-year horizon NEAs can be the most difficult to assess. Our corporate partners who steward sizeable NEAs must understand the earnings power of their assets, be properly incented to elevate NEA earnings, and willing to monetize assets within a timeframe and at prices that are accretive to value per share. Equally important, managements must recognize that languishing NEAs have significant opportunity cost if they are held when they instead could be sold and the proceeds used to buyback undervalued shares, allowing the company to focus its resources on more productive assets.

Our engaged approach and over four decade track record of doing the right thing for shareholders help increase our prospects for a successful outcome related to NEAs. At a minimum, we maintain ongoing dialog with management teams and boards to keep their focus on bringing assets to their full earnings potential or seeking ways to monetize them within a reasonable return timeframe. Incremental engagement ranges from conversations with CEOs and CFOs, to proposing board members with relevant capital allocation experience, to talking with prospective buyers of the assets where appropriate, and, on rare occasions, more publicly working to change management's approach.

NEAs are neither simple to find and assess nor certain to generate good returns, but they have been an important source of Southeastern's successful results throughout our history. Our company appraisals delineate how much of the value is derived from NEAs. Likewise, while there is no optimal level, we are mindful of our reliance on NEAs versus other sources of return. Across all of the Funds' holdings today, a few companies have around half of their appraisal in NEAs, and many companies have little-to-no exposure. Collectively, NEAs represent an average of less than 20% of the Funds' appraisal values but a larger potential source of upside returns.

Summary
The Funds contain an attractive mix of competitively advantaged, growing operating businesses along with undervalued NEA opportunities. We also have corporate partners who have demonstrated their commitment to growing value per share and who, we believe, will drive strong outcomes. A high level of geopolitical uncertainty remains around the world and quickly could impact broad markets or lead to company-specific opportunities. The Funds' cash levels, a result of our investment discipline, will provide the liquidity to go on offense when the inevitable new qualifiers emerge. We are confident that over the next several years, our investments should deliver the successful results that we and our clients expect.

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RISKS

The Longleaf Partners Funds are subject to stock market risk, meaning stocks in the Fund may fluctuate in response to developments at individual companies or due to general market and economic conditions. Also, because the Funds generally invest in 15 to 25 companies, share value could fluctuate more than if a greater number of securities were held. Mid-cap stocks held by the Funds may be more volatile than those of larger companies. With respect to the Small-Cap Fund, smaller company stocks may be more volatile with less financial resources than those of larger companies. With respect to the International and Global Funds, investing in non-U.S. securities may entail risk due to non-US economic and political developments, exposure to non-US currencies, and different accounting and financial standards. These risks may be higher when investing in emerging markets.

The statements and opinions expressed are those of the author and are as of the date of this report.

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Price / Earnings (P/E) is the ratio of a company's share price compared to its earnings per share.

Return on capital (ROC) is a calculation used to assess a company's efficiency at allocating the capital under its control to profitable investments.

As of March 31, 2017, the holdings discussed represented the following percentages of the Funds: Wynn Resorts: 6.7% Partners, 6.4% Small-Cap, 6.7% Global; Melco International: 7.9% International, 7.4% Global; K. Wah: 2.2% International, 2.3% Global; EXOR: 8.2% International, 5.6% Global; Liberty Media: 7.2% Small-Cap; Level 3: 10.1% Partners, 7.9% Small-Cap, 8.9% Global. Fund holdings are subject to change and holding discussions are not recommendations to buy or sell any security. Current and future holdings are subject to risk.

Funds distributed by ALPS Distributors, Inc.

December 31, 2016

4Q16

Longleaf Partners Funds Shareholder Letter

We are pleased to report that 2016 was a great year for the shareholders of the Longleaf Partners Funds. All four Funds delivered strong absolute results, three outperformed their indices by a wide margin, and each Fund ended the year well-positioned for the future. We produced good returns because: the competitive advantages of our businesses built organic value growth; our corporate leaders made intelligent capital allocation decisions that meaningfully augmented value; the market began to recognize our companies' higher intrinsic worth; and, we positioned the Funds' portfolios to maximize returns while limiting downside. We are highly confident the Funds will continue delivering excess returns because the quality and leadership of our investees should drive additional value accretion and because of market factors that appear more favorable to our bottom-up, valuation based investment approach.

	One Year	4Q
Partners Fund	**20.72%**	**2.03%**
S&P 500 Index	11.96	3.82
Small-Cap Fund	**20.48**	**3.88**
Russell 2000 Index	21.31	8.83
International Fund	**12.20**	**-0.31**
MSCI EAFE Index	1.00	-0.71
Global Fund	**20.43**	**1.60**
MSCI World Index	7.51	1.86

Past performance does not guarantee future results

Our most widely held and more heavily weighted holdings across the Funds are uniquely long-term investments that we know very well. These companies[1], like Level 3 Communications, FedEx, CK Hutchison, Cheung Kong Property, EXOR, CNH Industrial, Graham Holdings, LafargeHolcim, and Liberty Media, all have growing competitive advantages, highly capable management partners, and cash-generative businesses that should continue to grow their values per share. This group trades at a very attractive average multiple of 11 to 12 times our calculated 2017–18 earnings power versus the S&P 500's 16 to 17 times and MSCI EAFE's 14 to 15 times current price-earnings (P/E) multiple based on next twelve month estimates.

This time last year, the energy and gaming investments in the Funds were a source of disappointment, even though we felt that our management partners were making smart moves. In 2016, as a whole these investments posted substantial returns that outperformed their industries. Going into 2017, these companies have strengthened their balance sheets through accretive actions while focusing and improving their operations. Their industries now have tailwinds, as commodity prices have returned to more reasonable, yet still low, levels, and Macau gaming has shown early signs of renewed growth. This group is now on offense

Most of our remaining investments in the Funds fall into a third group of diverse businesses. We have not held them as long as most of the companies mentioned above, but they qualify strongly on business, people, and price. We expect their values to grow at an above-average level. Our management partners are exceptional, and these companies could remain core holdings for many years. They include businesses[1] such as Alphabet, Ralph Lauren, United Technologies, and ViaSat in the U.S., European-based C&C and an undisclosed new addition that we successfully owned in the last Eurozone crisis, and Asian-based Great Eagle and Yum China (a fourth quarter addition that we

1 To reference which funds hold the investments discussed, please *see page 3.*

Average Annual Total Returns (12/31/16) Partners Fund: Since Inception (4/8/87): 10.42%, Ten Year: 3.20%, Five Year: 9.63%, One Year: 20.72%. Small-Cap Fund: Since Inception (2/21/89): 11.09%, Ten Year: 8.15%, Five Year: 15.35%, One Year: 20.48%. International Fund: Since Inception (10/26/98): 7.05%, Ten Year: 0.62%, Five Year: 6.47, One Year: 12.20%. Global Fund: Since Inception (12/27/12): 5.80%, Ten Year: na, Five Year: na, One Year: 20.43%.

Returns reflect reinvested capital gains and dividends but not the deduction of taxes an investor would pay on distributions or share redemptions. Performance data quoted represents past performance. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by visiting longleafpartners.com.

As reported in the Prospectus dated May 1, 2016, the total expense ratios for the Longleaf Partners Funds are: Partners Fund 0.93%, Small-Cap Fund 0.91%, International Fund 1.28%, and Global Fund 1.54%. The expense ratios are subject to fee waiver to the extent a fund's normal annual operating expenses exceed the following percentages of average annual net assets: Partners Fund 1.50%, Small-Cap Fund 1.50%, International Fund 1.75%, and Global Fund 1.65%. Effective May 1, 2016, Southeastern agreed to voluntarily reduce the expense limit to 1.20%. The voluntary fee waiver for the Global Fund may be discontinued at any time.

have known well for many years).

A final point on the Funds' portfolios is that our on-deck list—while shorter than usual—does have strong candidates. After another up year, the U.S. is less compelling than other world markets. Still, we have found new qualifiers in both the large and small-cap areas and continue to search. In Europe, dispersion among stocks is greater, but the lower-than-U.S. market P/E multiple is dragged down by lesser quality businesses that are not attractive to us. However, we have several exceptions on deck. Asia remains the most discounted region, although the most undervalued industries of real estate and gaming are already well represented in our portfolios. We have looked at a number of Japanese prospects in the last year, but most either were away from our price limit or had limited liquidity.

The shift to indexing had been a headwind for the Funds for several years because it drove stocks to move in lockstep and favored momentum investing, as indexing is a strategy that buys more of what has been going up. Even though indexing remains in favor, 2016, and the second half of the year in particular, saw positive signs that this force is abating. Correlations between stocks declined, and the market began to weigh company-specific factors more, which rewards our skills as business appraisers. As contrarians we couldn't help but get excited by a classic headline in the October 17th edition of the *Wall Street Journal*—"The Dying Business of Picking Stocks."

Persistently low—and in some cases negative—interest rates stayed with us for most of 2016, but the fourth quarter saw a dramatic turn upward in rates after the U.S. election. While we do not claim to be macro forecasters, higher rates going forward now seem more likely than not. We have avoided higher yielding stocks that had become bond proxies and are now most at risk of a multiple re-rating. We believe we own companies with pricing power and intelligently structured balance sheets that will allow them to build value expeditiously in a higher rate world.

One final point on markets is that the fourth quarter of 2016 saw a return of potentially excessive optimism in certain market segments and geographies, especially in the U.S. We are seeing high readings of bullishness from market prognosticators, and the volatility index is approaching historically low levels—a dangerous mix of exuberant complacency. Should recent indexers get disappointed, their exit could catalyze a more serious market correction, and yield-seekers who switched out of bonds might regret that stocks don't have fixed maturity payoffs. The Funds' current above-average cash levels, which are a result of finding few qualifying investments, should provide a buffer for any market pullback. More importantly, they will allow us to purchase our next great investments.

While a discriminating market should favor the Funds, our current investments and what we purchase in the future will drive our returns going forward, just as they did in 2016. We have worked to intelligently build concentrated portfolios that should deliver over the long term, and we will remain engaged with our management partners to both help them and hold them accountable.

As we wrote in early 2016, we began shifting Southeastern's managerial responsibilities to maximize the time our most senior investors spend on research and portfolio management and to broaden the experience of other team members. Our Deputy Director of Research and co-manager of the Small-Cap Fund, Ross Glotzbach, who joined Southeastern in 2004, has increasingly coordinated our research process and helped us become more effective. As the logical next step to assuming more research management duties, Ross will become Head of Research in 2017.

We close this letter by thanking you for your investing partnership. As the largest investor group in the Funds, Southeastern employees are gratified we delivered the significant risk-adjusted excess returns you expect. At the end of 2000, another strong year following an out of favor period, we ended our letter "...with a word of thanks for being logical, disciplined partners who understood the difference between investment and speculation when the rational world seemed gone. Standing against conventional wisdom is never easy, but is often profitable. We are pleased that your patience was rewarded." Those words ring true today, and we are as excited about the future now as we were then.

See following page for important disclosures.

Past performance does not guarantee future results.

Before investing in any Longleaf Partners fund, you should carefully consider the Fund's investment objectives, risks, charges, and expenses. For a current Prospectus and Summary Prospectus, which contain this and other important information, visit longleafpartners.com. Please read the Prospectus and Summary Prospectus carefully before investing.

RISKS

The Longleaf Partners Funds are subject to stock market risk, meaning stocks in the Fund may fluctuate in response to developments at individual companies or due to general market and economic conditions. Also, because the Funds generally invest in 15 to 25 companies, share value could fluctuate more than if a greater number of securities were held. Mid-cap stocks held by the Funds may be more volatile than those of larger companies. With respect to the Small-Cap Fund, smaller company stocks may be more volatile with less financial resources than those of larger companies. With respect to the International and Global Funds, investing in non-U.S. securities may entail risk due to non-US economic and political developments, exposure to non-US currencies, and different accounting and financial standards. These risks may be higher when investing in emerging markets.

The statements and opinions expressed are those of the author and are as of the date of this report.

The S&P 500 Index is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3,000 Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index. MSCI EAFE Index (Europe, Australasia, Far East) is a broad based, unmanaged equity market index designed to measure the equity market performance of 22 developed markets, excluding the US & Canada. MSCI World Index is a broad-based, unmanaged equity market index designed to measure the equity market performance of 24 developed markets, including the United States. An index cannot be invested in directly.

Price / Earnings (P/E) is the ratio of a company's share price compared to its earnings per share.

Earnings Power is Southeastern's estimated free cash flow per share that we expect the company is able to produce in the time-frame mentioned. Pro-forma for any one time items and/or mergers and acquisitions.

Free Cash Flow is a measure of a company's ability to generate the cash flow necessary to maintain operations. Generally, it is calculated as operating cash flow minus capital expenditures.

As of December 31, 2016 the holdings discussed represented the following percentages of the Funds- Level 3: 9.7% Partners, 8.1% Small-Cap, 9.3% Global; FedEx: 9.5% Partners, 6.6% Global; CK Hutchison: 6.1% Partners, 7.0% International, 5.4% Global; Cheung Kong Property: 4.1% Partners, 4.7% International, 3.8% Global; EXOR: 8.9% International, 4.9% Global. CNH Industrial: 5.8% Partners, 3.1% Global; Graham Holdings: 5.5% Small-Cap; LafargeHolcim: 4.8% Partners, 8.2% International, 6.3% Global; Liberty Media: 6.9% Small-Cap; Alphabet: 6.4% Partners, 4.0% Global; Ralph Lauren: 3.5% Partners; United Technologies: 4.8% Partners, 4.5% Global; ViaSat: 5.7% Small-Cap; C&C: 4.8% International; Great Eagle: 6.0% International; Yum China: 4.5% International, 4.9% Global. Fund holdings are subject to change and holding discussions are not recommendations to buy or sell any security. Current and future holdings are subject to risk.

Funds distributed by ALPS Distributors, Inc.

3Q16

September 30, 2016

Longleaf Partners Funds Shareholder Letter

We are pleased to report strong absolute returns for all four Longleaf Partners Funds for the first nine months of 2016. All four Funds also surpassed their respective benchmarks by a wide margin for the year-to-date. In the third quarter, Fund benchmark indices rose, and the Funds were well above those benchmarks, with the exception of the Small-Cap Fund. Over the last twelve months, all four funds exceeded our annual absolute goal of inflation plus 10% as well as their relative benchmarks.

	One Year	YTD	3Q
Partners Fund	**24.80%**	**18.32%**	**11.07%**
S&P 500 Index	15.43	7.84	3.85
Small-Cap Fund	**24.09**	**15.97**	**5.28**
Russell 2000 Index	15.47	11.46	9.05
International Fund	**16.86**	**12.55**	**12.55**
MSCI EAFE Index	6.51	1.73	6.43
Global Fund	**25.74**	**18.54**	**17.71**
MSCI World Index	11.36	5.55	4.87

Past performance does not guarantee future results

Impact of the Low Interest Rate Environment

We started Southeastern in 1975 in the aftermath of the "Nifty Fifty" bubble. In the subsequent four decades, we have been through various market cycles, including the S&P run in the late 1990s that ended in the dot-com bubble bursting and the 2006-2007 housing and mortgage securities bubble that precipitated the Global Financial Crisis (GFC). Today, the dominant market force is historically low interest rates that have driven bond yields into extremely low and even negative territory in a number of countries. Central banks in many of the world's developed markets have maintained low interest rates to help spur economic growth. With ongoing anemic gross domestic product (GDP) growth, rates have stayed low for much longer than fiscal policymakers would have predicted. Much has been written about how sustained low interest rates are sending stocks higher in spite of challenged corporate revenue and profit growth. Lower borrowing costs have helped support earnings with lower-than-normal interest expense. The search for top-line growth, combined with cheap financing, also has spurred acquisition activity.

Paltry fixed income yields and ongoing fears of a repeat of previous market shocks have impacted equity market activity and valuations in several ways. First, investors increasingly have turned to stocks that pay out higher dividends in a search for yield. Second, investors have moved to stocks with lower volatility and more predictable, stable earnings that seem bond-like. Third, memories of stock-specific losses in the GFC and Europe's 2011 debt crisis have helped drive fund flows into low volatility and/or high dividend yielding equities and exchange traded funds that performed better during those periods, even though past performance is no guarantee of what will happen in the next downturn.

To illustrate the flight to income and perceived stability, the table on the next page shows data on the Utilities and Consumer Staples sectors across broad global indices. These sectors with stable earnings and reliable, high dividends are trading well above their historic levels.

Average Annual Total Returns (9/30/16) Partners Fund: Since Inception (4/8/87): 10.44%, Ten Year: 3.77%, Five Year: 11.39%, One Year: 24.80%. Small-Cap Fund: Since Inception (2/21/89): 11.05%, Ten Year: 8.70%, Five Year: 16.49, One Year: 24.09%. International Fund: Since Inception (10/26/98): 7.17%, Ten Year: 1.41%, Five Year: 6.65, One Year: 16.86%. Global Fund: Since Inception (12/27/12): 5.75%, Ten Year: na, Five Year: na, One Year: 25.74%.

Returns reflect reinvested capital gains and dividends but not the deduction of taxes an investor would pay on distributions or share redemptions. Performance data quoted represents past performance. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by visiting longleafpartners.com.

As reported in the Prospectus dated May 1, 2016, the total expense ratios for the Longleaf Partners Funds are: Partners Fund 0.93%, Small-Cap Fund 0.91%, International Fund 1.28%, and Global Fund 1.54%. The expense ratios are subject to fee waiver to the extent a fund's normal annual operating expenses exceed the following percentages of average annual net assets: Partners Fund 1.50%, Small-Cap Fund 1.50%, International Fund 1.75%, and Global Fund 1.65%. Effective May 1, 2016, Southeastern agreed to voluntarily reduce the expense limit to 1.20%. The voluntary fee waiver for the Global Fund may be discontinued at any time.

Metrics for "Safe" Sectors

	Utilities Sector				Consumer Staples Sector			
	Dividend Yield (LTM)	Volatility (1 year beta)	P/E Ratio		Dividend Yield (LTM)	Volatility (1 year beta)	P/E Ratio	
			Current	10-year Average			Current	10-year Average
S&P 500	3.4%	0.4	22.2x	15.8x	2.6%	0.7	20.0x	16.8x
MSCI World	3.7%	0.5	19.5x	15.8x	2.4%	0.7	21.5x	16.8x
MSCI EAFE	4.2%	0.8	16.7x	16.0x	2.4%	0.7	23.6x	16.8x

Source: Factset data as of 9/30/16. Past performance does not guarantee future results.

This market environment does not change our "Business, People, Price" investment discipline, which focuses on the qualitative fundamentals and values of individual companies. However, the environment does impact our opportunity set and resulting Fund positioning. Higher market levels after five years of double-digit annual returns are making it difficult to find companies that have an ample margin of safety between their prices and our underlying business appraisals. With our strong returns this year, we have trimmed or sold a number of businesses that became more fully valued. Consequently, our cash levels are higher than normal. While we prefer to be business owners, we have seen in previous similar periods that the antidote for high cash and limited qualifiers is patience and discipline, along with hard work to uncover deeply discounted opportunities that meet our investment criteria.

Not only do we have higher cash levels, but the Funds contain few companies in the perceived "safe" sectors because those businesses that meet our qualitative criteria have little or no margin of safety in their prices. Conversely, many of our holdings have more economic sensitivity with higher betas because those are the businesses available at discounted prices. (We reference beta simply as a volatility measure. We do not share the academic view that volatility equates to risk of loss, and beta does not impact our investment decisions.) Additionally, although a number of our companies have attractive free cash flow (FCF) yields, many of those that reinvest the coupon at good returns have been penalized relative to peers that are seen as more stable and distribute large dividends, particularly in the U.S., where yield chasing is pervasive.

An example is Level 3 Communications, which is among the largest positions in the Partners, Small-Cap and Global Funds. This fiber network provider reinvests its excess cash into high margin growth rather than paying a dividend, has a beta of 1.5, and only trades at an adjusted 8x earnings before interest, taxes, depreciation, amortization (EBITDA) for expected FCF growth in the teens. By contrast, AT&T and Verizon have dividend yields over 4% with betas of 0.6 or less and trade at 7x EBITDA, with growth prospects limited to mid-single digits. Likewise, FedEx, another large holding in the Partners and Global Funds, shares a duopoly with UPS in the U.S. ground business, yet trades at a 13.9x price-to-earnings ratio (P/E), while UPS is at 18.0x. FedEx has lower labor costs and more growth potential as it takes share from UPS and integrates its recent purchase of TNT. FedEx has a dividend yield of less than 1% and a 1.2 beta, while UPS has a 2.9% dividend yield and a beta of 0.7.

This pursuit of yield has contributed to the opportunity to own select gaming companies across the Funds. In the U.S., Wynn Resorts, which we own in the Partners, Small-Cap and Global Funds, trades at 9.5x projected EBITDA and has a dividend yield of 2.1%. Its comparable peer, Las Vegas Sands, has a dividend yield of over 5% and trades at 15.0x EBITDA. Similarly, in Macau, Melco Crown, the operating business for the casinos we own in the International and Global Funds through Melco International, has a dividend yield of 0.5% and is dramatically cheaper at 9.2x EBITDA than its competitor, Sands China, which has a 5.9% dividend yield and trades at 15.6x EBITDA.

Our non-U.S. companies have higher dividend payouts than most of our U.S. holdings, but, like in the U.S., the premium for price stability has created opportunity in more volatile stocks. In the International and Global Funds, for example, most of our Hong Kong real estate companies trade at much lower multiples than their real estate investment trust (REIT) peers. Our companies develop and own commercial properties, their dividends are dependent on managements' capital choices, and they trade at higher betas as a result. REITs are required to return most of their free cash flow in dividends, supporting less volatile stocks. In International, Global, and Partners, we own Cheung Kong Property, one of the largest developers in Hong Kong with an extensive portfolio in mainland China and other countries. The company has a dividend yield of 2.5%, a beta of 1.1, and a P/E of 11.7x, while LINK, the largest REIT in Asia, has a 3.6% dividend yield, a beta of 0.5, and a P/E of 25.2x.

Prolonged low interest rates have also contributed to broader five-year stock market returns that are over 400 basis points above historic U.S. averages and 300-400+ basis points over historic local returns around the world. If rates remain at current levels for a sustained period, markets are probably fairly priced and returns above the long-term averages are warranted. If interest rates increase, many predict that equity markets will decline in general, especially among the stocks substituting for bonds. We believe our holdings would likely not be immune from a market downturn, but our cash should provide a price buffer and the liquidity to go on offense. If higher interest rates also reflect an environment with more economic growth, our stocks with more economic sensitivity and higher betas also may benefit more than the indices.

We do not know exactly what rates will do or what short-term price reactions will be, and we therefore remain focused on our companies' underlying business appraisals that should drive our long-term results. We believe that the intrinsic values of our companies are not widely vulnerable to interest rates returning to longer-term norms for three primary reasons.

First, we have maintained discount rates in our free cash flow models of 8-9% in USD terms, based off of the long-term risk free rate. Second, a number of our businesses have net cash and/or some type of float that should earn more with higher rates. Third, a majority of our businesses have pricing power and/or the ability to raise revenues greater than fixed costs, so they should be able to increase margins at a time when many other companies are already at peak margins. In the event of rates rising from higher GDP growth, which our appraisals do not currently assume, better top-line growth should drive higher values at our companies.

Most importantly, our successful results in 2016 indicate that we do not require higher interest rates and economic growth for our companies' intrinsic values to be recognized. The market often focuses most on the rate of change in a given metric. Much of the flight to yield and perceived safety has occurred already and is therefore "in the numbers." As the yield and low-volatility seeking momentum tapers, we see more room for the fundamentals of our companies to be recognized. Our strong businesses and their growing FCF over the next few years should continue to drive their underlying values higher. Our capable management partners continue to productively reinvest the cash flow coupons of their businesses, successfully monetize assets, and prudently steward their balance sheets for the long term.

Organizational Update

Southeastern's four-plus decade mission has been seeking to deliver superior investment results to our clients. To that end, our organization is structured to:

-Achieve the highest research productivity and effectiveness,
-Retain our most talented investment team members,
-Align our interests with those of our clients, and
-Develop an experienced bench for future succession.

As we reported six months ago, we shifted some managerial responsibilities from Mason Hawkins and Staley Cates to allow our two most senior investors to focus their time on investing and to tap the talents and broaden the experience of others on the team. Ross Glotzbach, Deputy Director of Research and a twelve year Southeastern veteran, has coordinated our global research process and team effectively to the benefit of our firm and clients. Staley and Mason are completely engaged in investing, new investment idea generation has increased across the team, and existing holdings have been scrutinized even more thoroughly.

Another positive evolution started a few years ago, when we began letting our experienced analysts have portfolio management responsibility for their own distinct investment strategies where we believed there was ample long-term opportunity. We saw this autonomy as a way to generate better qualified ideas in larger quantity for Southeastern's clients, while also fulfilling longer-term career aspirations and tying incentives tightly to portfolio results. As a result, we seeded an Asia Pacific strategy that our Singapore team has been running since December 2014 as well as a highly concentrated European strategy that our London team has been overseeing since April 2015. When qualifying investment opportunities are presented, our Longleaf Funds are able to participate, and already have benefitted significantly. A wider array of investment ideas has surfaced for all of the Funds, and several of the higher conviction names in the regional strategies have been some of the largest contributors to the International and Global Funds' performance this year. In addition, having responsibility for their own mandates has increased the productivity, enthusiasm, accountability, and commitment of those team members.

Summary

We believe that the 34-year bond bull market will reverse at some point. When that occurs, we still expect our collective business values will grow because of our companies' competitive advantages. While we consider how rate changes might impact both investment opportunities and our current holdings, delivering strong results to our partners is imperative whatever interest rates do. We are pleased with the progress at our companies and that the market has more fairly priced those businesses in 2016. We are also happy with the progress our firm has made to insure a successful path for our next 40 years. All of your partners at Southeastern remain hard at work, searching for new qualified investments and encouraging our managements to prudently build their companies' per share values.

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RISKS

The Longleaf Partners Funds are subject to stock market risk, meaning stocks in the Fund may fluctuate in response to developments at individual companies or due to general market and economic conditions. Also, because the Funds generally invest in 15 to 25 companies, share value could fluctuate more than if a greater number of securities were held. Mid-cap stocks held by the Funds may be more volatile than those of larger companies. With respect to the Small-Cap Fund, smaller company stocks may be more volatile with less financial resources than those of larger companies. With respect to the International and Global Funds, investing in non-U.S. securities may entail risk due to non-US economic and political developments, exposure to non-US currencies, and different accounting and financial standards. These risks may be higher when investing in emerging markets.

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The S&P 500 Index is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3,000 Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index. MSCI EAFE Index (Europe, Australasia, Far East) is a broad based, unmanaged equity market index designed to measure the equity market performance of 22 developed markets, excluding the US & Canada. MSCI World Index is a broad-based, unmanaged equity market index designed to measure the equity market performance of 24 developed markets, including the United States. An index cannot be invested in directly.

EBITDA is a company's earnings before interest, taxes, depreciation and amortization.

Free Cash Flow (FCF) is a measure of a company's ability to generate the cash flow necessary to maintain operations. Generally, it is calculated as operating cash flow minus capital expenditures.

"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.

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

Gross Domestic Product (GDP) is the final value of the goods and services produced within the geographic boundaries of a country during a specified period of time.

Beta is a measure of how volatile an investment is compared to the overall market. A beta of 1 indicates that the investment will move with the market. A beta of more than 1 means that the investment is more volatile than the market. For example, if a stock's beta is 1.2, then theoretically it's 20% more volatile than the market.

Dividend yield is a stock's dividend as a percentage of the stock price.

Price / Earnings (P/E) is the ratio of a company's share price compared to its earnings per share.

Nifty Fifty" refers to a group of fifty growth stocks identified by Morgan Guarantee Trust in the 1960's and 1970's that were regarded as "buy and hold" stocks.

One basis point is equal to 1/100th of 1%, or 0.01%.

As of September 30, 2016 the holdings discussed represented the following percentages of the Funds- Level 3: 6.4% Partners, 6.4% Small-Cap, 5.5% Global; FedEx: 8.6% Partners, 6.3% Global; Wynn Resorts: 6.3% Partners, 5.9% Small-Cap, 5.9% Global; Melco International: 6.8% International, 6.0% Global; Cheung Kong: 4.8% Partners, 5.2% International, 4.7% Global. The following stocks discussed are not held in the Longleaf Partners Funds: AT&T, Verizon, UPS, Las Vegas Sands, LINK. Fund holdings are subject to change and holding discussions are not recommendations to buy or sell any security. Current and future holdings are subject to risk.

Funds distributed by ALPS Distributors, Inc.

June 30, 2016

2Q16

Longleaf Partners Funds Shareholder Letter

We are pleased to report that all four Longleaf Partners Funds outperformed their respective indices in the first half of 2016 following a second quarter of mixed results.

	YTD	2Q
Partners Fund	**6.53%**	**2.10%**
S&P 500 Index	3.84	2.46
Small-Cap Fund	**10.15**	**5.32**
Russell 2000 Index	2.22	3.79
International Fund	**0.0**	**-2.76**
MSCI EAFE Index	-4.42	-1.46
Global Fund	**0.70**	**-0.59**
MSCI World Index	0.66	1.01

Past performance does not guarantee future results

Our successful year-to-date is a promising start to a decade of what we believe will be material excess returns in the Longleaf Partners Funds. We are well-positioned in part because of where the indices are, particularly in the U.S. large cap arena. The massive inflows into passive vehicles in the last five years have supported prices of companies beyond what corporate fundamentals would justify, especially in stocks that are more heavily weighted components of the indices.

Our future results, however, will not be driven by passive indices, but rather by how well we execute our investment philosophy. Our confidence in the next decade comes from having a differentiated approach that has outperformed the indices over the long run and has populated the Longleaf Partners Funds with companies that we believe will generate significant returns. Ben Graham, in a 1963 speech, listed the two conditions that make it "possible for a minority of investors to get significantly better results than the average… One is that they must follow some sound principles of selection which are related to the value of the securities and not to their market price action. The other is that their method of operation must be basically different than that of the majority of security buyers."[1] Longleaf's investment approach – **intelligent, concentrated, engaged, long-term, partnership investing** – is deeply rooted in security valuations and is our foundation for delivering superior future results. It also distinguishes us from other managers and explains our strong history.

Longleaf's Distinctive Approach

Intelligent Investing: The world is full of smart investors, but a much more limited group approaches stock ownership in an intelligent manner. Ben Graham devoted an entire book to describing the "Intelligent Investor," which is required reading for every Longleaf analyst. Graham asked, "Can the intelligent investor follow any policies of common stock selection that promise better than average results? I think it is possible for some strong-minded investors to do this by buying value rather than prospects or popularity."[2] At Longleaf we anchor our investment decisions to the intrinsic value of a business based on its future free cash flow and underlying assets. We rarely own the most popular stocks since they normally do not trade at a discount to our conservative appraisals.

Concentrated Investing: Graham wrote about the importance of looking different than the index in order to outperform the average. With concentration, intelligent investors increase their prospects for success by owning only the most qualified businesses. The Longleaf Partners Funds typically hold 20 or fewer securities in companies that meet stringent qualitative criteria and are discounted versus the businesses' underlying values. We gain enough security-specific diversification but are not an index. According to *Institutional Investor*, skilled, concentrated managers with portfolios that differed from the benchmark outperformed the market over the long term with

[1] *Benjamin Graham, "Securities in an Insecure World" (lecture, Town Hall, St. Francis Hotel, San Francisco, California, November 15, 1963) 9.*

[2] *Graham, "Securities in an Insecure World," 12.*

Average Annual Total Returns (6/30/16) Partners Fund: Since Inception (4/8/87): 10.13%, Ten Year: 3.04%, Five Year: 4.26%, One Year: -9.87%. Small-Cap Fund: Since Inception (2/21/89): 10.94%, Ten Year: 9.02%, Five Year: 10.82, One Year: -1.10%. International Fund: Since Inception (10/26/98): 6.56%, Ten Year: 0.68%, Five Year: -1.29, One Year: -10.32%. Global Fund: Since Inception (12/27/12): 1.36%, Ten Year: na, Five Year: na, One Year: -9.41%.

Returns reflect reinvested capital gains and dividends but not the deduction of taxes an investor would pay on distributions or share redemptions. Performance data quoted represents past performance. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by visiting longleafpartners.com.

The total expense ratios for the Longleaf Partners Funds are at 12/31/15: Partners Fund 0.93%, Small-Cap Fund 0.91%, International Fund 1.28%, and Global Fund 1.54%. The Funds' expense ratios are subject to fee waiver to the extent a fund's normal annual operating expenses exceed the following percentages of average annual net assets: Partners Fund 1.5%, Small-Cap Fund 1.5%, International Fund 1.75%, and Global Fund 1.65%.

attractive, risk-adjusted returns.[3] Active share is the measure that indicates how different a portfolio is from its benchmark, and given our concentration, the Longleaf Partners Funds generally have active share measures of over 95 out of 100, a level indicating almost no overlap with the index. While owning shares in a small number of highly qualified and undervalued companies helps drive market outperformance over time, we believe concentration helps deliver the more important long-term absolute returns that enable investors to meet their investing goals.

Engaged Investing: Over Longleaf's history we have observed the benefits of owning companies with skilled, shareholder-aligned managements whom we view as corporate partners. Our relationships with these CEOs and sometimes boards differentiates Longleaf from most funds. We are not "activists" who publicly attack management to quickly boost the stock price and move on. We typically are among a company's largest shareholders, and as a long-term owner, engage in a constructive dialogue with management to share insights and views on ways to build value per share over the long-term. We focus on understanding how a business is pursuing operational excellence and ensuring that capital allocation decisions are improving long-term value per share. Our approach has helped us have a voice in successful outcomes in numerous long-held investments. Most recently, our engagement with adidas and CONSOL Energy has been beneficial.

Long-term Investing: A long-term horizon is critical, especially in concentrated, engaged investing. Markets and stocks can swing dramatically in short-term periods based on emotional reactions. Underlying business values are much more rational and stable. With our approach tied to corporate worth and a multi-year time horizon, Longleaf can take advantage of price volatility, buying when others are fearful and selling when greed and optimism have taken price to fair value.

Partnership Investing: *Morningstar's* analysis revealed that managers who invest meaningfully in their own funds have a higher success rate than those who do not.[4] Longleaf and Southeastern have an ethics policy that requires employees to make their public equity investments via the funds we manage unless an exception is granted. This ensures that our employees are invested alongside our clients, and as importantly, that we are acutely focused on the returns we generate. Our employees and affiliates are the largest shareholder group across the Longleaf Partners Funds, a level of co-investment and alignment that separates us from most other firms.

We think of our partnership as much more than aligned interests. We have a strong set of clients with valuable knowledge and experience across multiple fields. A number of them have provided insights that helped us in our successful investments as well as in avoiding mistakes. Some have been involved in our engagement, making helpful connections and occasionally going on the boards of our investees. This degree of client partnership is somewhat unique in our industry, and we view it as an important advantage to our long-term compounding.

Corporate Partners Driving Results

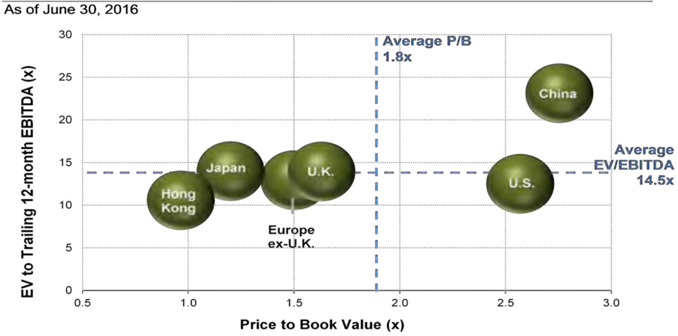
Around the world, managements of our largest contributors helped drive good outcomes over the last quarter. In the U.S., CONSOL Energy sold its metallurgical coal assets and had its credit facility reaffirmed. Likewise, Chesapeake Energy sold assets, bought in debt at a discount, and also had its full line of credit reaffirmed. Our small cap holding, DreamWorks, sold to Comcast. In Europe, adidas pursued selling its golf business and high-caliber additions, one of whom we proposed, to the board. In Asia, SoftBank monetized almost $20 billion from successful investments to help fund the repurchase of discounted shares. Conversely, our performance detractors included several companies where anticipated transactions did not occur. European regulators squelched CK Hutchison's O2 acquisition, which the company was going to merge with its UK telecom business. Philips chose an initial public offering for a portion of its lighting business rather than selling the entire division at a discount. CF Industries cancelled its purchase of OCI's fertilizer business after the U.S. government clamped down on tax inversions. Even where there were setbacks, our partners were pursuing value recognition in smart ways. We believe the Longleaf Partners Funds will continue to benefit from prudent value building activity initiated by our capable managements.

Opportunity Set

Companies outside the U.S. have been more discounted than those in the U.S., but few new investments anywhere in the world have met our criteria this year. The chart below indicates

Valuation Levels in Various Major Markets

As of June 30, 2016



Source: FactSet Market Aggregates
E/V = Enterprise Value
EBITDA = Earnings Before Interest, Taxes, Depreciation, and Amortization

[3] *Nelson Yu and Dianne Lob, "Sharpening Conviction in Equity Allocations," Institutional Investor, May 30, 2015, http://www.institutionalinvestor.com/gmtl/3457374/Sharpening-Conviction-in-Equity-Allocations.html#/.V3oeLvkrKUk.*

[4] *Russel Kinnel, Morningstar, "Why You Should Invest With Managers Who Eat Their Own Cooking," March 31, 2005, http://www.morningstar.com/advisor/t/103820500/why-you-should-invest-with-managers-who-eat-their-own-cooking.htm.*

the valuation disparity across geographies.

Not surprisingly, the U.S. Longleaf Funds have a higher-than-normal weighting in global companies based outside the U.S., and Longleaf Partners Global Fund's U.S. exposure is below 50%. Our larger non-U.S. weight impacted our results following the Brexit decision, but given the strength of our underlying businesses and their widespread geographic sources of values, our appraisals moved little following the vote. We had prepared a wish list of strong European businesses with underlying economics that would be little affected in the event that the U.K. voted to leave the European Union. Unfortunately, only one moved close to our required discount, and the banks and U.K. homebuilders that went down most significantly did not meet our qualitative criteria. We are hopeful that some of the uncertainty and longer term changes will create opportunities that our management partners can exploit.

Summary

Company fundamentals will ultimately drive the returns of individual stocks and the Longleaf Partners Funds. Large passive strategy asset flows chasing recent performance can extend benchmark return cycles, whether the indices are rising or falling. We prefer to have our capital invested in a valuation-based business ownership approach that stands apart from the crowd and can deliver long-term relative outperformance as well as the absolute returns that meet our clients' needs. As we pursue a future of exceeding your expectations, we welcome and thank all of our partners who share our commitment to intelligent, concentrated, engaged, long-term, partnership investing.

See following page for important disclosures.

Before investing in any Longleaf Partners fund, you should carefully consider the Fund's investment objectives, risks, charges, and expenses. For a current Prospectus and Summary Prospectus, which contain this and other important information, visit longleafpartners.com. Please read the Prospectus and Summary Prospectus carefully before investing.

RISKS

The Longleaf Partners Funds are subject to stock market risk, meaning stocks in the Fund may fluctuate in response to developments at individual companies or due to general market and economic conditions. Also, because the Funds generally invest in 15 to 25 companies, share value could fluctuate more than if a greater number of securities were held. Mid-cap stocks held by the Funds may be more volatile than those of larger companies. With respect to the Small-Cap Fund, smaller company stocks may be more volatile with less financial resources than those of larger companies. With respect to the International and Global Funds, investing in non-U.S. securities may entail risk due to non-US economic and political developments, exposure to non-US currencies, and different accounting and financial standards. These risks may be higher when investing in emerging markets.

Diversification does not eliminate the risk of experiencing investment losses.

The statements and opinions expressed are those of the author and are as of the date of this report.

The S&P 500 Index is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3,000 Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index. MSCI EAFE Index (Europe, Australasia, Far East) is a broad based, unmanaged equity market index designed to measure the equity market performance of 22 developed markets, excluding the US & Canada. MSCI World Index is a broad-based, unmanaged equity market index designed to measure the equity market performance of 24 developed markets, including the United States. An index cannot be invested in directly.

Intrinsic Value is the actual value of a company. This value may or may not be the same as market price. Different investors use different techniques to calculate intrinsic value.

Enterprise value (EV) is a company's market capitalization plus debt, minority interest and preferred shares, and less total cash and cash equivalents.

EV/EBITDA is a ratio comparing a company's enterprise value and its earnings before interest, taxes, depreciation and amortization.

EBITDA is a company's earnings before interest, taxes, depreciation and amortization.

Book Value is the value of an asset as carried on a company's balance sheet.

Free Cash Flow (FCF) is a measure of a company's ability to generate the cash flow necessary to maintain operations. Generally, it is calculated as operating cash flow minus capital expenditures.

As of June 30, 2016 the holdings discussed represented the following percentages of the Funds: CONSOL Energy: 5.5% Partners, 5.1% Small-Cap, 2.1% Global; Chesapeake: 7.3% Partners, 7.9% Global; adidas: 4.3% International, 4.4% Global; SoftBank: 5.3% International, 5.3% Global; CK Hutchison: 7.6% Partners, 7.0% International, 4.8% Global; Philips: 4.7% Partners, 4.5% International, 3.5% Global; OCI: 4.1% Small-Cap, 4.5% International, 3.4% Global. Fund holdings are subject to change and holding discussions are not recommendations to buy or sell any security. Current and future holdings are subject to risk.

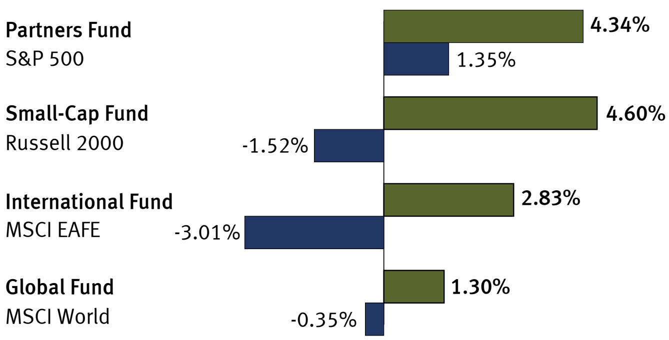
Funds distributed by ALPS Distributors, Inc.

March 31, 2016

Longleaf Partners Funds Shareholder Letter

We are pleased to report that all four Longleaf Partners Funds outperformed their respective market benchmarks and delivered positive absolute returns in the first quarter of 2016.

1Q 2016 Performance Returns



Past performance does not guarantee future results

As we would normally expect, several of our most discounted businesses coming out of 2015 were among our largest performance contributors, including Wynn Resorts, CONSOL Energy, and Scripps Networks in the U.S., and Mineral Resources, Genting Berhad, and CEMEX outside the U.S. Additionally, our stakes in Aon, adidas, and Philips provided double-digit gains. Our relative results also benefitted from our minimal exposure to healthcare, which was among the best index sectors last year but among the worst performers in the first quarter.

Performance changes over the last three months reminded us of Ben Graham's description of a manic "Mr. Market" whose emotional short-term swings ultimately benefit those who anchor their investment decisions on business' underlying values which are remarkably more stable than stock prices. Broad uncertainties that remain unanswered dramatically shifted Mr. Market's sentiment over the quarter — China's growth rate and currency devaluation, Brexit and negative yields in Europe, the Fed's plans to raise rates, and the U.S. presidential election. If one simply looked at the Funds' quarter's return, the response might be, "Good quarter – business as usual." Watching returns more frequently, however, would reveal Mr. Market's irrational swings over a short-term period. The table below shows how dramatic the see-saw of returns was in the quarter.

Returns	% Drop From 12/31 to Low	% Rise From Low to 3/31	% Move Combined
S&P 500	-10.3%	13.0%	23.3%
Russell 2000	-15.9	17.1	33.0
MSCI EAFE	-13.0	11.4	24.4
MSCI World	-11.5	12.6	24.1

Successful, disciplined investors see stock price volatility as long-term opportunity rather than something to fear and avoid. Importantly, the intrinsic values of the businesses we own were stable amid the market's schizophrenia over the last three months. In the early part of the quarter when prices were falling, our list of prospective investments expanded. Prices rebounded quickly, and those companies that met our qualitative criteria did not have the requisite discount. Conversely, we took advantage of the stock gains in the latter part of the period by trimming several positions that had become overweight and traded closer to our appraisal values.

Many of our management partners with whom we are engaged did productive work that benefitted our appraisals during the quarter. In addition to generating solid operating results, our partners drove higher values per share through actions ranging from selling assets at fair prices, to buying debt well below face value, repurchasing discounted shares, and improving governance. The combination of value growth and lower weightings in less discounted positions helped the Funds' price-to-values (P/Vs) remain attractive, although cash levels rose. Our cash will serve as the dry powder potentially to take

Average Annual Total Returns (3/31/16) Partners Fund: Since Inception (4/8/87): 10.15%, Ten Year: 2.70%, Five Year: 4.10%, One Year: -14.35%. Small-Cap Fund: Since Inception (2/21/89): 10.84%, Ten Year: 8.22%, Five Year: 10.48, One Year: -7.28%. International Fund: Since Inception (10/26/98): 6.83%, Ten Year: 0.79%, Five Year: -0.57, One Year: -4.89%. Global Fund: Since Inception (12/27/12): 1.65%, Ten Year: na, Five Year: na, One Year: -11.42%.

Returns reflect reinvested capital gains and dividends but not the deduction of taxes an investor would pay on distributions or share redemptions. Performance data quoted represents past performance. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by visiting longleafpartners.com.

The total expense ratios for the Longleaf Partners Funds are: Partners Fund 0.91%, Small-Cap Fund 0.91%, International Fund 1.25%, and Global Fund 1.58%. The Funds' expense ratios are subject to fee waiver to the extent a fund's normal annual operating expenses exceed the following percentages of average annual net assets: Partners Fund 1.5%, Small-Cap Fund 1.5%, International Fund 1.75%, and Global Fund 1.65%.

advantage of Mr. Market's next bout of depression or when we find the next good investment. Our meaningful exposure to Asia Pacific companies reflects the broader opportunity set, while finding qualifiers in Europe and other parts of the world is more challenging.

Over the decades, our investment process has hinged on our small, talented, global team working together productively to originate prospective investments and determine the subset that best qualifies to be in each Fund. We draw on each analyst's individual talents and benefit from the group's diverse knowledge and global perspective in challenging assumptions and evaluating both company-specific and more systemic portfolio risks. As our most senior investors, Mason Hawkins and Staley Cates can add the most value when they are identifying new opportunities, appraising companies, assessing future business threats, engaging managements, and pursuing ways to get values recognized. To maximize research efforts and the management of portfolios, we have been shifting non-investment managerial duties to others in the firm. Our team's sole mission is to deliver superior investment results to our clients.

We believe that the outperformance we delivered in the first quarter may be a prelude to the excess returns we expect to add over the next five years. Thank you for being terrific long-term partners. We look forward to keeping you informed of our progress.

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The statements and opinions expressed are those of the author and are as of the date of this report.

The S&P 500 Index is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3,000 Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index. MSCI EAFE Index (Europe, Australasia, Far East) is a broad based, unmanaged equity market index designed to measure the equity market performance of 22 developed markets, excluding the US & Canada. MSCI World Index is a broad-based, unmanaged equity market index designed to measure the equity market performance of 24 developed markets, including the United States. An index cannot be invested in directly.

P/V ("price to value") is a calculation that compares the prices of the stocks in a portfolio to Southeastern's appraisal of their intrinsic values. The ratio represents a single data point about a Fund and should not be construed as something more. P/V does not guarantee future results, and we caution investors not to give this calculation undue weight.

As of March 31, 2016, the holdings discussed represented the following percentages of the Funds: Wynn Resorts: 6.1% Partners, 6.1% Small-Cap, 6.1% Global; CONSOL Energy: 3.9% Partners, 3.6% Small Cap, 1.4% Global; Scripps: 5.1% Partners, 5.0% Small Cap; Mineral Resources: 1.9% International; Genting Berhad: 1.8% International (8.0% adjusted for close of warrants and purchase of underlying stock, 2.6% Global (7.3% adjusted for close of warrants and purchase of underlying stock); Cemex: 4.7% International; Aon: 0.0%; adidas: 6.2% International, 5.9% Global; Philips: 4.9% Partners, 4.8% International, 3.7% Global. Fund holdings are subject to change and holding discussions are not recommendations to buy or sell any security. Current and future holdings are subject to risk.

Funds distributed by ALPS Distributors, Inc.

Longleaf Partners Funds Shareholder Letter

Southeastern's successful 40-year approach of buying strong businesses led by good managements and selling at deep discounts to intrinsic worth has led to good long-term results. We have had and will have interim periods, however, when we and our approach appear unable to deliver. 2015 was one of those years. The Longleaf Partners Funds' returns did not adequately reflect the good results at many of our companies, particularly some of our largest positions.

Fund Performance

Cumulative Returns at December 31, 2015

	Since Inception	25 Year	20 Year	15 Year	Ten Year	Five Year	One Year	4Q
Partners Fund (Inception 4/8/87)	**1477.08%**	**1199.85%**	**356.63%**	**108.90%**	**38.02%**	**27.42%**	**-18.80%**	**5.47%**
S&P 500 Index	1241.47	939.52	382.50	107.99	102.42	80.75	1.38	7.04
Small-Cap Fund (Inception 2/21/89)	**1455.21**	**1729.87**	**820.15**	**312.66**	**122.31**	**72.55**	**-6.05**	**7.00**
Russell 2000 Index	966.43	1114.35	368.41	186.74	93.14	55.18	-4.41	3.59
International Fund (Inception 10/26/98)	**207.65**	**na**	**na**	**80.18**	**10.97**	**-2.81**	**-7.91**	**3.83**
MSCI EAFE Index	100.53	na	na	68.41	34.79	19.37	-0.81	4.71
Global Fund (Inception 12/27/12)	**4.11**	**na**	**na**	**na**	**na**	**na**	**-13.76**	**6.08**
MSCI World Index	32.00	na	na	na	na	na	-0.87	5.50

Average Annual Returns at December 31, 2015

	Since Inception	25 Year	20 Year	15 Year	Ten Year	Five Year	One Year
Partners Fund (Inception 4/8/87)	**10.08%**	**10.80%**	**7.89%**	**5.03%**	**3.28%**	**4.97%**	**-18.80%**
S&P 500 Index	9.45	9.82	8.19	5.00	7.31	12.57	1.38
Small-Cap Fund (Inception 2/21/89)	**10.76**	**12.33**	**11.74**	**9.91**	**8.32**	**11.53**	**-6.05**
Russell 2000 Index	9.21	10.50	8.03	7.28	6.80	9.19	-4.41
International Fund (Inception 10/26/98)	**6.76**	**na**	**na**	**4.00**	**1.05**	**-0.57**	**-7.91**
MSCI EAFE Index	4.14	na	na	3.54	3.03	3.60	-0.81
Global Fund (Inception 12/27/12)	**1.35**	**na**	**na**	**na**	**na**	**na**	**-13.76**
MSCI World Index	9.67	na	na	na	na	na	-0.87

During the inception year, the S&P 500 and the EAFE Index were available only at month-end; therefore the S&P 500 value at 3/31/87 and the EAFE value at 10/31/98 were used to calculate performance since inception.

Returns reflect reinvested capital gains and dividends but not the deduction of taxes an investor would pay on distributions or share redemptions. Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by visiting longleafpartners.com

The total expense ratios for the Longleaf Partners Funds are: Partners Fund 0.91%, Small-Cap Fund 0.91%, International Fund 1.25%, and Global Fund 1.58%. The funds' expense ratios are subject to fee waiver to the extent a fund's normal annual operating expenses exceed the following percentages of average annual net assets: Partners Fund 1.5%, Small-Cap Fund 1.5%, International Fund 1.75%, and Global Fund 1.65%.

During the year, market disparities widened, favoring momentum investing over a value approach, very large stocks over mid-to-smaller market caps, and U.S. dollar-denominated businesses over those in weaker currencies, particularly emerging markets. In addition to these broad challenges, the handful of companies we owned in two specific areas —U.S. energy and gaming companies with significant exposure to Chinese visitors — faced enough pressure to mask otherwise successful investments. This small subset of holdings accounted for over 100% of the Partners, Small-Cap, and Global Funds' negative returns (and about two-thirds of the International Fund's) and 100% of the relative performance shortfalls for Small-Cap and Global (about 90% for Partners and two-thirds for International) for the year.

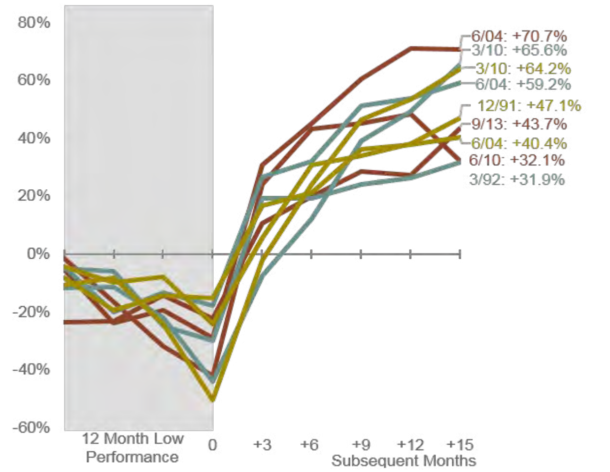
In the face of these headwinds, we followed our discipline of regularly re-evaluating our investments to position portfolios optimally. Across the Longleaf Funds, we sold several longstanding holdings that performed well over time and had reached our appraisals, including several U.S. holdings in the first two quarters and a few European companies later in the year. In the second half, we sold a few companies whose prospects for value growth dimmed. We also acquired new opportunities amid the increasingly bifurcated markets: some quickly helped our results while a few became more discounted. As market volatility increased in the last two quarters, we found new qualifiers in the industrial arena. More recently, in the distressed debt sell-off, we found a few interesting opportunities. The Funds' geographic weightings reflected that the overall opportunity set remained more compelling outside of the U.S., and Asia became relatively more attractive as a number of European stocks rose. The deep discounts in many emerging markets (EM) are reflected in our holdings' exposure to EM revenues with over 15% in Small-Cap, over 30% in Partners and Global, and over 45% in International.

We believe the Funds are well-positioned in three important ways and are eager to start 2016. First, many of our companies were positive performance contributors with good results in 2015 and should be able to continue to deliver solid value growth. A primary driver at many of our strongest compounders, including some of our largest positions, was the announcement or implementation of corporate transactions. This helped drive double-digit gains at a number of holdings. In fact, we owned two of the S&P 500's and MSCI World's top 10 contributors, and one of EAFE's top five. Our strong compounders remain attractively discounted, and we believe that additional benefits from corporate transactions as well as strong business operations may help drive continued value growth.

Second, we believe in the strong probability of sizable gains, as has been the case after other big declines in our history. Following large downturns, the payoff patterns can be quick

*Cumulative Returns Following Worst Absolute Return Periods**

Returns pre and post 12-month quarter-end lows across the funds



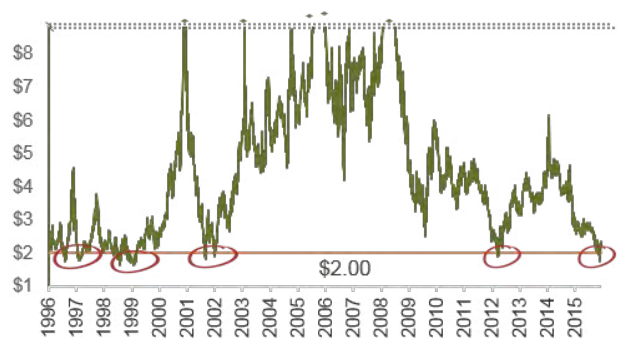
Performance shown is cumulative and net of fees. From each fund, the three worst periods with the largest absolute negative 1-year returns at quarter end were chosen. The Global Fund did not have sufficient history. If there were multiple or consecutive periods (clusters) of rolling 1-year negative returns, the lowest return was chosen. Past performance does not guarantee future results and current circumstances may not be comparable.

and sizeable, and often can occur when few believe that results can turn. While recognizing a bottom is only possible in hindsight, it is worth showing that following the three oldest Funds' worst 12-month return periods at quarter ends, future payoffs have been dramatic, with a minimum return of 32% over the subsequent fifteen months (see above chart). We think relative performance can shift even more dramatically than in the past because of the emergence of so many momentum-driven investment strategies. More money chasing good returns has pushed high prices even higher, as these funds have bought more of the same stocks and helped create a narrow market. When the tide turns and money flows out, prices of those dominant winners should fall quickly.

Our concentration means our return patterns look dramatically different than the broader indices, usually driven by a few holdings. Historically, many of our most tortured individual stocks had hockey stick shaped rallies after most investors had given up on them, and we think the same will be true again. Given how far energy and Asian gaming stocks have fallen, we believe our related securities are good candidates for a rapid reversal. In fact, Wynn Resorts and Melco International, rose 31% and 23%, respectively, in the fourth quarter as Macau's mass revenues seemed to stabilize, new properties started opening, and new infrastructure moved closer to coming on line. Likewise, at the end of the year we saw a small glimpse of how rapidly the energy psychology can change, as gas rallied 33% in the last two weeks following a decline in mid-December to its lowest level since March 1999 when a warm winter start exacerbated U.S. natural gas supplies. As shown in the chart on the following page, price fell below $2/mcf (thousand cubic feet of natural gas) but quickly rallied as it has most other times gas has dipped that low in the last 20 years. Many assume commodity prices will remain this low for at least the next three years, leading to negative cash flow and rendering non-producing assets worthless at Chesapeake Energy and CONSOL Energy, our two primary exploration and production (E&P) investments. In commodity-based businesses, prices reflect supply and demand dynamics. Gas below $2.50 should reduce supply as drilling becomes uneconomic for most producers. We don't know when supply and demand will rebalance and adjust prices, and thus far, our energy assumptions have been wrong. Patience is critical because both energy prices, along with the

Natural Gas Price History

1/1/1996 to 12/31/2015



Source: Factset

stocks of Chesapeake and CONSOL, can turn rapidly. While we wait, our management partners are pursuing additional cost reductions, capital flexibility, and asset sales. Industry transactions over the last six months indicate that strategic, long-term buyers are paying fair prices for non-producing assets even as the short-term commodity price is deeply depressed.

Third, we are not dependent on a bounce in energy or a turn in Asian casino revenues to make good returns over the next few years, even though we believe our related holdings are so bottomed out—at P/Vs less than 40% for our E&P companies and 50% for our Macau casino operators—that they can make a meaningful positive impact in 2016. Our future returns are primarily dependent on the unrelated 75–90% of our investments, many of which performed well in 2015 and trade below a 69% P/V on average. Our confidence in strong prospective returns remains grounded in the reasons that helped drive these results and which we discussed during the year:

- The quality of the vast majority of our businesses indicates that values should grow at strong rates. We own many businesses generating growing free cash flow with competitive advantages via market leadership, pricing power, low cost, and scale.
- Our management partners are pursuing productive ways to build values beyond organic cash flow and to gain value recognition via transactions, restructurings, and share repurchases at discounted levels.
- Our team is engaged with many of our management partners to promote the most beneficial outcomes for long-term shareholders.
- Our companies are deeply discounted with our portfolios trading at P/Vs in the 60s%. Free cash flow yields are compelling.
- Although not necessarily indicative of future results, our similarly large underperformance in the late 1990s was impacted by many of the same factors we see today, especially in the U.S. Coming out of that period, our relative returns were among the strongest in our history.

Much went right at our businesses in 2015, in spite of our final return. When faced with challenged performance, we must be willing to identify, learn from, and exit the mistakes we will inevitably make, but also willing to be patient and hold businesses which look like mistakes but have prospective value growth and payoff potential that make them opportunities. Giving up when things look most certain to fail usually means missing the payoff. We are fortunate and appreciative that we are able to maintain our patience and discipline through challenging periods because of Southeastern's independence, strong financials, passionate investment team, large employee investment in the Longleaf Funds, and most importantly, long-term, like-minded clients. In 2016, we are optimistic about our potential to deliver strong absolute and relative results. We feel the characteristics of our current investments indicate that our payoff patterns could be quite rewarding from this point forward.

Sincerely,

O. Mason Hawkins, CFA
Chairman & Chief Executive Officer
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President & Chief Investment Officer
Southeastern Asset Management, Inc.

January 14, 2016

See following page for important disclosures.

Before investing in any Longleaf Partners fund, you should carefully consider the Fund's investment objectives, risks, charges, and expenses. For a current Prospectus and Summary Prospectus, which contain this and other important information, visit longleafpartners.com. Please read the Prospectus and Summary Prospectus carefully before investing.

RISKS

The Longleaf Partners Funds are subject to stock market risk, meaning stocks in the Fund may fluctuate in response to developments at individual companies or due to general market and economic conditions. Also, because the Funds generally invest in 15 to 25 companies, share value could fluctuate more than if a greater number of securities were held. Mid-cap stocks held by the Funds may be more volatile than those of larger companies. With respect to the Small-Cap Fund, smaller company stocks may be more volatile with less financial resources than those of larger companies. With respect to the International and Global Funds, investing in non-U.S. securities may entail risk due to non-US economic and political developments, exposure to non-US currencies, and different accounting and financial standards. These risks may be higher when investing in emerging markets.

The statements and opinions expressed are those of the author and are as of the date of this report.

** For this chart, the 12 month performance for each Fund at every quarter end was analyzed. The three worst performing of those periods were identified. We then reviewed the 15 month cumulative performance from those quarter ends. Those results were presented on the chart. The dates on the left of each line are the month end and year at which the 15 month periods end. Please also note: 1) To the extent there were consecutive quarter ends with negative results, the quarter end with the worst performance was chosen as the point to being the 15 month subsequent performance. 2) The Global Fund did not have a 15 month period subsequent to the identified worst quarter end periods.*

The S&P 500 Index is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3,000 Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index. MSCI EAFE Index (Europe, Australasia, Far East) is a broad based, unmanaged equity market index designed to measure the equity market performance of 22 developed markets, excluding the US & Canada. MSCI World Index is a broad-based, unmanaged equity market index designed to measure the equity market performance of 24 developed markets, including the United States. An index cannot be invested in directly.

P/V ("price to value") is a calculation that compares the prices of the stocks in a portfolio to Southeastern's appraisal of their intrinsic values. The ratio represents a single data point about a Fund and should not be construed as something more. P/V does not guarantee future results, and we caution investors not to give this calculation undue weight.

Free Cash Flow (FCF) is a measure of a company's ability to generate the cash flow necessary to maintain operations. Generally, it is calculated as operating cash flow minus capital expenditures.

As of December 31, 2015, the holdings discussed represented the following percentages of the Funds: Wynn Resorts: 7.5% Partners, 0.6% Small-Cap (6.0% adjusted for close of options and purchase of underlying stock), 6.3% Global; Melco International: 8.0% International, 4.9% Global; Chesapeake Energy: -0.8% Partners (5.0% adjusted or close of options and purchase of underlying stock), 2.0% Global (5.6% adjusted or close of options and purchase of underlying stock); CONSOL Energy: 2.7% Partners, 2.6% Small-Cap. Fund holdings are subject to change and holding discussions are not recommendations to buy or sell any security. Current and future holdings are subject to risk.

Funds distributed by ALPS Distributors, Inc.

Longleaf Partners Funds Shareholder Letter

In the third quarter of 2015 the Longleaf Partners Funds had significant absolute declines and relative underperformance. As your managers and the largest investors in the Longleaf Funds, we are frustrated that our results have not met your expectations or our own.

The primary driver in the U.S. remained energy, but China economic angst broadly impacted our companies with direct or indirect exposure. The slowing Chinese economy, collapse in the China A-share market, and an unexpected Renminbi devaluation created a ripple effect of fear across countries with economic ties to China, including many emerging markets, where local stocks were down and currencies also suffered.

Despite our frustration over recent returns, we believe that the positive fundamentals of the companies we own should be reflected in their stock prices. Following previous periods when broad pressures weighed heavily on our returns, we posted strong returns when macro fears subsided. At each of the low end points, the Funds had similar characteristics to today, including price-to-value (P/V) below the long-term average, a growing on-deck list of companies to own, and solid value growth prospects. Our concentrated, bottom-up approach has historically produced strong, long-term results for our shareholder partners, but the path to get there can be volatile.

While the historic performance patterns give us context for viewing this current period, they are neither an excuse nor the basis for our confidence in returns going forward. Our confidence is grounded in three fundamental beliefs:

1. The time-tested, value investment approach based on a long-term business ownership mindset and embraced by great investors, such as Keynes, Graham, Templeton, and Buffett, remains valid around the world.

2. Southeastern's investment team has the skill, experience, discipline, and proper alignment to successfully execute the approach.

3. In our strongly held opinion, our Fund companies have the competitive strength and management skill to grow value per share, as well as the margin of safety between the stock price and corporate worth to deliver attractive returns from this point.

The Approach

Value investing has outperformed growth over long periods, even though it has been out of favor at points along the way.[1] Whether privately held or publicly traded, a business is ultimately worth the cash earnings it generates; the stock market is ultimately fairly efficient at pricing companies over the long term. However, short-term emotions can impact stock prices at any given point, causing them to diverge from the values of businesses. In the post-Global Financial Crisis (GFC) bull market, massive asset flows into index funds and share buybacks near 2007 peak levels have fueled passive investing's recent success, causing some to question whether investing in undervalued businesses is worthwhile. We note that momentum-driven indexing also dominated in one of our worst relative quarters (4Q 1999), yet within six months, businesses began to be priced on their fundamentals again.

We see nothing that has changed to indicate that values will no longer be reflected in stock prices over time. Until the fear and greed that drive shorter term market swings no longer exist, periods of mispricing will occur, but the large cap value approach that has outperformed growth investing by over 8800% cumulatively since 1927, a five-fold differential, is likely to continue to outperform over the long run, despite allowing for interim periods like this current one when momentum investing has been favored.[1] While this data is based on U.S. stocks, we believe the distinction between value and growth as well as price inefficiencies apply equally to the rest of the world.

Our Execution

The data regarding value investing's outperformance is for a large U.S. universe of stocks that are quantitatively screened, but Southeastern carefully analyzes and selects the 20 companies that we believe can deliver the best returns with the least risk of permanent capital loss. Our stock selection is never perfect. A large part of our underperformance in the Partners, Small-Cap, and Global Funds this quarter was driven by holding energy businesses through a 12-month period when oil prices fell over 50%—something that has happened less than 2% of the time in the last 115 years.[2] We do not believe our results over the last quarter and year, which also have hurt our five and ten year numbers, demonstrate our ability to execute.

1 Ibbotson SBBI 2015 Classic Yearbook p.119 shows returns of Large Cap Value and Large Cap Growth from 1927-2014. Large Cap Value produced an average annual return of 11.3% versus Growth at 9.1%, which translates into a cumulative return difference of 8844%.

We have the deepest, most experienced global investment team in our history with the same leadership that has delivered outperformance over the Funds' history. Our same approach has delivered strong performance since the inceptions of the Partners, Small-Cap, and International Funds. We have not changed our investment beliefs or our execution process that have delivered these long-term returns. We always are learning and looking for ways to improve and increase our information inputs for even higher success rates. For example, we have boosted our quantitative capabilities by adding quantitative talent and implementing new tools to look more broadly at data that may impact our investment cases. We also have worked with an outside firm to review ways to neutralize biases and have made incremental portfolio management improvements to how we buy and sell. Likewise, our cumulative contact network expands and becomes more valuable with time as we engage with our management partners, clients, and others who provide insights for our analysis of businesses.

Our Portfolio

We have high conviction because the companies we own will determine our performance from this point. Looking at their fundamentals, many of which the market does not currently recognize, gives us the confidence that we should more than overcome this past quarter's downdraft and outperform. The Funds have three categories of companies that we see driving returns.

Between 45–65% of each Fund is a collection of incredible businesses that we believe have the competitive strength and management leadership to compound value per share at high rates for many years. Based on our appraisals, as a group this category of holdings sells for around 65% of our appraisal values and on average, no more than 12X after-tax free cash flow (real cash price to earnings). Prospects for these holdings' value growth, especially as a diversified basket, are greatly enhanced due to their combinations of pricing power and gross profit royalty status. Their managements' track records and ownership alignment suggest strongly that these steadily growing free cash flow streams should be reinvested to build even more corporate value.

In our opinion, among the holdings in this group across the different Funds are one of the world's two best sports brands in adidas, the world's number one insurance and risk broker in Aon, China's dominant internet search engine in Baidu, the highest-quality global conglomerate in CK Hutchison, the world's most compelling real estate company in Cheung Kong Property, the most valuable independently owned animated film library in DreamWorks Animation, maybe the most value-generating holding company in the world since the Global Financial Crisis in EXOR (thanks to its leaders Sergio Marchionne and John Elkann),the world's best delivery network in FedEx, the world's largest and best search engine in Google, the most dominant worldwide cement oligopolist in LafargeHolcim, the best global digital network in Level 3 Communications, Macau's best local mass gaming company in Melco International and the world's best casino developer and operator in Wynn Resorts, the best U.S. cable channel company with HGTV and Food Network (via Scripps Networks), and the premier collection of mountain resort properties in Vail Resorts. These companies are among those that offer a combination of competitive advantages, balance sheet strength, and glaring undervaluation that gets lost in the focus on the pressures that have hurt recent results. As the dominant portion of the Funds, however, it is this group of holdings that we look to as the primary long-term driver of potential future outperformance.

The second category of holdings includes companies being led through transitions by strong management partners who are focused on growing and unlocking values by highlighting their competitive business segments and/or reinvesting substantial cash in high-return opportunities. ALS Limited owns a highly valuable life sciences business temporarily obscured by a depressed energy segment; BR Properties is basically liquidating, having sold or contracted to sell more than half its assets; CNH Industrial should eventually become a pure-play agricultural equipment company, second only to Deere; DSM is far down the road in slimming itself into a purer-play nutritionals company; DuPont has multiple ways to refocus and improve, with a leadership change occurring post quarter-end; Graham Holdings has sold or spun off numerous assets, with valuable television stations, Kaplan's strong international assets, rapidly growing internet company Social Code, and a cash-rich balance sheet remaining; Great Eagle holds net cash and securities totaling more than its stock price in addition to many hotels and other properties; McDonald's has discussed capitalizing on its increasingly valuable real estate and becoming a fee company, while its operating turnaround is beginning to gain traction; OCI is merging most of its assets into CF Industries; Philips is heading toward becoming a leading healthcare company; Tribune Media spun off its newspapers and has numerous remaining assets, including television stations, spectrum, and real estate, that management can monetize; and Vivendi holds the world's largest music company, dominant French media assets, and significant cash to deploy. This group comprises roughly one-third of the Funds, and should drive performance when the gap between price and value closes as our management partners lead these transitions.

The third category contains our energy holdings which, as a bucket, are down over 60% year-to-date (YTD), constituting a bona fide crash rather than a mere bear market. The momentum-driven heavy selling and shorting of this "crash bucket" has gotten so out of hand that we feel the companies'

2 Source: globalfinancialdata.com

recovery is a large part of our significant potential future returns. Even though qualitatively Melco and Wynn are in the first category above, their severe undervaluation position them similarly to our energy investments for a big near-term recovery. To be clear, we do not think these stocks will do well simply because they are down. We believe their long-term fundamentals under the stewardship of their capable leaders will drive prices as contrasted to the short-term perceptions. In the case of our energy holdings, we are not reliant on an energy rebound to move the stocks higher, as our appraisals are over twice the current stock levels based on current depressed commodity futures pricing. Should oil and gas prices move back to their much higher marginal cost of production, the values of these stocks would be materially more. These energy holdings represent less than 10% of our portfolios, and while we put them in their own group, they share many of the same compelling attributes described in the second category above.

Summary

Our collective experience and analysis tell us that the significant underperformance in the quarter and over the last year is not indicative of how value investing in general, and the Funds in particular, can perform going forward. While market volatility like we are seeing now can pressure short-term results, we welcome its benefits. Our most meaningful outperformance has often come following periods of big price swings, and the recent market declines are presenting additional attractive opportunities. All of the Funds reached a high-50s% to low-60s% P/V at quarter-end and, additionally, U.S. bullish sentiment measured by *Investors Intelligence's* weekly Advisor Sentiment report just fell below 25%, the lowest level since late 2008. As evidence of the undervaluation in Asia, the Hong Kong market is trading at the lowest Price/Book ratio in over 15 years, including the GFC. We cannot predict what stock prices will do in the short run, but for those with a 5-plus year horizon, this appears to be an attractive entry point for the Longleaf Funds.

As the largest investors in the Longleaf Funds over time, we recognize how difficult being a Longleaf shareholder has been recently. We are constantly learning and pursuing ways to improve our execution and believe that our outperformance periods will continue to make up for times of underperformance. The competitiveness of our businesses, our extremely capable management partners, and the attractive margin of safety in our companies' stock prices make us highly confident that the companies we own can perform well and reward your patience and ours.

Sincerely,

O. Mason Hawkins, CFA
Chairman & Chief Executive Officer
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President & Chief Investment Officer
Southeastern Asset Management, Inc.

October 15, 2015

See following page for important disclosures.

Fund Performance

Cumulative Returns at September 30, 2015

	Since Inception	25 Year	20 Year	15 Year	Ten Year	Five Year	One Year	3Q
Partners Fund (Inception 4/8/87)	**1395.28%**	**1202.07%**	**338.71%**	**122.07%**	**31.97%**	**33.55%**	**-21.89%**	**-19.78%**
S&P 500 Index	1153.22	958.18	377.89	79.11	93.05	87.02	-0.61	-6.44
Small-Cap Fund (Inception 2/21/89)	**1353.50**	**1494.74**	**779.37**	**308.52**	**116.82**	**81.49**	**-8.84**	**-16.09**
Russell 2000 Index	929.44	1131.59	361.96	157.67	88.55	74.15	1.25	-11.92
International Fund (Inception 10/26/98)	**196.31**	**na**	**na**	**77.38**	**10.03**	**0.53**	**-17.15**	**-13.62**
MSCI EAFE Index	91.51	na	na	56.52	33.98	21.54	-8.66	-10.24
Global Fund (Inception 12/27/12)	**-1.86**	**na**	**na**	**na**	**na**	**na**	**-21.36**	**-15.20**
MSCI World Index	25.12	na	na	na	na	na	-5.09	-8.45

Average Annual Returns at September 30, 2015

	Since Inception	25 Year	20 Year	15 Year	Ten Year	Five Year	One Year
Partners Fund (Inception 4/8/87)	**9.96%**	**10.81%**	**7.67%**	**5.46%**	**2.81%**	**5.96%**	**-21.89%**
S&P 500 Index	9.28	9.90	8.14	3.96	6.80	13.34	-0.61
Small-Cap Fund (Inception 2/21/89)	**10.58**	**11.71**	**11.48**	**9.84**	**8.05**	**12.66**	**-8.84**
Russell 2000 Index	9.16	10.57	7.95	6.51	6.55	11.73	1.25
International Fund (Inception 10/26/98)	**6.63**	**na**	**na**	**3.89**	**0.96**	**0.11**	**-17.15**
MSCI EAFE Index	3.92	na	na	3.03	2.97	3.98	-8.66
Global Fund (Inception 12/27/12)	**-0.68**	**na**	**na**	**na**	**na**	**na**	**-21.36**
MSCI World Index	8.47	na	na	na	na	na	-5.09

During the inception year, the S&P 500 and the EAFE Index were available only at month-end; therefore the S&P 500 value at 3/31/87 and the EAFE value at 10/31/98 were used to calculate performance since inception.

Returns reflect reinvested capital gains and dividends but not the deduction of taxes an investor would pay on distributions or share redemptions. Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by visiting longleafpartners.com

The total expense ratios for the Longleaf Partners Funds are: Partners Fund 0.91%, Small-Cap Fund 0.91%, International Fund 1.25%, and Global Fund 1.58%. The funds' expense ratios are subject to fee waiver to the extent a fund's normal annual operating expenses exceed the following percentages of average annual net assets: Partners Fund 1.5%, Small-Cap Fund 1.5%, International Fund 1.75%, and Global Fund 1.65%.

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Free Cash Flow (FCF) is a measure of a company's ability to generate the cash flow necessary to maintain operations. Generally, it is calculated as operating cash flow minus capital expenditures.

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

Price to Earnings (P/E) is the ratio of a company's share price compared to its earnings per share.

Price to Book (P/B) is the ratio used to compare a stock's market price to its book value.

As of September 30, 2015, the holdings discussed represented the following percentages of the Funds: Level 3 Communications: 11.9% Partners, 9.8% Small-Cap, 9.0% Global; CK Hutchison: 8.6% Partners, 6.9% International, 6.0% Global; FedEx: 6.4% Partners, 6.0% Global; LafargeHolcim: 4.2% Partners, 6.9% International, 5.9% Global; EXOR: 8.4% International, 7.1% Global; Melco International: 6.3% International, 4.4% Global; Wynn: 4.9% Partners, 4.7% Small-Cap; Google: 6.4% Partners, 4.9% Global; Cheung Kong Property: 5.0% Partners, 5.1% International, 4.1% Global; Philips: 4.9% Partners, 4.9% International, 5.1% Global; McDonald's: 5.5% Partners, 5.1% Global; Vivendi: -0.5% (held via derivative, 5.1% adjusted for close of options and purchase of underlying stock). International, 4.1% Global; Partners, 4.3% Global; OCI: 4.5% Small-Cap, 5.4% International, 3.9% Global. Fund holdings are subject to change and holding discussions are not recommendations to buy or sell any security. Current and future holdings are subject to risk.

Funds distributed by ALPS Distributors, Inc.

Letter To Our Shareholders

One of Southeastern's distinguishing aspects is that we maintain concentrated portfolios for the Longleaf Funds, seeking to invest only in companies that meet our stringent criteria of strong businesses, run by good management, available at deeply discounted prices. This discipline is critical to meeting our absolute return goal of inflation plus 10% and has produced strong long-term relative returns over most of our firm's 40 year history. However, because the makeup of the Longleaf Funds will be materially different than their indices, our returns will diverge from them, often sharply. These wide swings impact not only short-term returns but can create an end point that weighs on longer term relative results as well. In the recent quarter, the International Fund outperformed its benchmark with the help of several corporate transactions, while the three other Longleaf Funds trailed their respective indices. At this time last year, the Partners, Small-Cap, and Global Funds exceeded their indices over a twelve month time frame, but currently, only the Small- Cap is outperforming the benchmark for the last year.

The difference between now and a year ago is attributable to three things – corporate transactions that have been positive, plus energy prices and Macau gaming, whose declines have overwhelmed the gains that many of our portfolio companies have made. Corporate transactions have built values and driven value recognition, not only in the Small-Cap Fund, but across all four Longleaf Funds. In the second quarter, for example, CK Hutchison (formerly Cheung Kong) was a top performance contributor after Li Ka-shing and his son, Victor Li, simplified the company structure and split out its real estate properties. Likewise, over the last year, EXOR, FedEx, Level 3, and Graham Holdings have been leading performers, with our partners taking steps to build value through opportunistic corporate transactions. They have done exemplary work, and as long-term business owners, we have been engaged over time with them to varying degrees – from discussing ways to close the price discount with management at Cheung Kong, to praising the premium prices management achieved for asset sales at EXOR, Cheung Kong and Graham Holdings, to advocating share buybacks at discounted prices with FedEx and Graham Holdings, to recommending board members, supporting a CEO change and evaluating consolidation opportunities at Level 3. Our collaboration at these companies is ongoing, and given our excellent partners and the quality of the underlying businesses, we believe their stocks should continue to be strong compounders.

This good work was largely offset by two challenges to our performance over the last year, including in the recent quarter. Our U.S. energy holdings have suffered under the large decline in commodity prices, and our Macau gaming companies lost big spenders in China's broad-sweeping anti-corruption campaign. We buy companies with a wide margin of safety between the price and our appraisal to help reduce the impact of mistakes in our investment cases. Because of this, our markdowns in these companies have not been as dramatic as the stock declines. Even after adjusting our valuations for the more austere conditions, the quality of our energy assets and of Macau's hotels and casinos, combined with their capable leadership teams, make us confident that these should be meaningful contributors to strong returns going forward. Any bounce back in commodity prices or high-end gamblers will be additional upside. In our energy investments, lower commodity prices have served as a catalyst to sharpen our management partners' focus on how best to optimize the returns on their valuable assets. Our discussions with them have been ongoing and productive over the last few years and have contributed to adding board members, monetizing assets, selling all or portions of reserves, and separating disparate segments. In spite of major progress, the work is ongoing. Stock prices have yet to reflect past improvements or significant ones our managements are currently pursuing. We expect to see additional value accretive activity in the remainder of the year and believe that our energy stocks should rise appreciably as they reflect these initiatives. We also have engaged in important and productive dialogue with our partners who operate the Macau casinos we own. Our CEO partners are large owners alongside of us and are building value by buying back deeply discounted shares, investing in high-return projects to increase visitor traffic, shifting their mix towards higher margin mass and premium mass business, diversifying into non-gaming revenue sources that the government supports, refinancing debt at attractive rates, securing long-term credit lines to increase financial flexibility, and exploring ways to maximize returns on a limited supply of baccarat tables. We firmly believe that our energy and Macau investments should be major positive performance drivers over the next one to three years, if not sooner, as managements' initiatives deliver returns and mass visitors increase.

The examples above illustrate a strong benefit of our portfolio concentration – it enables us to engage deeply with all of our corporate partners in our role as a significant, long-term owner. This engagement differentiates Southeastern from most investment managers and provides us with what we view as an advantage. Our constructive dialogues, often at management's invitation, help us understand the actions our managers are taking to increase value per share and provide a way to suggest new ideas based on our investment experience. Sustained, historically low interest rates in many countries have helped fuel global mergers, acquisitions, and initial public offerings (IPOs) approaching 2007 peak levels at multiples beyond our appraisals. This environment presents unique opportunities for our businesses to improve their long-term competitive advantages, lower their cost of capital, and get their asset values recognized. We are working in partnership with the boards and managements of our investees to varying degrees as we have historically. We are not only engaged in our normal activity of listening and asking questions; in a number of cases, we are collaborating with management to suggest and pursue changes that build value and capture it now, at a time when many public and private investors are willing to pay premium prices for certain assets. Numerous alternatives for value build and recognition are available currently, such as:

- Selling real estate, creating real estate investment trusts (REITs) and master limited partnerships (MLPs), and monetizing other yield-driven assets,
- Splitting conglomerates or disparate business units to gain proper price recognition and value creation optionality,
- Positioning segments to be sold at strong multiples,
- Pursuing consolidation that can build value,
- Using currency dislocation to purchase assets at a discount,
- Increasing flexibility by locking in long-term debt at incredibly low rates, and
- Buying in shares that are materially discounted from intrinsic value.

We believe that the Longleaf Funds should meet our absolute return goal of inflation plus 10% and exceed the benchmarks. In our opinion we are well-positioned against stock markets that are more than fully priced. Our holdings' margin of safety includes not only price-to-value ratios ranging between the mid-60s% to low-70s% but business values that can grow organically with high free cash flow yields, financial flexibility, pricing power, and margin upside. Our companies, including the few with shorter-term challenges, have talented leaders who are examining current corporate activity opportunities to drive near-term shareholder value growth and recognition. Many are also aligned with our interests as meaningful stock owners, and a number have added to their personal stakes. As your managers and the largest shareholders in the Longleaf Funds, we are

Letter To Our Shareholders

working to insure that we and the leadership at our investees deliver strong results.

Sincerely,

O. Mason Hawkins, CFA
Chairman & Chief Executive Officer
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President & Chief Investment Officer
Southeastern Asset Management, Inc.

July 14, 2015

Note Regarding Future Reporting

After accelerating the availability of quarter-end fund information on our website, starting in September, Longleaf will no longer print and mail full reports in the first and third quarters (periods ended March and September). This will reduce shareholder costs while providing quicker electronic access to the same information. Shareholders will be able to request a hard copy of fund information after quarter-end by calling (800)445-9469 and selecting option 1.

You will continue to receive printed copies of the Semi-Annual and Annual Reports (periods ended June and December). If you prefer to receive these via email, please call (800)445-9469 and select option 1 to request electronic delivery.

See following page for important disclosures.

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The Longleaf Partners Funds are subject to stock market risk, meaning stocks in the Fund may fluctuate in response to developments at individual companies or due to general market and economic conditions. Also, because the Funds generally invest in 15 to 25 companies, share value could fluctuate more than if a greater number of securities were held. Mid-cap stocks held by the Funds may be more volatile than those of larger companies. With respect to the Small-Cap Fund, smaller company stocks may be more volatile with less financial resources than those of larger companies. With respect to the International and Global Funds, investing in non-U.S. securities may entail risk due to non-U.S. economic and political developments, exposure to non-U.S. currencies, and different accounting and financial standards. These risks may be higher when investing in emerging markets.

The statements and opinions expressed are those of the author and are as of the date of this report.

The S&P 500 Index is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index. MSCI EAFE Index (Europe, Australasia, Far East) is a broad based, unmanaged equity market index designed to measure the equity market performance of 22 developed markets, excluding the U.S. & Canada. MSCI World Index is a broad-based, unmanaged equity market index designed to measure the equity market performance of 24 developed markets, including the United States. An index cannot be invested in directly.

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Free Cash Flow Yield (FCF Yield) equals a company's free cash flow per share divided by the current market price per share.

A master limited partnership (MLP) is, generally, a limited partnership that is publicly traded on a securities exchange.

As of June 30, 2015, the holdings discussed represented the following percentages of the Funds: CK Hutchison: 7.1% Partners Fund, 6.2% International Fund, 5.7% Global Fund; Cheung Kong Property: 4.1% Partners Fund, 3.7% International Fund, 3.3% Global Fund; EXOR : 7.3% International Fund, 7.4% Global Fund; FedEx: 5.0% Partners Fund; Level 3: 10.9% Partners Fund, 9.8% Small-Cap Fund, 10.3% Global Fund; Graham Holdings: 10.2% Small-Cap Fund. Fund holdings are subject to change and holding discussions are not recommendations to buy or sell any security. ***Current and future holdings are subject to risk.***

Funds distributed by ALPS Distributors, Inc.

Letter To Our Shareholders

The first quarter of 2015 saw a continuation of the themes from the second half of 2014. Almost all of our individual businesses delivered solid operating performance, and our management partners pursued productive ways to build long-term per share values. This activity produced strong excess returns in Longleaf Partners Small-Cap Fund,"which helped the Longleaf fund earn the No. 1 ranking among small-cap U.S. equities funds." [(1)] *By contrast, the Partners, International, and Global Funds' relative performance remained challenged as solid company results could not overcome three ongoing broad headwinds: the fall in energy prices, the U.S. dollar strength, and the Chinese government's pressure on Macau gaming. While these challenges affected only a handful of our holdings, they were large enough to offset the good results at the vast majority of our companies.*

The steady upward climb of the S&P 500 has intensified the debate over active versus passive investment approaches, and given this, we want to detail the reasons we are confident that our portfolios can outperform relevant benchmark indices and deliver on our absolute goal of inflation plus 10% over the long term. Our current underperformance is the exception. The three Longleaf Funds with a greater than 5-year track record have since inception returns well above their benchmarks.

Our history aside, future performance is all that matters to our shareholders and to us as the largest collective shareholder in the Longleaf Funds. Normally, we discuss future performance in terms of our price-to-value ratio (P/V), an indicator of our absolute return opportunity. Today, the P/V is above our long-term average, which is not surprising given the bull market run. A more objective and simple comparison to address the current focus on relative returns versus the indices is price-to-free cash flow (P/FCF), which measures the multiple being paid for the cash earnings coupon that businesses will generate over the next twelve months. The free cash flow coupon is a better reflection of cash profits than are stated earnings. That P/FCF multiple translates into FCF yield (the inversion of P/FCF), which is the FCF return that an investor will earn over the next year if the stock prices remain the same, assuming the 12-month FCF estimates are accurate. That yield can be enhanced if the FCF coupons grow. We can distill our investments' and the indices' future return prospects down to the following objective formula:

Going-in free cash flow yield
+
Organic growth our companies can generate without spending that cash yield
+
Any excess returns our managements generate from reinvesting those cash coupons.
=
Expected cash return for shareholders

We believe comparing the FCF yield and prospective coupon growth in the Longleaf portfolios to those in the relevant indices indicates how well our current holdings are positioned and why we are confident in our ability to deliver long-term outperformance with low risk of permanent capital loss.

Going-in free cash flow yield:

FCF yield is the primary source of expected cash return. Today we are paying, on average, 11X forward free cash flow (P/FCF) for the Funds' common stocks. If none of our companies grew, and they simply earned cost-of-capital-type returns on what they reinvested, we would expect a 9% return from the FCF earnings yield (the reciprocal of 11X). Admittedly, this number is based on our next 12-month cash earnings

(1) *Bloomberg Markets April 2015, "Staying Active." Returns through 12/31/14*

estimates, which may be no better than Wall Street's estimates for any given company. In aggregate, however, our estimates for the whole portfolio generally even out any single- company misses and prove to be conservative.

Organic growth our companies can generate without spending that cash yield:

In addition to our estimated 9% FCF yield, the quality of our businesses and operating skill of our management partners will largely determine organic earnings growth. Beyond FCF coupons, returns will be powered by owning high quality businesses that can grow revenues and margins without substantial spending. We mostly own companies we believe are competitively superior like Aon, adidas, and Vail Resorts, where pricing power and other advantages enable organic growth that requires virtually no capital. Additionally, margin improvements can further boost organic earnings growth. We own companies like FedEx and Philips, where margins are nowhere near peak, and where the predominant sell-side descriptor is "self-help" – meaning they can raise margins even without an economic or revenue tailwind. Oil and gas companies, which are hurting performance right now, are the noted exception to our FCF profiles, but in the face of depressed energy prices, our partners are finding other ways to build value.

Any excess returns our managements generate from reinvesting those cash coupons:

Wise capital allocation by our management partners can create additional return beyond the sum of our FCF yield and earnings growth from organic revenue and margin gains. We own companies like Level 3 and Lafarge that are using capital to grow revenues with huge IRR (internal rate of return) expectations on the amount they invest above depreciation and amortization. Melco opening a new Macau casino, Chesapeake picking among millions of acres and thousands of possible well sites in an effort to drill the most profitable projects, and Scripps buying stock back far below private market value are representative of the high IRR projects our management partners are undertaking to grow value per share and thereby increase our ultimate returns.

If the three listed FCF return components perform as we expect, we should achieve our absolute return goal of inflation plus 10%. The yield is based on a constant stock price, but ultimately Longleaf's performance should also benefit from the gap between stock prices and intrinsic values closing. Contrasting our companies' metrics with those of the indices highlights the strength of our relative position. Our P/Vs range between 70-80%, while we believe the indices trade close to or above full value. The S&P 500, MSCI EAFE, and MSCI World indices sell for 21-22X next year's estimated FCF, and the Russell 2000 is at 30X. This translates to a 4.7% yield (the reciprocal of 21-22X) for the first three and a 3.3% yield for the Russell 2000.[2] Earnings growth is limited with margins of the S&P and MSCI World indices near peak levels. Even if margins can stay at these highs, earnings growth is confined to organic revenue growth in a universe where most economies expect low single-digit growth. Conversely, if margins regress to the mean, the outlook for earnings growth is poor. Nor is capital allocation likely to generate growth, because the collective group of CEOs at index companies is not earning excess reinvestment returns. The most telling example is the recent manic stock repurchasing within the S&P 500. Ironically, we are huge supporters of share buybacks when a stock trades at a big discount to intrinsic worth; it de-risks capital allocation while boosting our value per share. But most companies tend to do just the opposite. When stocks had a fire sale in 2009, S&P companies repurchased $138 billion, but as the index was approaching historic highs in 2014 with many stocks trading above intrinsic values, these companies bought back $553 billion, close to their entire FCF coupon after dividend payments.

This behavior is boosting stock prices for now (and indirectly feeding the index's outperformance of active managers), but will

[2] *Factset*

Letter To Our Shareholders

We feel as strongly now about our ability to outperform the indices over the next five years as we felt about our absolute opportunities after the GFC.

likely end badly, as all overpriced share repurchases ultimately do.

After the dramatic declines in the global financial crisis (GFC), the Funds' absolute returns over most periods at the end of 2008 fell below our inflation plus 10% goal. We told our partners that because our P/Vs were below 50% and our P/FCF multiple was 7X, yielding 14%, we anticipated stronger compounding than normal. Over the six years since then, the Partners and Small-Cap Funds have made substantial money for shareholders as our absolute returns have far exceeded inflation plus 10% and we have outperformed the relevant benchmarks. Today, we face a similar end point challenge in the Partners, International, and Global Funds, but it is our relative returns that have underperformed. While we are committed to our absolute goal, given FCF yields, P/V levels and a slim on-deck list, we anticipate lower absolute returns than we did at the end of 2008. We feel as strongly now about our ability to outperform the indices over the next five years as we felt about our absolute opportunity after the GFC. Our portfolios sell on average for 11X FCF, slightly higher than our normal 9-10X, but very attractive against broader markets at 21-22X versus their historic 17-18X (and an even higher multiple in the Russell 2000). Said differently, we own portfolios with 9% FCF yields where we believe the cash coupons will grow versus the markets' 4.7% FCF yields where the coupons will likely decline in the next few years.

While the payoff pattern may be unpredictable, the transaction activity that helped produce our substantial Small-Cap Fund returns in the past few years is occurring in companies across all of our portfolios. Exceptionally positive corporate activity is generating value growth in U.S. holdings such as Chesapeake, CONSOL Energy, and Murphy Oil. Likewise, our non-U.S. partners at Philips, Vivendi, Exor, CK Hutchison, and Lafarge are involved in transactions that have gone partially unrecognized in their stock prices thus far. In addition to owning quality businesses with relatively high FCF yields, we have partners making superior capital allocation decisions that we believe will further drive excess returns.

Southeastern has followed the same proven investment disciplines under the same leadership for four decades. While our concentrated, valuation- based approach has not outperformed the indices all the time, it has delivered strong relative results most of our history. Ultimately, our partners have been rewarded for owning strong businesses run by good management teams when the discounts between prices and values have closed. The payoffs tend to occur in periodic bursts that do not necessarily correspond with the broader markets. As the largest owners of the Longleaf Funds, we believe our portfolios are positioned to experience a burst of outperformance because they reflect a:

- Time-tested investment discipline rooted in the principles of investors such as Keynes, Graham, Templeton, and Buffett and implemented by a singularly focused, aligned manager,
- Set of criteria that has produced a track record of high rates of outperformance over multiple periods throughout our 40 year history,
- Strong position against benchmarks near historic high levels after a long-winded bull run in what arguably has become a "passive bubble," and
- Carefully selected set of competitively advantaged businesses that are generating solid operating results with capable, motivated managements driving above average value growth and in many cases, creating catalysts for value recognition.

We are grateful for our supportive, long-term partners who share our conviction. If you missed our shareholder webcast on Wednesday, May 6, a replay is available on our website.

Sincerely,

O. Mason Hawkins, CFA
Chairman & Chief Executive Officer
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President & Chief Investment Officer
Southeastern Asset Management, Inc.

May 14, 2015

See following page for important disclosures.

Before investing in any Longleaf Partners fund, you should carefully consider the Fund's investment objectives, risks, charges, and expenses. For a current Prospectus and Summary Prospectus, which contain this and other important information, visit longleafpartners.com. Please read the Prospectus and Summary Prospectus carefully before investing.

RISKS

The Longleaf Partners Funds are subject to stock market risk, meaning stocks in the Fund may fluctuate in response to developments at individual companies or due to general market and economic conditions. Also, because the Funds generally invest in 15 to 25 companies, share value could fluctuate more than if a greater number of securities were held. Mid-cap stocks held by the Funds may be more volatile than those of larger companies. With respect to the Small-Cap Fund, smaller company stocks may be more volatile with less financial resources than those of larger companies. With respect to the International and Global Funds, investing in non-U.S. securities may entail risk due to non-US economic and political developments, exposure to non-US currencies, and different accounting and financial standards. These risks may be higher when investing in emerging markets.

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Free Cash Flow (FCF) is a measure of a company's ability to generate the cash flow necessary to maintain operations. Generally, it is calculated as operating cash flow minus capital expenditures.

Free Cash Flow Yield (FCF Yield) equals a company's free cash flow per share divided by the current market price per share.

Internal rate of return (IRR) is the interest rate at which the net present value of all the cash flows from an investment equal zero.

Organic growth is the growth rate a company can achieve by increasing output and enhancing sales, as opposed to growth via mergers and acquisitions.

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

As of March 31, 2015, the holdings discussed represented the following percentages of the Funds: Aon - 2.2% Longleaf Partners Fund; adidas - 6.5% Longleaf Partners International Fund, 5.3% Longleaf Partners Global Fund; Vail - 5.1% Longleaf Partners Small-Cap Fund; FedEx - 4.2% Longleaf Partners Fund; Philips - 6.6% Longleaf Partners Fund, 4.8% Longleaf Partners International Fund, 5.5% Longleaf Partners Global Fund; Level 3 - 10.6% Longleaf Partners Fund, 9.7% Longleaf Partners Small-Cap Fund, 10.3% Longleaf Partners Global Fund; Lafarge - 7.3% Longleaf Partners International Fund, 3.8% Longleaf Partners Global Fund; Melco - 6.9% Longleaf Partners International Fund, 5.6% Longleaf Partners Global Fund; Chesapeake - 2.4% Longleaf Partners Fund, 1.4% Longleaf Partners Global Fund; Scripps - 4.5% Longleaf Partners Fund, 3.8% Longleaf Partners Small-Cap Fund; CONSOL - 5.1% Longleaf Partners Small-Cap Fund, 4.4% Longleaf Partners Global Fund; Murphy Oil- 3.4% Longleaf Partners Fund, 1.5% Longleaf Partners Global Fund; Vivendi - 5.5% Longleaf Partners Fund, 5.0% Longleaf Partners Small-Cap Fund, 4.4% Longleaf Partners Global Fund; EXOR - 6.8% Longleaf Partners Global Fund; Cheung Kong - 10.1% Longleaf Partners Fund, 9.5% Longleaf Partners International Fund, 7.9% Longleaf Partners Global Fund. Fund holdings are subject to change and holding discussions are not recommendations to buy or sell any security. ***Current and future holdings are subject to risk.***

Funds distributed by ALPS Distributors, Inc.

Letter To Our Shareholders

After strong returns across all the Longleaf Partners Funds in 2013, only the Small-Cap Fund in 2014 exceeded its benchmark index and our absolute return goal of inflation plus 10%. We are not pleased with the results in our Funds outside of Small-Cap over the last twelve months, but we do welcome the increased volatility and opportunity created as broad markets and stocks within those markets began to diverge in the second half of the year.

We are seeing strong parallels in current markets versus the late 1990s that lead us to believe we will be returning to an environment where the merits of individual holdings are more likely to be properly weighed by the market and value investment approaches are more likely to be rewarded with solid absolute and relative returns. Based on the underlying fundamentals at our companies, the actions our management partners are taking, and the broader investing environment, we are confident that our portfolios are positioned for successful long-term compounding.

Drivers of 2014 Results

Over our nearly 40 years of investing, Southeastern has built the Longleaf Funds' portfolios from the "bottom up" as we find stocks that meet our criteria of strong businesses, good people, and deeply discounted prices. In 2014, our fundamentals-based approach was rewarded in the Small-Cap Fund, which benefited from merger and acquisition activity that helped drive double-digit returns in spite of an average cash balance of more than 30%. In our other Funds, various individual holdings gained more than 15%, including Level 3, FedEx, Berkshire Hathaway, and Cheung Kong, as investors began to appreciate how our management partners had positioned their companies for value growth. Unfortunately, three broader portfolio exposures – cash, international exposure to both currency moves and emerging market challenges, and energy – overshadowed strong individual stock returns. In spite of the macro pressures, however, we have rarely been as universally pleased with the activity at our underlying companies.

The first detracting exposure – cash – impacted all of our Funds. We held higher-than-normal liquidity at the outset of the year after we sold fully valued equities and found few qualifying new opportunities. In the Partners Fund, cash averaged more than 20%, impacting relative results as the S&P 500 rose 13.7%. In our other Funds, the first half cash drag was somewhat offset after small cap and non-U.S. indices tumbled in the third quarter. As we've written previously, while a higher cash balance can be a drag on returns in the short term, over the long term the benefits of avoiding lower quality investments and having the flexibility to take advantage of buying opportunities during market dislocations are, we believe, key drivers of long-term outperformance.

Second, our exposure to businesses operating outside of the U.S. weighed on our results primarily due to the strong U.S. dollar (USD) and increased regulatory and economic controls in China. In 2014, all four Longleaf Funds contained companies based outside of the U.S. given the more deeply discounted, high quality opportunities currently available in other parts of the world. The Global Fund held more than 60% outside of the U.S., the Partners Fund held European domiciled global businesses such as Philips, Vivendi, and CNH, and the Small-Cap Fund held OCI, Hopewell, and Fairfax. The strength of the USD versus the euro negatively impacted all four Funds. In the Global Fund our returns based in local currencies were positive but fell below zero when translating performance into USD. Likewise, more than half of the negative return in the International Fund was attributable to currency translation into USD. Separately, increased government scrutiny and regulation in China hurt all Macau gaming companies indiscriminately and made our stakes in Melco and Galaxy via K.Wah primary performance detractors in the International and Global Funds. Even in the storm of worry that labeled 2014 a disastrous year for Macau gaming, overall revenues fell less than 3%, the number of visitors rose, and mass (as opposed to VIP) revenues grew double digits. The Chinese government has demonstrated its long-term support of Macau with massive infrastructure projects. We are excited to own these businesses as increased accessibility and additional room supply should enable mass revenue to continue to rise at healthy levels. China's slower growth in 2014 also hurt iron ore prices, negatively impacting Manabi in the International Fund. Lower ore prices combined with the weak Australian dollar caused our position in Mineral Resources, held in both the International and Global Funds, to suffer even though the company's services revenues usually increase with lower iron ore pricing.

Energy was the third broad exposure that hurt the Partners and Global Funds. Our investments do not reflect any special affinity for oil and gas. We own a select combination of companies – Chesapeake, Murphy Oil, CONSOL Energy, and Boardwalk Pipeline Partners and Diamond Offshore via Loews – because we feel they have the asset bases, financial ability, and disciplined managements to reinvest in production or assets at returns well above their costs of capital. When oil prices fell 49% in the second half of the year as increasing supply began to exceed demand, stock prices did not discriminate. Low cost producers, higher quality assets, proven management teams, and even energy companies without oil properties such as CONSOL experienced similarly correlated declines. In a year where M&A activity and announced spinoffs massively benefited the Small-Cap Fund, brilliant, value additive divestitures by our energy companies – Chesapeake's sale of Marcellus and Utica assets, Murphy's partial sale of Malaysia, and CONSOL's announced IPOs (initial public offering) of multiple segments – were not only unrewarded in the market, but seemingly punished.

Although our minimal exposure to healthcare did not impact absolute results, this major driver of the S&P 500, Russell 2000, and MSCI World indices hurt relative returns. Healthcare companies rarely meet our criteria because of the uncertainties in appraising government control over providers, pharmaceutical pipelines, biotech discoveries, and technological obsolescence in medical equipment. During 2014, acquisitions in this sector heated up, with deal multiples moving well beyond norms, driven in part by tax inversion initiatives. Indicative of the heated environment, the stocks of buyers paying those huge multiples were often immediately rewarded, which is unusual and not likely to remain the case. Similarly, the difficulty in appraising the future of information technology companies kept us out of that sector, which was a strong performer in the U.S. and global indices, driven by a limited number of tech stocks that rose over 25%.

Reminiscent of the late 1990s

Our 2014 results and the environment driving them are strikingly similar in a number of ways to the late 1990s. While multiples have not reached the extremes that developed in the dot.com bubble from mid-1999 through March 2000, we see many parallels in the broad market and in the factors impacting our portfolios. In the latter half of the 90s, the U.S. was in a multi-year bull market with low dispersion, little volatility, and momentum investing sending large-cap stocks ever higher while fundamentals at individual companies mattered little. Consider the following comparisons:

- The S&P 500 was up double digits for five consecutive years at the end of 1999. In 2014, for the first time since 1999, and only the second time in our 40 years, the index posted three consecutive years of double-digit returns.[1]
- Small cap stocks substantially underperformed large caps, with the gap between the Russell 2000 and S&P 500 at more than 31% in 1998. The almost 9% gap in 2014 was the largest since then[1].

(1) *Southeastern and IDC*

Letter To Our Shareholders

Similar to the late 1990s, recent returns do not adequately reflect the underlying progress our companies made during the year.

- The Partners and Small-Cap Funds contained considerably elevated cash levels in both periods because few stocks traded with the margin of safety to meet our requisite discount.
- Stocks outside the U.S. were dramatically more undervalued. The MSCI EAFE Index fell short of the S&P 500 by more than 31% in 1997; the 18% disparity in 2014 was the largest underperformance since then.[1]
- The U.S. dollar index rose just over 13% in 1997 and just under 13% in 2014.[2]
- We held 29% of Longleaf Partners Fund in companies domiciled outside of the U.S. in 1998 because of the opportunity set disparity. The Partners Fund today has 25% in foreign holdings.
- Oil prices declined more than 39% during 1998 and 49% in the last six months of 2014 and negatively impacted our energy related holdings in both periods.[2]
- We delivered strong three and five year absolute returns that surpassed our goal of inflation plus 10% in the Partners Fund, but underperformed the index in 1998, 1999, and 2014.
- Only 14% of U.S. large cap managers beat the S&P 500 in 1997: the next-lowest level was 16% in 2014. Large cap value managers faced even worse odds – fewer than 5% outperformed in 1997 and only 10% in 2014.[3]
- The market cap weighted S&P 500 rose 28.6% in 1998 while the equally weighted Value Line Index, which is more representative of the average stock, fell 3.8%. Though not as dramatic, the gap in 2014 was meaningful: 13.7% versus 3.1% respectively.[2]

Much like today, after widespread underperformance in a stock run that distinguished little among company fundamentals, many investors in the late 1990s moved into what had done well, including passive strategies in U.S. large cap equities. The momentum of more money flowing into the largest and most expensive stocks forced the cap-weighted S&P 500 to add more to those stocks, driving prices well beyond the values of the underlying businesses. Although relative returns versus the S&P 500 were worse in the late 90s, today the outcry for passive over active and the strong consensus that active is a waste of time (especially in U.S. large cap) are even louder as fund flows indicate. Passive fund flows grew more quickly than active flows in the previous era, but over the last five years, passive funds, including the expanded universe of ETFs, increased inflows as active funds had net outflows each year.[4]

The 1990s momentum-driven virtuous circle continued until the dot.com bubble exploded in March 2000. In the multi-year period that followed, individual company qualities and valuations mattered, and the relative performance of proven active managers versus passive indices reversed itself, as we believe it will again. As our long-term partners would expect, at this moment of weak relative performance with active management in disrepute, our optimism about future relative performance is exceptionally high.

Outlook

The lesson from the 1990s aftermath and from the Small-Cap Fund's results in 2014 is that underlying corporate values eventually get reflected in stock prices, although nobody knows what the payoff pattern will be in any given year. Our management partners are not simply waiting for a more favorable environment. Where prices are strong, they are selling assets, spinning off segments, or creating high-yielding structures. In the pockets of price weakness, managements are using their financial flexibility to initiate buybacks of their discounted shares, some for the first time. They are opportunistically increasing values per share for a potentially larger ultimate payoff. In many cases, our partners are backing up their corporate conviction with meaningful personal stock purchases.

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(1) *Southeastern and IDC*
(2) *FactSet*
(3) *Lipper, a Thomson Reuters Company*
(4) *Wall Street Journal, 1/6/2015*

Similar to the late 1990s, recent returns do not adequately reflect the underlying progress our companies made during the year. We believe the Funds are well-positioned to deliver solid absolute and relative returns over the next five years. We own more competitively entrenched businesses at more deeply discounted prices than the indices. Our management teams are more capable, and our underlying corporate values are growing. As the largest investors across the Longleaf Partners Funds, we are highly confident that our longstanding investment discipline will reward those who are patient as it has done over the long term.

Sincerely,

O. Mason Hawkins, CFA
Chairman & Chief Executive Officer
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President & Chief Investment Officer
Southeastern Asset Management, Inc.

February 9, 2015

See following page for important disclosures.

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The Longleaf Partners Funds are subject to stock market risk, meaning stocks in the Fund may fluctuate in response to developments at individual companies or due to general market and economic conditions. Also, because the Funds generally invest in 15 to 25 companies, share value could fluctuate more than if a greater number of securities were held. Mid-cap stocks held by the Funds may be more volatile than those of larger companies. With respect to the Small-Cap Fund, smaller company stocks may be more volatile with less financial resources than those of larger companies. With respect to the International and Global Funds, investing in non-U.S. securities may entail risk due to non-US economic and political developments, exposure to non-US currencies, and different accounting and financial standards. These risks may be higher when investing in emerging markets.

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As of December 31, 2014, the holdings discussed represented the following percentages of the Funds: Level 3 - 9.8% Longleaf Partners Fund, 11.2% Longleaf Partners Global Fund, 14.0% Longleaf Partners Small-Cap Fund; FedEx - 4.0% Longleaf Partners Fund; Cheung Kong - 7.6% Longleaf Partners Fund, 7.7% Longleaf Partners International Fund, 6.5% Longleaf Partners Global Fund; Philips - 6.2% Longleaf Partners Fund, 4.9% Longleaf Partners International Fund, 5.7% Longleaf Partners Global Fund; Vivendi - 5.0% Longleaf Partners Fund; CNH Industrial - 4.1% Longleaf Partners Fund; OCI - 6.1% Longleaf Partners International Fund, 5.3% Longleaf Partners Small-Cap Fund, 5.0% Longleaf Partners Global Fund; Melco - 7.4% Longleaf Partners International Fund, 7.4% Longleaf Partners Global Fund; K Wah - 5.8% Longleaf Partners International Fund, 3.6% Longleaf Partners Global Fund; Mineral Resources - 4.1% Longleaf Partners International Fund, 3.1% Longleaf Partners Global Fund; Chesapeake Energy - 6.6% Longleaf Partners Fund, 5.6% Longleaf Partners Global Fund; Murphy Oil - 3.5% Longleaf Partners Fund; CONSOL Energy - 5.2% Longleaf Partners Fund, 4.3% Longleaf Partners Small-Cap Fund, 2.4% Longleaf Partners Global Fund; Loews - 7.7% Longleaf Partners Fund, 4.7% Longleaf Partners Global Fund. Fund holdings are subject to change and holding discussions are not recommendations to buy or sell any security. ***Current and future holdings are subject to risk.***

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LLP000238
Expires 4/15/15

Letter To Our Shareholders

The third quarter was marked by global unrest and uncertainty, which prompted more stock price volatility across world markets and weighed on some of our names. Macro pressures included lower energy prices, a stronger U.S. dollar, a weak European economy, slower growth in China, and heightened geopolitical turmoil in Russia, Ukraine, the Middle East, and very recently, Hong Kong. These pressures impacted prices at some of our holdings, resulting in third quarter returns that were negative and, with the exception of the Small-Cap Fund, trailed the benchmark indices. However, the global stress also created buying opportunities as more companies on our on-deck list met our criteria for buying businesses at deep discounts to their intrinsic values. As a result, new opportunities improved our long-term performance prospects by reducing cash and improving the price-to-value (P/V) in all four Longleaf Funds.

Across the Funds, the primary performance detractors were our U.S. energy holdings and several companies with challenges in specific emerging markets. In spite of the negative impact on our third quarter returns, we continue to have strong conviction in the intrinsic worth and quality of these positions for several reasons. First, our conservative assumptions already embedded the lower forecasts that the market was just digesting. Second, macro-driven pressures that hurt broad industries did not impact the prospects for our specific holdings – our appraisals are not necessarily correlated to the macro factors currently undermining stock prices. Third, those company-specific challenges that emerged were temporary or focused in business areas that were minor parts of our appraisals.

Not only did those companies under the most price pressure meet our operating expectations, but their upside prospects increased due in large part to the actions of our CEO partners. To provide insight into these positions and why we continue to have long-term conviction in their potential to outperform, we discuss them below.

In the U.S.

The worst performing sector in the S&P 500 and MSCI World Indices was energy, down 9.1% and 9.5% respectively. With the unusually cool summer, natural gas prices fell 7%, crude 13%, and coal 13%. Within the sector, exploration and production companies (E&Ps) such as Chesapeake, Murphy, and CONSOL, suffered more than the average, which was helped by subgroups such as refining and storage and transportation. While lower energy prices rather than company-specific disappointments in our energy names drove declines, they did not impact our appraisals of these three companies because our models already incorporated lower commodity prices based on the futures curve pricing and the marginal cost of production in our various plays. Higher commodity prices would likely lift their stocks, but these three companies do not require a rise in energy prices for intrinsic values to be recognized. At Chesapeake, CEO Doug Lawler is continuing to drive value recognition in ways he can control – selling non-core assets at reasonable prices, reducing debt, and increasing operating efficiencies in both corporate and production activity. He is building additional upside with $2–3 billion of annual discretionary capital spending that management projects should deliver strong returns on capital, even without higher commodity prices.

Neither is Murphy's CEO, Roger Jenkins, relying on higher commodity prices for value recognition. The company is selling its U.K. downstream assets and announced the sale of 30% of its Malaysian assets at a price above our appraisal. Moreover, Jenkins built value by repurchasing shares as they became more discounted, a move he properly viewed as buying their proven barrels of oil for much less than it would cost to drill new wells or buy other plays. CONSOL is more than its category of "coal and consumable fuels." In fact, management has been selling coal assets, and more than half of our appraisal is attributable to gas reserves in the Marcellus and Utica shale plays. To monetize production value in the recent quarter, Executive Chairman Brett Harvey and CEO Nick Deluliis successfully completed an initial public offering (IPO) for a midstream Master Limited Partnership (MLP) at metrics above both our appraisal and the projected price. The company's variety of assets, including the Baltimore port terminal, provide multiple options for gaining value recognition without reliance on commodity price increases.

Outside the U.S.

In spite of stock declines at the most significant detractors outside of the U.S., these companies met our underlying business expectations during the quarter. They are diverse businesses but faced various emerging market uncertainties in addition to currency pressures and company-specific issues. In each case, management is taking the initiative to overcome current market perceptions through discounted buybacks, productive capital investments, and/or value accretive transactions.

Melco International, the Macau gaming company held in the International and Global Funds, fell alongside all Macau gaming stocks. There has been a meaningful drop in VIP revenues. The causes include China's crackdown on corruption causing wealthier people to keep a lower profile away from Macau, slower Chinese economic growth hurting property sales that boosted gambler credit, and liquidity challenges faced by junket operators who organize VIP visits and extend credit to them. Other pressures impacting the stocks are difficult to quantify, such as tighter transit visa requirements, wage inflation and labor unrest, UnionPay credit card restrictions, and a smoking ban starting in October. The negative news flow did not impact our conviction in Melco. Our appraisal already incorporated lower growth in both VIP and mass revenues than most sell-side analysts had previously assumed for the year. Over 80% of Melco's EBITDA (earnings before interest, taxes, depreciation and amortization) comes from the mass, non-VIP segment that is still growing gross gaming revenue at 15%. This important mass market has margins several times higher than the margins on VIPs whose revenues are split with junket operators. 100% hotel occupancy also has limited growth this year, but planned new hotels should increase visitation over the next few years as should the new Hong Kong–Macau bridge that will allow passengers at the Hong Kong airport to arrive in Macau in half an hour. Melco has a near-term supply advantage with its Studio City casino and hotel opening in Q3 2015. Despite analyst downgrades on Macau gaming stocks, Melco is estimated to have high EBITDA growth in 2015 and 2016. The company began repurchasing shares in Melco Crown in September, and our partner, CEO Lawrence Ho, has bought more stock personally in the last five months.

OCI, owned by Longleaf Small-Cap, International, and Global, consists of a legacy construction business and the much larger nitrogen fertilizer business. Natural gas is the primary component in nitrogen fertilizer production, and during the quarter, gas supply interruptions impacted production at OCI's two Egyptian plants, weighing on the short term stock price. Management anticipates that plant utilization will improve over the next year with several factors increasing gas supply: Egypt has begun to import liquid natural gas for the power sector, the cement industry is switching from natural gas to petroleum coke, and the major producers have begun to return to Egypt to ramp up exploration in the wake of a more stabilized government. We

Letter To Our Shareholders

The stock declines that hurt our performance were not indicative of underlying threats to the investment cases.

assume a continued low utilization rate of 50% in our appraisal, but even at this rate, the plants are cash flow positive. OCI's other plants around the world are operating at or near full capacity with low cost gas and higher prices for Ammonia and Urea, two primary outputs. The long-term case for OCI remains compelling as the company is the low cost industry leader in nitrogen fertilizer, essential for world food production. In the next 12-18 months the company will have higher production and lower capex with the opening of a greenfield plant in Iowa and the completion of the Beaumont, Texas extension. The company is also building the largest methanol plant in the country in Texas. CEO Nassef Sawiris has built and monetized substantial value historically; specifically, he has added enormous value for Southeastern's clients and our partners in the Longleaf Funds through his work at Texas Industries and Lafarge. Most recently, he announced that in early 2015 OCI will separate the fertilizer and construction businesses to remove the conglomerate discount in the stock price.

Weak emerging market results, due in part to currency moves, pressured the price of cement maker Lafarge, held in the International and Global Funds. Additionally, the stock pulled back following its initial surge after the announcement of the Holcim merger. The company's geographic diversity and our already conservative growth assumptions helped our appraisal remain steady. Slower volume growth in a few markets, such as Latin America, Western Europe, and Eastern Europe, was offset by solid demand in North America, Asia, and the U.K. as well as strong pricing in most markets. The planned merger with Holcim should be completed in 2015, providing upside opportunity through over €1 billion in cost savings and synergies. CEO Bruno Lafont has enhanced the company's value by divesting a number of plants at attractive prices as he moves to meet anticipated antitrust requirements.

Opportunity Set

A number of our stocks appreciated in the quarter, but none reached our full appraisal, as values also grew. Several of our largest positive contributors in the quarter, such as FedEx in the Partners Fund and formerly in the Global Fund, and Vopak in the International and Global Funds, only recently were in a similar boat to our current detractors facing stock price pressures that did not impact our appraisals. We often find opportunity when short-term uncertainty, either specific to a single area of a company or about macro trends, prices a stock at a discount to its intrinsic worth based on longer term free cash flow.

This time horizon arbitrage created by many of the pressures previously mentioned helped us find new qualifiers in all four Funds during the quarter. We made headway in reducing the cash levels, using our liquidity for several new purchases. In the International and Global Funds where cash was more limited, we replaced existing holdings with more attractive, new opportunities. Overall, prices remain more compelling outside of the U.S., due to more disruptions and broader uncertainty. This geographic discrepancy is evident in our on-deck lists, our lower-than-normal U.S. weight in the Global Fund portfolio, and our cash levels and P/V differences in the Partners and Small-Cap Funds relative to the International and Global Funds.

Outlook

While our third quarter results were disappointing, we used the market's volatility to enhance our prospective returns by deploying cash and selectively trading out more fully valued existing positions for attractive new opportunities. The stock declines that hurt our performance were not indicative of underlying threats to the investment cases. As we review each company we own, operating results are on track versus our expectations. Our appraisal values are stable or growing. We expect those values to increase and believe that, over time, prices will rise to meet those values like we are beginning to see at some of our stronger performers.

Our management teams continue to hasten value recognition using the levers at their disposal, such as repurchasing discounted shares, splitting out business segments, and selling assets at attractive prices. We are engaged in productive conversations with our management partners about ways to close the price-to-value gaps while this window of opportunity lasts. Buyers have access to particularly cheap capital and will pay high multiples for yield, tax benefits, and long-term control of natural resources. We have been pleased that many of our companies have been focusing on their core businesses and monetizing assets at attractive prices. Given our capable partners, we expect to see additional value creative capital allocation decision making that will further enhance our appraisals and ultimate returns.

Sincerely,

O. Mason Hawkins, CFA
Chairman & Chief Executive Officer
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President & Chief Investment Officer
Southeastern Asset Management, Inc.

October 31, 2014

See following page for important disclosures.

Before investing in any Longleaf Partners fund, you should carefully consider the Fund's investment objectives, risks, charges, and expenses. For a current Prospectus and Summary Prospectus, which contain this and other important information, visit longleafpartners.com. Please read the Prospectus and Summary Prospectus carefully before investing.

RISKS

The Longleaf Partners Funds are subject to stock market risk, meaning stocks in the Fund may fluctuate in response to developments at individual companies or due to general market and economic conditions. Also, because the Funds generally invest in 15 to 25 companies, share value could fluctuate more than if a greater number of securities were held. Mid-cap stocks held by the Funds may be more volatile than those of larger companies. With respect to the Small-Cap Fund, smaller company stocks may be more volatile with less financial resources than those of larger companies. With respect to the International and Global Funds, investing in non-U.S. securities may entail risk due to non-US economic and political developments, exposure to non-US currencies, and different accounting and financial standards. These risks may be higher when investing in emerging markets.

The S&P 500 Index is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3,000 Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index. MSCI EAFE Index (Europe, Australasia, Far East) is a broad based, unmanaged equity market index designed to measure the equity market performance of 22 developed markets, excluding the US & Canada. MSCI World Index is a broad-based, unmanaged equity market index designed to measure the equity market performance of 24 developed markets, including the United States. An index cannot be invested in directly.

P/V ("price to value") is a calculation that compares the prices of the stocks in a portfolio to Southeastern's appraisal of their intrinsic values. The ratio represents a single data point about a Fund and should not be construed as something more. P/V does not guarantee future results, and we caution investors not to give this calculation undue weight.

As of September 30, 2014, the holdings discussed represented the following percentages of the Funds: Chesapeake Energy, 6.0% Longleaf Partners Fund, 4.4% Longleaf Partners Global Fund; Murphy Oil, 3.7% Longleaf Partners Fund, 2.0% Longleaf Partners Global Fund; CONSOL, 5.5%, Longleaf Partners Fund; Melco, 6.6% Longleaf Partners International Fund, 6.4% Longleaf Partners Global Fund; OCI, 4.8% Longleaf Partners Small-Cap Fund, 4.5% Longleaf Partners International Fund, 4.3% Longleaf Partners Global Fund; Lafarge, 7.2% Longleaf Partners International Fund, 4.3% Longleaf Partners Global Fund; FedEx, 6.2% Longleaf Partners Fund; Vopak, 4.1% Longleaf Partners International Fund, 3.3% Longleaf Partners Global Fund. Fund holdings are subject to change and holding discussions are not recommendations to buy or sell any security. ***Current and future holdings are subject to risk.***

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Letter To Our Shareholders

Longleaf Partners Fund and Longleaf Partners Small-Cap Fund delivered strong absolute and relative results in the second quarter as all of our U.S. holdings rose. Year-to-date (YTD) both Funds have made substantial absolute gains in spite of large cash balances. The Small-Cap Fund is well ahead of the Russell 2000, and the Partners Fund is slightly behind the S&P 500 Index. We saw more mixed returns in the quarter among our investments in Europe and Asia with greater volatility outside of the U.S., and the reaction to several short-term, company-specific items in markets priced for perfection. As a result, Longleaf International and Longleaf Global had lower absolute and relative performance that pushed YTD returns below the relevant indices. All four Longleaf Funds generated well over 20% in the last year, far surpassing our absolute goal of inflation plus 10%. Each outpaced its benchmark index since inception.

Limited New Qualifiers

In concert with the geographic performance differences over the quarter, investment opportunities also diverged by region. Ongoing pessimism about slower economic growth in China continued to weigh on stocks tied to Chinese demand, including those linked to natural resources. By contrast, European markets benefitted from the combination of low European Union interest rates spurring private equity activity and U.S. companies re-domiciling through offshore acquisitions to secure lower tax rates ("inversion"). The U.S. reflected a more extreme version of Europe with few discounted opportunities. Multiple factors contributed to the lack of qualifying U.S. investments – a five-year bull market, the lowest volatility since 2007, heightened activism, and the substitution of investor complacency for healthy fear. The largest driver of what we see as market overvaluation has been the rise in merger and acquisition activity encouraged by the Federal Reserve's (Fed) commitment to historically low interest rates combined with the strength of corporate balance sheets, plus the aforementioned inversion driven by the world's highest corporate tax rate.

Transaction activity has been a double-edged sword. Our performance has benefitted, but new investment opportunities have almost disappeared as stocks have moved from earnings-based multiples toward deal multiples. Some of the Funds' holdings have participated in full-scale mergers and acquisitions. Additionally, many of our management partners have fed the deal appetite by spinning out pieces of businesses or selling assets at full or premium valuations. The chart below illustrates the large number of transactions involving the Funds' holdings both inside and outside of the U.S. over the last nine months and is a testament to the positive impact that good management partners can have.

Holdings Involved in Transactions	Transactions (Announced or Completed)	Geography of Headquarters	Fund(s) Held
*DIRECTV	Full acquisition by AT&T	U.S.	LLPF, LLGL
Level 3 / tw telecom	Full acquisition by Level 3	U.S.	LLPF, LLSC, LLGL
Martin Marietta / Texas Industries	Full acquisition by Martin Marietta	U.S.	LLSC
Bank of New York Mellon	Exploring sale of corporate trust unit	U.S.	LLPF, LLGL
CONSOL Energy	-Sale of W VA coal mines to Murray Coal -JV with Noble Energy for MLP	U.S.	LLPF
Mondelez	Sale of Jacob's coffee into JV	U.S.	LLPF

Holdings Involved in Transactions	Transactions (Announced or Completed)	Geography of Headquarters	Fund(s) Held
Chesapeake Energy	Spin-off oilfield services	U.S.	LLPF, LLGL
Murphy Oil	Spin-off retail stations	U.S.	LLPF, LLGL
Rayonier	Spin-off performance fibers	U.S.	LLSC
Graham Holdings/Berkshire Hathaway	Exchanged assets	U.S.	LLSC, LLPF
Lafarge	Merger with Holcim	Europe	LLIN, LLGL
Orkla	Spin-off/sale of Granges	Europe	LLIN, LLGL
Philips	Separating upstream lighting	Europe	LLPF, LLIN, LLGL
Vodafone	Sale of Verizon Wireless	Europe	LLIN
BR Properties	Sale of warehouse and retail portfolios	South America	LLIN
Cheung Kong	-Partial sale of Watson -Spin-off HK Electric	Asia	LLPF, LLIN, LLGL

* *We exited DTV amid longstanding speculation of a deal but before the AT&T deal was officially announced.*

The preponderance of U.S. activity has made finding companies that meet our deep discount criteria much more difficult. Deals have propelled prices more rapidly than intrinsic worth has grown. We have trimmed positions and sold several, leaving cash in the Partners Fund at 26% and the Small-Cap Fund at 47% following the sale of Texas Industries on July 1. The International and Global Funds are more fully invested with 9% cash in each after adding new qualifiers outside of the U.S.

We continue to manage the Longleaf Funds with the same bottom-up discipline that we have followed over four decades. We will seek to buy strong businesses with good management teams at deep discounts even if the overall market appears expensive. Cash levels are a residual outcome of our process rather than a reflection of a bearish market view. We have a robust on-deck list and are prepared to act whenever prices cooperate. A market correction could provide an expedient way to find adequately discounted businesses but is not necessary for us to put cash to work. Increased volatility, individual company idiosyncrasies, and value growth ahead of price gains also could generate qualifying opportunities such as they have outside of the U.S. this year.

Outlook

Equities remain attractive versus bonds and most other asset classes. For believers in mean reversion, both the ten and particularly fifteen-year market results are well below the multi-decade return averages of the S&P 500, Russell 2000, MSCI EAFE, and MSCI World indices. Over time, the more business-friendly government in India as well as Japan's push for improved corporate governance could create opportunities in those large markets.

We believe that the Funds are well positioned versus the broader markets for the next five years. First, market correlations have declined since the end of 2011 but remain above their long-term average, advantaging stock picking versus broad market bets, and our bottom-up, fundamentally-based investment approach has delivered strong relative results over the last two years. Moreover, these results understate how well our stocks have performed since our large cash levels have muted total returns over the last twelve months. Second, because many of our businesses have margin upside and are nowhere near the peak margins many believe are embedded in the broader market, our earnings growth can continue even without improved economic growth and has the potential to outpace the market's earnings growth. Third, our calculations indicate the benchmark indices are selling at or above fair value, while the Funds trade at a discount to our appraised values. Although our price-to-values (P/Vs) are higher than the long-term average, the disparity between our portfolios' valuations and

Letter To Our Shareholders

Value growth will drive a larger part of return given our higher P/Vs

the relevant indices is the same or larger than usual. The margin of safety in our holdings does not make us immune to price volatility, but in our view, indicates more upside opportunity with less risk than the overall market. Additionally, if volatility increases or we have a market pullback, our cash reserves, particularly in the Partners and Small-Cap Funds, can serve as a buffer and allow us to take advantage of lower prices.

Longleaf's returns depend on results at our individual investments. Based on the quality of our current holdings, we expect to meet our absolute annual return goal of inflation plus 10% over the next five years, although we anticipate lower returns than we generated over the last five years given the dramatically low P/Vs coming out of the financial crisis, especially in the U.S. Value growth at our companies will drive a larger part of return given our higher P/Vs today. Many of our management partners are increasing intrinsic worth through astute capital allocation beyond what organic cash flows are generating. These activities are not captured in our P/Vs, because our conservative appraisals only ascribe credit for normal business operations.

Positive returns on capital allocation decisions represent upside optionality, and we have seen value growth escalate as our partners have been:

- Selling assets above our appraisals,
- Making purchases that are value accretive,
- Investing in growth that delivers high future returns, and
- Repurchasing substantial amounts of shares when they have sold below intrinsic value.

Additionally, a number of capable partners among our holdings have large amounts of capital at their disposal to deploy when undervalued assets emerge. We appraise net cash at face value, but in the hands of CEOs with solid investment records, it is arguably worth significantly more.

Summary

First and foremost, a number of the individual businesses we own and the management partners running them are driving strong value growth. Second, current market valuations have not dampened our long-term outlook for our equities. Finally, we have a ready on-deck list and liquidity to add new qualifiers when opportunities arise.

Sincerely,

O. Mason Hawkins, CFA
Chairman & Chief Executive Officer
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President & Chief Investment Officer
Southeastern Asset Management, Inc.

August 11, 2014

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As of June 30, 2014 - The top 10 holdings in Longleaf Partners Fund – Level 3 (7.7%), Chesapeake Energy (7.3%), FedEx (7.3%), Loews (7.1%), Cheung Kong (7.0%), CONSOL (6.2%), Bank of New York Mellon (4.9%), Mondelez (4.9%), Abbott (4.6%), Philips (4.4%). Longleaf Partners Small-Cap Fund - Level 3 (8.6%), Graham Holdings (6.9%), OCI (5.9%), Texas Industries (5.7%), Everest Re (5.3%), tw telecom (4.9%), Empire State Realty Trust (4.6%), Vail Resorts (4.3%), Hopewell (4.3%), Scripps Networks (3.7%). Longleaf Partners International Fund – Lafarge (7.7%), Cheung Kong (7.6%), EXOR (6.6%), Melco (6.4%), K Wah (5.9%), Orkla (5.3%), OCI (5.1%), News Corp (4.8%), Philips (4.8%), Genting (4.4%). Longleaf Partners Global Fund - Level 3 (9.5%), Melco (6.9%), Cheung Kong (6.7%), EXOR (6.0%), Chesapeake Energy (5.4%), News Corp (4.8%), Loews (4.7%), K Wah (4.5%), OCI (4.5%), Bank of New York Mellon (4.3%). Holdings are subject to change and holding discussions are not recommendations to buy or sell any security. Current and future holdings are subject to risk.

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To Longleaf Shareholders

We are pleased to report that all four Longleaf Funds posted positive returns in the first quarter of 2014. Aside from the Global Fund, which is less than two years old, each Longleaf Fund also surpassed our absolute return goal and outperformed its respective index over the last five years. Interestingly, while health care stocks comprised half of the benchmarks' returns in the first quarter, these stocks were not in the Funds because these companies, especially pharmaceuticals, rarely meet our discount criteria. Despite our absence from this sector and our higher than normal cash balances, the Small-Cap, International, and Global Funds all exceeded their respective indices in the quarter.

Cumulative Returns at March 31, 2014

	Since Inception	20 Year	15 Year	Ten Year	Five Year	One Year	1Q
Partners Fund (Inception 4/8/87)	**1756.23%**	**620.47%**	**185.23%**	**78.21%**	**177.40%**	**18.66%**	**0.27%**
S&P 500 Index	1084.89	517.49	92.53	104.52	161.07	21.86	1.81
Small-Cap Fund (Inception 2/21/89)	**1447.76**	**1010.05**	**395.99**	**177.02**	**239.49**	**22.41**	**5.18**
Russell 2000 Index	975.52	512.04	259.56	126.78	196.88	24.90	1.12
International Fund (Inception 10/26/98)	**303.72**	**na**	**249.64**	**70.06**	**110.71**	**23.13**	**3.01**
MSCI EAFE Index	114.01	na	93.17	88.22	110.17	17.56	0.66
Global Fund (Inception 12/27/12)	**31.90**	**na**	**na**	**na**	**na**	**26.95**	**2.73**
MSCI World Index	28.50	na	na	na	na	19.07	1.26

Average Annual Returns at March 31, 2014

	Since Inception	20 Year	15 Year	Ten Year	Five Year	One Year
Partners Fund (Inception 4/8/87)	**11.43%**	**10.38%**	**7.24%**	**5.95%**	**22.64%**	**18.66%**
S&P 500 Index	9.59	9.53	4.46	7.42	21.16	21.86
Small-Cap Fund (Inception 2/21/89)	**11.53**	**12.79**	**11.27**	**10.73**	**27.69**	**22.41**
Russell 2000 Index	9.93	9.48	8.91	8.53	24.31	24.90
International Fund (Inception 10/26/98)	**9.47**	**na**	**8.70**	**5.45**	**16.07**	**23.13**
MSCI EAFE Index	5.06	na	4.49	6.53	16.02	17.56
Global Fund (Inception 12/27/12)	**24.63**	**na**	**na**	**na**	**na**	**26.95**
MSCI World Index	22.12	na	na	na	na	19.07

During the inception year, the S&P 500 and the EAFE Index were available only at month-end; therefore the S&P 500 value at 3/31/87 and the EAFE value at 10/31/98 were used to calculate performance since inception.

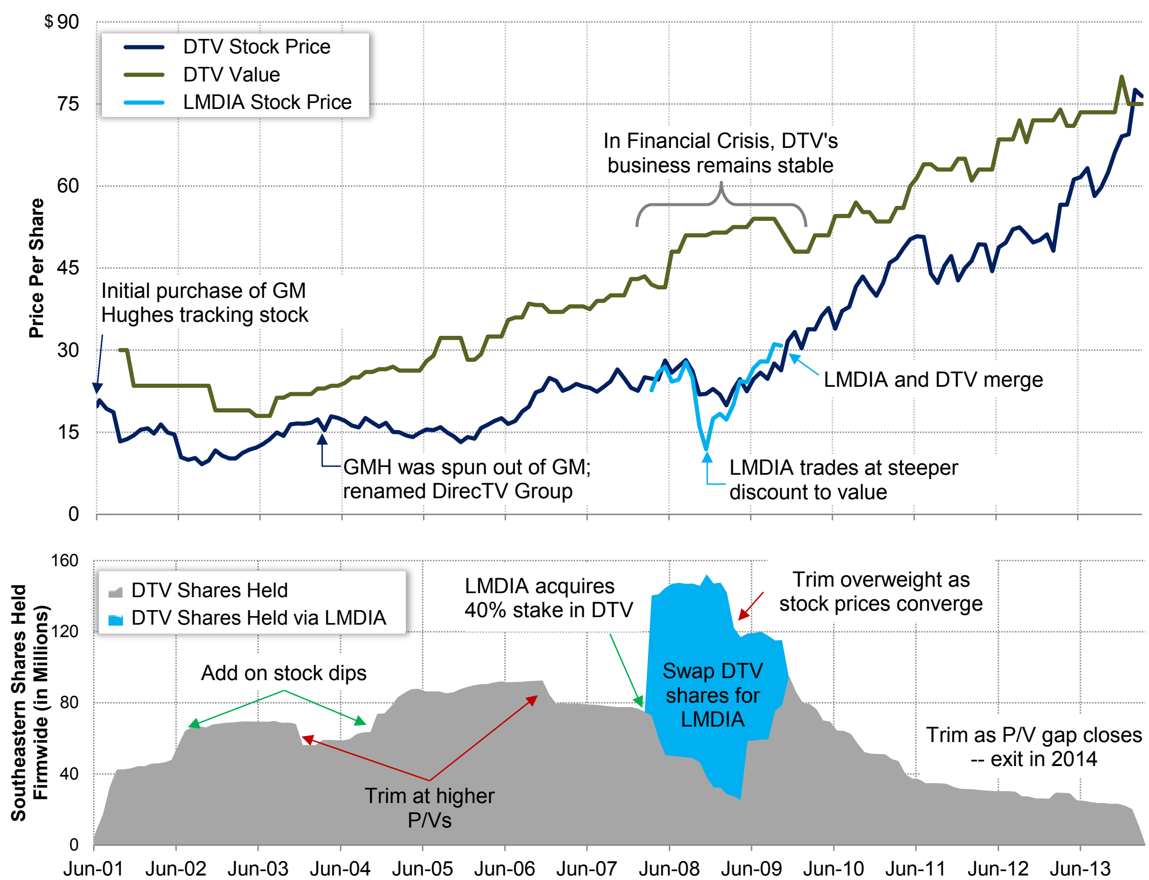
Returns reflect reinvested capital gains and dividends but not the deduction of taxes an investor would pay on distributions or share redemptions. Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by visiting longleafpartners.com

The total expense ratios for the Longleaf Partners Funds are: Longleaf Partners Fund 0.91%, Longleaf Small-Cap Fund 0.92%, Longleaf Partners International Fund 1.29%, and Longleaf Partners Global Fund 2.19%. The Partners and Small-Cap Funds' expense ratios are subject to a fee waiver to the extent a Fund's normal annual operating expenses exceed 1.5% of average annual net assets. The Longleaf International Fund's expense ratio is subject to a fee waiver to the extent the Fund's normal annual operating expenses exceed 1.75% of average annual net assets. The Longleaf Global expense ratio is subject to a fee waiver to the extent the Funds' normal operating expenses exceed 1.65% of average annual net assets.

During the quarter we exited DIRECTV (DTV), a highly successful core holding in our U.S. and Global accounts for over a decade. We discuss our DTV experience not to showcase one winner, but because the investment illustrates the process and approach we follow for holdings across all mandates and highlights some of Southeastern's unique research strengths.

History of DTV Investment (based on Longleaf Partners Fund)
Sometimes we can own a company in indirect ways that create part of the discount to intrinsic worth. In the case of DTV, we owned the underlying business via three different stocks over our thirteen-year holding period as shown on the chart that follows. Initially, in 2001 we bought GMH, the tracking stock that General Motors created for the Hughes division that included all of its satellite businesses. By early 2004, the company had been spun fully out of GM and renamed DIRECTV Group. Over the following four years, we opportunistically added to and trimmed our position. In early 2008, John Malone exchanged Liberty Media's (LMDIA) News Corp shares (NWS) for the 40+% of DTV that NWS owned. We previously had purchased Liberty Media Corp, the precursor to LMDIA, and the 2008 transaction increased our underlying ownership in DTV. Throughout 2008, we swapped DTV for LMDIA which traded at a steeper discount to underlying value. In the financial crisis, although DTV's business remained remarkably stable, LMDIA shares became severely discounted when debt at other Liberty affiliates cast a shadow on LMDIA. We made sure we understood the obligations of each Liberty entity and John Malone's intentions, and then took LMDIA to a "double weight" (10%) position while maintaining our direct DTV stake. In 2009, LMDIA and DTV merged. Over the next four years, the intrinsic value of the company grew as did the stock price. We trimmed our position as the price-to-value (P/V) gap closed and completely exited in the first quarter of 2014 when the stock reached our appraisal. Because of the strength of DTV's franchise and management partners, value could continue to build unabated. We followed our discipline to exit when the price reached our appraisal, leaving no margin of safety in the stock.

History of DTV Investment 6/18/01 - 3/26/14 (based on Longleaf Partners Fund)



Strong Business

In every new investment, we analyze why a stock is cheap and how our view of the business differs from the market's view. Initially, DTV's core strongholds were rural subscribers with no cable alternatives and premium subscribers willing to pay for the technologically superior digital picture and recording as well as exclusive sports programming. The most valuable DTV subscribers were immune from the market's concern - the "triple play threat" of a single provider for video, voice and broadband. Subsequent subscriber growth and pricing power as shown through rising ARPU (average revenue per user) were proof of DTV's advantages.

When we own a name we evaluate how the business evolves and adjust our assumptions about competitive advantages and value growth. Over time, DTV's U.S. subscriber base grew to more than 20 million, and growth inevitably slowed. Cable providers developed better picture quality and digital recording, and "cord cutting" (leaving pay-TV for video delivery alternatives) also received increasing attention. Verizon invested heavily to become a competitor. Satellite provider DISH's Hopper grew more competitive due to combining cord cutting with high definition recording. NFL programming became less exclusive. As the competitive landscape changed, at three different points over our holding period, we appointed an analyst to serve as "Devil's Advocate" (DA) to challenge the entire investment case and appraisal. Although DTV's U.S. ARPU continued to increase, we reduced our appraisal multiples to account for the increasingly competitive U.S. environment. Management also recognized the U.S. evolution and developed Latin American markets where the lack of infrastructure minimized cable competition. Over the last five years, we adjusted our appraisal as DTV transitioned from a primarily U.S. provider to a company with almost half of its value attributable to its Latin American operations. However, we recently lowered our appraisal of the Latin American business based on currency fluctuations and other geopolitical developments. While shorter-term conditions made a lower appraisal unavoidable, we remained very bullish on the company's long-term prospects in Latin America.

Good Management

The operating expertise of two successive CEOs, first Chase Carey and then Mike White, kept the company competitive over the long run, even as the landscape morphed. In addition to improving service, containing costs, and providing exclusive programming, management upgraded customer quality ahead of the recession, removing subscribers with lower credit and poor payment history. This move paid off handsomely as subscriber retention gave DTV an edge through the financial crisis.

Many CEOs have strong operating abilities, but what sets apart the all-stars is a deep understanding of building value per share through wise capital allocation. Our successive DTV partners clearly understood the risk/reward calculus when they deployed the company's resources. They successfully invested for growth by comparing subscriber acquisition cost (SAC) to the value of the cash flow stream from the incremental new subscriber. They also returned enormous capital to shareholders, repurchasing over 60% of the company's shares over the last 10 years when prices were well below intrinsic value.

We conduct a comprehensive assessment of management at the outset of every investment. At DTV, we did this a second time in 2010 when Mike White came from Pepsi to be CEO after Chase Carey left for NWS (which became 21st Century Fox). We quickly called upon our broad network of contacts, including some who had worked directly with Mike, to gain insight into his skills, character, and record, and we received positive feedback.

Deeply Discounted Price

How can strong businesses with good management become deeply discounted? Four common ways that we find a cheap stock applied at DTV. First, a mismatch between real or perceived threats and when or how they will impact value creates opportunity. In some cases, short-term challenges have little impact on long-term value. In the case of DTV, the stock price was over-discounting the near-term "triple play threat," even though longer-term technology changes did alter the competitive landscape.

Second, we see many external reports that determine price targets by simply putting a multiple on earnings. Our due diligence breaks down business segments, evaluates free cash flow versus earnings, and differentiates between capital spending to maintain the business versus to grow it. We analyze growth spending as a choice that must be weighed against capital allocation options. At DTV, management's investment in U.S. SAC lowered short-term profits, but when U.S. growth spending slowed, the cash flow from those subscribers continued to roll in, generating a high long-term return. A similar dynamic continues today with the build out of Latin America.

Third, we often find a "sum of the parts" discount when we can own a business indirectly through another stock. Our appraisals break down the value of each underlying piece of a company. The most extreme example at DTV came in December 2008 when we could own a share of DTV through LMDIA for less than half the price of directly owning DTV.

Fourth, controversial management can generate a discount. When we doubled down on LMDIA, skepticism about John Malone played a part in the price decoupling from the value. Although accurately assessing executives is difficult, we spend immense time reviewing operating and capital allocation history, understanding incentives, interviewing others who have interacted with the person, meeting with the CEO, and researching professional and personal backgrounds.

We want a thorough knowledge of our partners to see through any short-term controversy. We were more than happy to invest alongside Malone.

Summary of Southeastern's Investment Process
Our experience with DTV highlights the following characteristics about our process.

-We examine what insight we bring that the stock does not reflect. For new names and holdings with transitioning businesses, we assign a Devil's Advocate to make sure we thoroughly consider the negatives imbedded in the stock price.

-Businesses and values are dynamic. We continually reassess our case, accounting for new financial and industry information and conducting regular team reviews of each holding.

-We spend enormous time learning about our CEO partners, because when we find the unique combination of a great operator and sagacious capital allocator, it can be the difference between a good outcome and a phenomenal one. Additionally, our intensive, broad-reaching research can sometimes uncover a good partner masked with a controversial reputation, giving us the opportunity to own a business at a steeper discount.

-We base our appraisals on deep, detailed analysis of a company's underlying segments over a long time horizon. Opportunities can emerge if a business is oversimplified or plagued by near-term concerns.

-Our risk management discipline determines how we manage a portfolio position based on our underlying total exposure to a business as well as size relative to P/V and value growth.

Several of Southeastern's research advantages are embedded within our DTV experience. First, because of our significant co-ownership in the Longleaf Funds, our focus with every holding is the prospective investment case. Whether we have been right or wrong up to a current point tells nothing about what the future will be. We constantly reassess our investments to confirm we want our capital in a business going forward.

Second, different than most firms, our analysts are generalists rather than assigned to a specific industry or geography, and those same analysts, rather than separate portfolio managers, debate and determine whether we buy a company. This structure provided for constant questioning of the DTV case by informed decision makers who had specific, relevant understandings of the company, its competitors, and its industry. Their cumulative knowledge of both current and previous holdings included covering content providers such as ESPN, Disney, Fox, and Discovery. Different individuals also had followed media distribution companies around the world, including cable in the U.S. and Canada, and satellite in the UK and Japan. Rather than deferring to one media analyst, we had ten researchers asking detailed questions regarding pricing, SAC, substitution threats, ARPU trends, etc., each with a different perspective. As the industry evolved, the DA work did not require a steep learning curve and incorporated informed perspectives of competitors, suppliers and customers. Our unique combination of generalist researchers who make portfolio decisions as a team lends itself to deep analysis on every name.

Third, DTV exemplifies the advantages of our contact network from 40 years of investing. We called on media and other industry contacts from previous investments as well as Southeastern clients to provide perspectives on how the competitive landscape was changing. We had contacts who personally knew both CEOs, and John Malone's view was indispensable. Our terrific outcome with Chase Carey led to our following him to News Corp with an investment there.

Our research structure enables Southeastern to thoroughly vet names, which leads to higher confidence in the limited names that meet the team's hurdles. Our network is cumulative and provides invaluable insights into what we own, what we are considering, and what we should avoid. We also gain understanding of both the skills and character of our partners. Without these advantages, Southeastern's employees might not feel the same conviction that enables us to limit our public equity investing to Longleaf with minimal exceptions.

Our process and strengths do not insure that every investment works out as well as DTV, but every name we own is subjected to the same rigorous scrutiny. This impacts our current portfolios in two ways. First, we believe that the strength of the businesses that we own today will be a solid foundation for good future returns. We have vetted these names as we did DTV, and in the cases where we have owned them for a while, we have reexamined the cases thoroughly to focus on the future rather than the past. Second, a number of our holdings have had prices rise faster than values in the last few years, and we are not able to find as many businesses that meet our qualifications. Trimming to manage position sizes and selling fully valued holdings has resulted in higher-than-normal cash positions. We are not willing to compromise our criteria simply to be more fully invested, because we believe it would lead to more risk and less long-term return as we would pay a lower discount and force our capital into inferior businesses or companies with less capable management teams that wouldn't withstand our scrutiny. Over time, we have been rewarded by patience and discipline, and we are willing to wait until we find the next DTV.

Additional Updates
We are pleased to announce that effective with the May 1 Prospectus of Longleaf Partners Funds, senior analyst Ross Glotzbach will join Mason and Staley as a co-manager on Longleaf Partners Small-Cap Fund. Ross celebrates his tenth anniversary at Southeastern this year and has become an increasingly valuable member of the research team. Becoming

co-portfolio manager of Small-Cap will not change Ross' daily focus on finding and following investments, but this new role acknowledges his immense collective contribution, particularly to Small-Cap's strong returns over the last few years.

As the quarter ended, the release of Michael Lewis' new book, Flash Boys, brought new attention to the topic of high-frequency trading (HFT). We welcome the increased scrutiny, which we encouraged in our June 2010 letter to clients after submitting suggestions to the SEC and Congress on market structure reforms. If you are interested in our thoughts on how the industry should address HFT, the steps Southeastern takes to try to protect our trades, or our 2010 filings on the topic, please go to longleafpartners.com/marketstructure.

Additionally, we launched our redesigned web site this quarter. Users can now navigate easily between sites depending on whether their interest is Southeastern (southeasternasset.com) or Longleaf Mutual Funds (longleafpartners.com). We hope to increase the content on these sites over time to provide our partners with the information they need in an easily accessible format. We welcome your feedback as you explore the new design.

As an extension of a more robust web site, we are reformatting our Annual Shareholder Gathering for the Longleaf Funds. To make our presentations more accessible and convenient for all, we will host a webcast on Thursday, May 8 at 11:00 a.m. Eastern Standard Time. We welcome all of our partners – whether Longleaf owners or separately managed clients – to participate in the webcast. Please register at longleafpartners.com/presentation2014. We also will have an informal shareholder appreciation event at 5:30 that evening at the Botanic Garden in Memphis where we will be available to answer questions.

See following page for important disclosures.

Before investing in any Longleaf Partners fund, you should carefully consider the Fund's investment objectives, risks, charges, and expenses. For a current Prospectus and Summary Prospectus, which contain this and other important information, visit longleafpartners.com. Please read the Prospectus and Summary Prospectus carefully before investing.

RISKS

The Longleaf Partners Funds are subject to stock market risk, meaning stocks in the Fund may fluctuate in response to developments at individual companies or due to general market and economic conditions. Also, because the Funds generally invest in 15 to 25 companies, share value could fluctuate more than if a greater number of securities were held. Mid-cap stocks held by the Funds may be more volatile than those of larger companies. With respect to the Small-Cap Fund, smaller company stocks may be more volatile with less financial resources than those of larger companies. With respect to the International and Global Funds, investing in non-U.S. securities may entail risk due to non-US economic and political developments, exposure to non-US currencies, and different accounting and financial standards. These risks may be higher when investing in emerging markets.

The S&P 500 Index is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3,000 Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index. MSCI EAFE Index (Europe, Australasia, Far East) is a broad based, unmanaged equity market index designed to measure the equity market performance of 22 developed markets, excluding the US & Canada. MSCI World Index is a broad-based, unmanaged equity market index designed to measure the equity market performance of 24 developed markets, including the United States. An index cannot be invested in directly.

P/V ("price to value") is a calculation that compares the prices of the stocks in a portfolio to Southeastern's appraisal of their intrinsic values. The ratio represents a single data point about a Fund and should not be construed as something more. P/V does not guarantee future results, and we caution investors not to give this calculation undue weight.

As of March 31, 2014 - The top 10 holdings in Longleaf Partners Fund – Loews (7.4%), Chesapeake Energy (7.2%), Level 3 (7.1%), FedEx (6.7%), Cheung Kong (6.7%), CONSOL (5.7%), Mondelez (4.9%), Philips (4.9%), Bank of New York Mellon (4.9%) Abbott (4.5%). Longleaf Partners Small-Cap Fund - Texas Industries (15.6%), Level 3 (7.9%), Graham Holdings (7.0%), Everest Re (5.2%), Empire State Realty Trust (4.3%), Vail Resorts (4.0%), tw telecom (3.9%), Fairfax (3.7%), Scripps Networks (3.6%), Hopewell (3.6%). Longleaf Partners International Fund – EXOR (7.0%), Cheung Kong (6.9%), Lafarge (6.8%),OCI (5.8%), K Wah (5.6%), Philips (5.0%), Orkla (4.9%), Ferrovial (4.6%), News Corp (4.5%), Melco (4.5%). Longleaf Partners Global Fund - Level 3 (10.6%), Cheung Kong (7.3%), Chesapeake Energy (5.8%),OCI (5.6%), Bank of New York Mellon (5.1%), EXOR (5.0%), Orkla (5.0%), Loews (4.7%), Melco (4.3%), Guinness Peat (4.3%). Holdings are subject to change and holding discussions are not recommendations to buy or sell any security. Current and future holdings are subject to risk.

Funds distributed by Rafferty Capital Markets, LLC. As of May 1, 2014, Funds distributed by ALPS Distributors, Inc.

LLP000115

Expires July 15, 2014

Letter To Our Shareholders

We are pleased to report 2013 returns. The Partners Fund gained 32.1%, Small-Cap 30.5%, International 28.1%, and Global 28.4%. These results mean that your capital compounded at exceptional rates as each of the Longleaf Partners Funds more than doubled our absolute return goal of inflation plus 10%. The International and Global Funds exceeded their benchmark indices; the Partners Fund approximated the S&P 500; and Small-Cap lagged the Russell 2000 because of the Fund's large cash position. While the Global Fund just completed its first year of operation, each of the longer established Funds delivered double-digit average annual returns over the last five years, and all three outperformed their indices since inception.

Cumulative Returns at December 31, 2013

	Since Inception	20 Year	15 Year	Ten Year	Five Year	One Year	4Q
Partners Fund (Inception 4/8/87)	**1751.29%**	**644.70%**	**202.20%**	**79.86%**	**170.85%**	**32.12%**	**9.75%**
S&P 500 Index	1063.85	483.53	98.54	104.30	128.19	32.39	10.51
Small-Cap Fund (Inception 2/21/89)	**1371.59**	**970.43**	**358.26**	**167.41**	**198.20**	**30.45**	**5.65**
Russell 2000 Index	963.63	489.14	236.29	138.31	149.69	38.82	8.72
International Fund (Inception 10/26/98)	**291.93**	**na**	**259.51**	**75.86**	**73.38**	**28.14**	**6.89**
EAFE Index	112.60	na	94.57	95.09	79.69	22.78	5.71
Global Fund (Inception 12/27/12)	**28.40**	**na**	**na**	**na**	**na**	**28.40**	**9.18**
MSCI World Index	26.89	na	na	na	na	26.68	8.00

Average Annual Returns at December 31, 2013

	Since Inception	20 Year	15 Year	Ten Year	Five Year	One Year
Partners Fund (Inception 4/8/87)	**11.54%**	**10.56%**	**7.65%**	**6.05%**	**22.05%**	**32.12%**
S&P 500 Index	9.61	9.22	4.68	7.41	17.94	32.39
Small-Cap Fund (Inception 2/21/89)	**11.42**	**12.58**	**10.68**	**10.34**	**24.42**	**30.45**
Russell 2000 Index	9.98	9.27	8.42	9.07	20.08	38.82
International Fund (Inception 10/26/98)	**9.41**	**na**	**8.90**	**5.81**	**11.63**	**28.14**
EAFE Index	5.10	na	4.54	6.91	12.44	22.78
Global Fund (Inception 12/27/12)	**28.05**	**na**	**na**	**na**	**na**	**28.40**
MSCI World Index	26.65	na	na	na	na	26.68

During the inception year, the S&P 500 and the EAFE Index were available only at month-end; therefore the S&P 500 value at 3/31/87 and the EAFE value at 10/31/98 were used to calculate performance since inception.

See pages 6, 12, 18 and 26 for additional performance information.

Letter To Our Shareholders

We will exercise patience and discipline rather than add risk of capital loss by chasing prices.

Almost every investment positively contributed to performance in 2013, and the importance of good partners and strong businesses was evident. New leaders quickly improved operations and sold non-core assets to strengthen the balance sheets at Chesapeake, Hochtief , and Level 3. At Philips and Wendy's, managements focused on the most profitable parts of their businesses while implementing successful programs to increase revenues and margins. We had major asset sales at premiums to our appraisals at Vodafone (Verizon Wireless stake) and Graham Holdings *(The Washington Post)*. Competitively advantaged holdings continued to demonstrate the value of moats at FedEx, Melco, and Texas Industries. These holdings were among our largest contributors to performance, and they exemplify activity prevalent across most of our holdings throughout the year.

Two years ago, when fears about global uncertainty over sovereign debt and economic recession caused stocks to decline significantly in the third quarter, the final paragraph of our year-end letter contained an emphatic message about the opportunity embedded in our portfolios and that we anticipated exceptional returns.

The subsequent two years were outstanding for equity markets in general and for the Longleaf Funds with returns that far exceeded inflation plus 10%. The Partners Fund gained 54%, Small-Cap 60%, and International 55%. It is rare to generate absolute returns of this magnitude over such a short period, and we are pleased but not surprised at this outcome given our message at the end of 2011.

Today we face an interesting contrast in our performance outlook. While we believe that our returns will continue to meet our goal over the next decade, we expect shorter-term absolute results to be more measured than those indicated in our 2011 letter. Our businesses are not nearly as discounted as they were two years ago, and new investment opportunities that meet our deep-discount criteria are more limited than normal. We do expect, however, to deliver solid absolute returns and compare favorably to the indices going forward.

Two years ago we anticipated large absolute returns without regard to expectations about relative performance. But from this point, assuming stock price correlations trend lower toward long-term averages, we would normally perform better in relative terms. The following factors are the foundation for our relative strength.

- We own a collection of competitively advantaged, industry-leading companies that produce large amounts of free cash flow (FCF);
- We have more financial strength and flexibility across our holdings to potentially capture future opportunity after significant deleveraging over the last few years from a combination of our portfolio sales and our corporate partners' divestitures and restructurings;
- Our portfolios are trading for a meaningful discount to our conservative business appraisals;
- We believe the values of our holdings should compound faster than the worth of the collection of businesses in the indices due to anticipated FCF retention and share buybacks at discounts to values;
- We believe we are partnered with superior management teams who are good capital and operating stewards intelligently redeploying FCF;
- We are committed to good governance and will engage with management should the need arise;
- We have the flexibility to invest our portfolios where discounts exist, and are not handcuffed by geographic boundaries or index sector weights.

As we have during previous times when qualifying investments were scarce, cash was elevated, and P/Vs were higher than normal, we will exercise patience and discipline rather than add risk of capital loss by chasing prices for the sake of being invested over a short-term period. Our analysts are doing their homework, appraising businesses and assessing management teams to ensure that when an individual company disappoints, a stock stagnates against a rising value, or the market has a downdraft, we are ready to opportunistically take advantage of volatility and stock mispricing. We never know how the next qualifiers will come our way, but they do show up. The combination of what we own now and what will qualify in the future will determine our relative and absolute return success going forward.

A broad market pullback could provide our next qualifiers. We are not market prognosticators, but few markets around the globe can claim undervaluation, and many have pockets of overvaluation. In the event of a correction, short-term performance is likely to decline. Our long-term results, however, will benefit from a lower P/V as we are armed with a vetted wish list of businesses and ample cash to be liquidity providers when new opportunities or existing names are offered at less than 60% of our appraisals. Additionally, lower prices will allow management teams at our current holdings to use their balance sheet's strength to execute repurchases at deeper discounts that build values per share more rapidly.

An addition to our research effort planned for 2014 may enhance our list of names that meet our qualitative requirements. We will access investment ideas generated by Pat Dorsey, who developed the "Economic Moat" analysis at Morningstar. In return, Southeastern will provide operational support for his new investment firm. With this partnership, Pat gains Southeastern's back office expertise, and we expand our idea generation using a method more suited to our criteria than any black-box quantitative screen we could buy. Because Pat's research fits with only the "Business" part of our "Business, People, Price" criteria, to the extent he surfaces companies with moats that are not already on our on-deck list, we will conduct the same diligence we would with any type of screen or new idea: perform a deep-dive analysis of the business, determine a conservative value, and rigorously assess management.

The qualitative strength of the businesses and management partners that drove our 2013 results remains firmly in place and should help us deliver strong relative results going forward as well as meet our absolute return objective over the long term. We believe that the values of our companies will be materially higher in five years. Additionally, we are continually pursuing new opportunities and are prepared to capitalize when qualifiers emerge. We are glad to be your largest partner in the Longleaf Partners Funds and appreciate your long-term investment commitment.

Happy New Year,

O. Mason Hawkins, CFA
Chairman & Chief Executive Officer
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President & Chief Investment Officer
Southeastern Asset Management, Inc.

February 10, 2014

Letter To Our Shareholders

We are pleased to report that Southeastern delivered one of our strongest absolute return quarters across the Longleaf Fund family in 3Q as almost all of our holdings appreciated. Only the Small-Cap Fund, which had a large cash position, did not exceed its benchmark index in the quarter. One year returns were well ahead of our annual absolute goal of inflation plus 10%. The Partners and International Funds also substantially outperformed their benchmark indices over the last twelve months. Each of the four Longleaf Funds has beaten its respective index since inception.

Cumulative Returns at September 30, 2013

	Since Inception	20 Year	15 Year	Ten Year	Five Year	One Year	YTD	3Q
Partners Fund Inception 4/8/87	**1586.90%**	**623.42%**	**226.39%**	**84.03%**	**61.07%**	**24.13%**	**20.39%**	**9.82%**
S&P 500 Index	953.13	440.25	117.91	107.37	61.18	19.34	19.79	5.24
Small-Cap Fund Inception 2/21/89	**1292.94**	**972.76**	**396.50**	**189.95**	**102.63**	**27.82**	**23.48**	**7.44**
Russell 2000 Index	878.31	455.92	259.77	151.03	69.68	30.06	27.69	10.21
International Fund Inception 10/26/98	**266.65**	**na**	**na**	**82.06**	**32.56**	**29.83**	**19.87**	**12.95**
EAFE Index	101.11	na	na	116.07	36.06	23.77	16.14	11.56
Global Fund Inception 12/27/12	**17.60**	**na**	**na**	**na**	**na**	**na**	**17.60**	**14.29**
MSCI World Index	17.49	na	na	na	na	na	17.29	8.18

Average Annual Returns at September 30, 2013

	Since Inception	20 Year	15 Year	Ten Year	Five Year	One Year
Partners Fund Inception 4/8/87	**11.26%**	**10.40%**	**8.21%**	**6.29%**	**10.00%**	**24.13%**
S&P 500 Index	9.29	8.80	5.33	7.57	10.02	19.34
Small-Cap Fund Inception 2/21/89	**11.30**	**12.60**	**11.27**	**11.23**	**15.17**	**27.82**
Russell 2000 Index	9.71	8.96	8.91	9.64	11.15	30.06
International Fund Inception 10/26/98	**9.09**	**na**	**na**	**6.18**	**5.80**	**29.83**
EAFE Index	4.80	na	na	8.01	6.35	23.77

During the inception year, the S&P 500 and the EAFE Index were available only at month-end; therefore the S&P 500 value at 3/31/87 and the EAFE Index value at 10/31/98 were used to calculate performance since inception.

See pages 8, 14, 20 and 28 for additional performance information.

Letter To Our Shareholders

Three important factors give us confidence that we have attractive upside in our portfolios.

The common theme in our strongest contributors in the quarter was that they illustrate the meaningful impact that good management can have. Our newly installed CEOs have shown quick results. Doug Lawler at Chesapeake implemented significant cost cuts, lowered capital spending, and sold non-core assets. Jeff Storey at Level 3 reduced costs and focused on adding more profitable customers. Marcelino Verdes at Hochtief sold both the airport and services businesses for attractive prices. Our longstanding partners also made smart operating and capital decisions to build value during the quarter. Frans van Houten at Philips completed a large buyback at discounted prices and continued delivering higher margins that approached year-end targets. Brett Harvey at CONSOL Energy pursued an asset rationalization plan that will fund higher gas production. Vittorio Colao sold Vodafone's stake in Verizon Wireless at a compelling price. Don Graham at the Washington Post sold the namesake newspaper at a 25% premium to our appraisal. Emil Brolick successfully sold 30 Wendy's stores and encouraged more franchisees to fund the accretive store revitalization strategy. The actions of these CEOs contributed meaningfully to our successful quarter.

In contrast, Michael Dell put his personal gain above other shareholders' interests and eventually won approval of a management buyout well below the value of Dell's free cash flow and assets. We recognized our errors in assessing Michael Dell as a partner, but we believed that fighting for our clients' interests against the first MBO in our 38 year history would generate a better outcome than his initial offer, and it did. Our collective opposition with other institutional owners forced the board to postpone the vote three times to avoid defeat, change the record date, alter voting rules, and secure a higher offer to gain approval of the deal. Southeastern infrequently becomes an activist, but when we do, we cover all expenses incurred out of our own pocket – not the Longleaf Funds' assets. Importantly, fighting for shareholders usually has delivered a superior result.

Our strong absolute returns over the last year have focused our attention on two primary questions – do our portfolios contain attractive upside from here, and where are we finding opportunities? Today, new qualifiers have become elusive with the strong market run, and our on-deck list is populated with various 70-plus-cent dollars but few immediate buys. As a result, our portfolios contain higher-than-normal cash levels as we have trimmed positions and sold those that reached appraisal. From a geographic perspective, the U.S. markets appear fairly valued – not cheap but not grossly elevated. In this type of environment, we generally find opportunities by uncovering individual company mispricing or by an eventual market setback. Other parts of the world have more macro factors creating discounts. In Europe, while markets have recovered from their trough recessionary levels, low economic expectations are depressing prices even at European-domiciled companies with meaningful revenues beyond European borders. In Asia and other geographies dependent on Chinese demand, concerns over a hard landing have created opportunities at businesses with a much broader reach.

In spite of elevated quantitative measures such as P/V, cash, and recent performance, three important factors give us confidence that we have attractive upside in our portfolios - 1) the quality of our companies, 2) the caliber of our management partners, and 3) the conservatism in our appraisals. These should contribute to strong value growth that will be an important determinant of our future returns.

Quality of our companies: The businesses we own should be able to deliver higher free cash flow over the next three years, thereby building intrinsic values. First, a number of our holdings that are headquartered in developed markets such as Abbott, Cheung Kong, DIRECTV, Lafarge, Mondelez, Philips, and Vodafone have large portions of their revenues in faster growing geographies. Second, the strength of our companies' competitive positions and/or brands is enabling many to increase top line via pricing increases including Abbott, Cemex, DIRECTV, Everest Re, FedEx, Ferrovial, Lafarge, Loews, Martin Marietta, Melco, Mondelez, News Corp, Scripps Networks, Texas Industries, Travelers, Washington Post, Vail, and Vulcan. Third, a number of our management teams are continuing to extract costs from their businesses to address slower growth and gain increased efficiencies. Material cost reductions are occurring at Abbott, Aon, Bank of New York Mellon, Cemex, Chesapeake, FedEx, Guinness Peat, Hochtief, Lafarge, Legg Mason, Level 3, Mondelez, Nitori, Philips, TNT Express, Washington Post, and Wendy's. Fourth, in contrast to oft-stated concerns about peak margins, operating margins across our holdings are approximately one-third less than the overall market's margins, with most of our companies operating closer to their 10-year margin averages than their peaks.

Caliber of our management partners: As highlighted in our first paragraph, many management teams are taking actions to grow per share value. Beyond those previously mentioned, we have numerous CEOs making wise capital allocation decisions. Our partners at Abbott, Bank of New York Mellon, Cheung Kong, CNH, Guinness Peat, Hochtief, Loews, Melco, Murphy, and News Corp have initiated corporate restructuring or spun out segments. Others have sold assets for attractive prices including those at ACS, CONSOL, Ferrovial, Exor, Lafarge, Murphy, News Corp, and TNT Express. Returning excess capital to shareholders via repurchases or dividends continues at Abbott, Aon, Bank of New York Mellon, CONSOL, DIRECTV, Everest Re, Loews, Mondelez, Murphy, News Corp, Philips, Scripps Networks, Travelers, Vodafone, Washington Post, and Wendy's. Our goal in every investment is to have management partners who prudently grow value per share while we stand on the sidelines and cheer. Our companies are meeting that objective in almost every case, and we are constructively talking with our partners to ascertain where there is additional room for improvement.

Conservatism in our appraisals: Not only should the strength of our businesses and management teams generate value growth, but also the conservatism in our appraisals leaves room for significant upside. We are assigning lower values to assets than managements ascribe. For example, we give little credit to Aon's health insurance exchange or FedEx moving Express margins towards UPS' levels. Our appraisals are below actual transaction prices for pieces of Ferrovial's 407 toll road and Heathrow airport, as well as Cheung Kong's real estate and infrastructure assets. In a world of low interest rates, our U.S. dollar equivalent discount rate of 9% understates values versus what high yield bonds, the equity risk premium, or most companies' cost of capital would prescribe. If macro factors break our way, we have additional upside. Broadly speaking, our top-line growth assumptions track the low single-digit GDP growth expectations of our CEOs. Larger economic expansion would increase appraisals. Likewise, a rise in U.S. natural gas demand would benefit Chesapeake and CONSOL Energy; moving off the bottom in the Spanish economy would positively impact ACS and Ferrovial; an interest rate increase would help earnings on fixed income at our non-life insurers and on meaningful cash balances at several companies. We appraise cash at face value, but if used to buy discounted shares, it is worth more. We have many excellent investors as partners who have substantial available liquidity, including Miles White at Abbott, Warren Buffett at Berkshire, Li Ka-shing at Cheung Kong, John Elkann at Exor, Prem Watsa at Fairfax, Rafael del Pino at Ferrovial, Jim Tisch at Loews, Rupert Murdoch at News Corp, Nassef Sawiris at OCI, Ken Lowe at Scripps Networks, Vittorio Colao at Vodafone, and Don Graham at Washington Post. If any of these CEOs reinvest their cash as successfully as they have in the past, our appraisals would escalate.

We are quite optimistic about our prospects for strong value growth at our companies and believe our current P/V ratios are more attractive than they appear given our conservatism, even though we are not particularly bullish on the stock market. As we find new opportunities that meet our criteria, we will introduce another layer of upside into the Funds, converting low-return cash into 60-cent or better dollars. We continually work hard to identify qualifiers but always will maintain our discipline, as we have when cash and P/Vs have been high in the past. As the

Letter To Our Shareholders

Long-term performance benefits from having liquidity to buy the next undervalued opportunity.

largest Longleaf owners, your managers at Southeastern understand the cash drag on returns in a rising market. We also know that long-term performance benefits from having liquidity to buy the next undervalued opportunity. The 60-cent dollar we cannot see yet will be more rewarding than the 80-cent dollar we can find. We believe that the upside from new purchases combined with our existing holdings makes for an attractive return profile going forward. We appreciate your patience, continued support, and partnership.

Sincerely,

O. Mason Hawkins, CFA
Chairman & Chief Executive Officer
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President & Chief Investment Officer
Southeastern Asset Management, Inc.

November 1, 2013

Letter To Our Shareholders

In spite of disappointing results during the second quarter, the Longleaf Partners, Small-Cap, and International Funds delivered strong absolute year-to-date results. Each Fund's one year return far exceeded our absolute annual return goal of inflation plus 10%. Both the Small-Cap and International Funds outperformed their benchmark indices over the last twelve months, while the Partners Fund fell behind the S&P 500 slightly because of the recent quarter. The new Global Fund has lagged since it opened at the start of the year as we have worked to get the portfolio invested.

Cumulative Returns at June 30, 2013

	Since Inception	20 Year	Ten Year	Five Year	One Year	YTD	2Q
Partners Fund (Inception 4/8/87)	**1436.10%**	**591.29%**	**74.24%**	**20.98%**	**19.37%**	**9.62%**	**-1.80%**
S&P 500 Index	900.65	426.59	102.25	40.32	20.60	13.82	2.91
Small-Cap Fund (Inception 2/21/89)	**1196.45**	**921.41**	**181.90**	**66.25**	**24.88**	**14.92**	**2.53**
Russell 2000 Index	787.68	448.53	148.45	52.25	24.21	15.86	3.08
International Fund (Inception 10/26/98)	**224.61**	**na**	**78.86**	**-0.42**	**27.26**	**6.13**	**-1.00**
EAFE Index	80.27	na	109.41	-3.12	18.62	4.10	-0.98
Global Fund (Inception 12/27/12)	**2.90**	**na**	**na**	**na**	**na**	**2.90**	**-0.96**
MSCI World Index	8.61	na	na	na	na	8.43	0.65

Average Annual Returns at June 30, 2013

	Since Inception	20 Year	Ten Year	Five Year	One Year
Partners Fund (Inception 4/8/87)	**10.98%**	**10.15%**	**5.71%**	**3.88%**	**19.37%**
S&P 500 Index	9.17	8.66	7.30	7.01	20.60
Small-Cap Fund (Inception 2/21/89)	**11.09**	**12.32**	**10.92**	**10.70**	**24.88**
Russell 2000 Index	9.38	8.88	9.53	8.77	24.21
International Fund (Inception 10/26/98)	**8.35**	**na**	**5.99**	**-0.08**	**27.26**
EAFE Index	4.10	na	7.67	-0.63	18.62
Global Fund (Inception 12/27/12)	**na**	**na**	**na**	**na**	**na**
MSCI World Index	na	na	na	na	na

During the inception year, the S&P 500 and the EAFE Index were available only at month-end; therefore the S&P 500 value at 3/31/87 and the EAFE value at 10/31/98 were used to calculate performance since inception.

See pages 10, 16, 22, and 30 for additional performance information.

Letter To Our Shareholders

Earnings yields still much more attractive than 10-year government bond yields.

The relative underperformance in the quarter came as much from what we did not own as from price moves in our names. The financial sector, specifically banks and life insurers whose leverage, inscrutable assets and derivatives, and commodity-like characteristics are too risky for our appetite, drove a large portion of return in U.S. and global indices as interest rates bumped up. Our cash position built during the first quarter with sales of businesses approaching our appraisals and dampened our performance relative to the rising indices over the last three months. Various individual holdings detracted from second quarter returns, and most of those were retreats from recent strong rallies. No common denominator impacted our primary performance detractors.

Any single quarter usually indicates little about our long-term results. Rarely in Southeastern's 38 years have our 1, 5, and 10 year returns simultaneously lagged the benchmark, but currently the Partners Fund is in such a period. Longleaf International faced this same challenge within the last twelve months before its relative returns improved. While absolute returns are our primary focus, underperforming the market over these periods is disappointing and unacceptable, but not unprecedented. When we had a similarly tough stretch in 2000, the Partners and Small-Cap Funds fell behind their benchmarks for 1, 5, and 10 year periods by a much wider margin than today's Partners Fund lag. Then and now, the combination of a few stock-specific challenges and an extreme market environment that rewarded a narrow segment of stocks caused our underperformance. In 2000, the high-flying growth and Internet stocks selling at nosebleed multiples propelled the market, while we owned high quality businesses that sold at attractive discounts because they were part of the "old economy." A few troubled visible names also hurt our performance (Waste Management, Host Marriott, Safety-Kleen). During the last five years, higher yielding, stable "safe stocks" became overvalued and led the market in an environment plagued by fear and volatility. We own steeply discounted, more cyclical companies with high quality assets and/or entrenched competitive advantages. A few troubled, visible names have caused a large portion of our longer term underperformance both in the U.S. (Dell, Chesapeake, Level 3) and outside the U.S. (HRT). Within five years of the 2000 period, the Partners and Small-Cap Funds had dramatically outperformed their indices with 5 and 10 year numbers far higher than their benchmarks. Today, we believe our absolute and relative return opportunity for the next five and ten years is equally as bright across all four Longleaf Funds for several reasons.

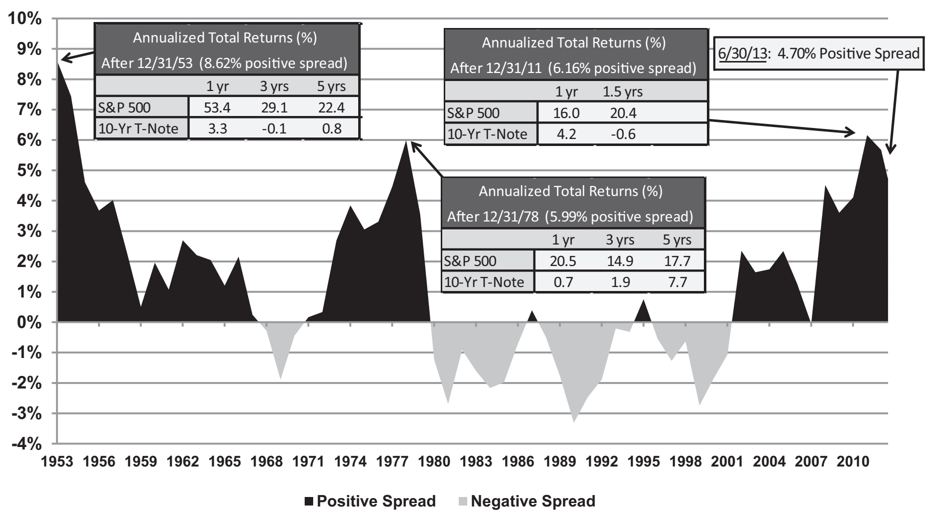
First, equities should have a strong tailwind with earnings yields still much more attractive than 10-year government bond yields. We presented the following charts on the attractiveness of equities in mid-June of last year at the Morningstar conference. The essence of our presentation was that 1) investors would prefer 8-9% after-tax, growing free cash flow coupons from business ownership to the 1.6% taxable, fixed coupons from 10-year treasuries; 2) equities would significantly outperform fixed income; and 3) investors would lose money in intermediate to long-dated bonds. Since that time, spreads have narrowed, 10-year treasuries have fallen 5%, stock market gains have been over 20%, and the Longleaf Funds have delivered strong absolute and relative results, despite the weak second quarter.

Cumulative Returns (6/15/12 to 6/30/13)

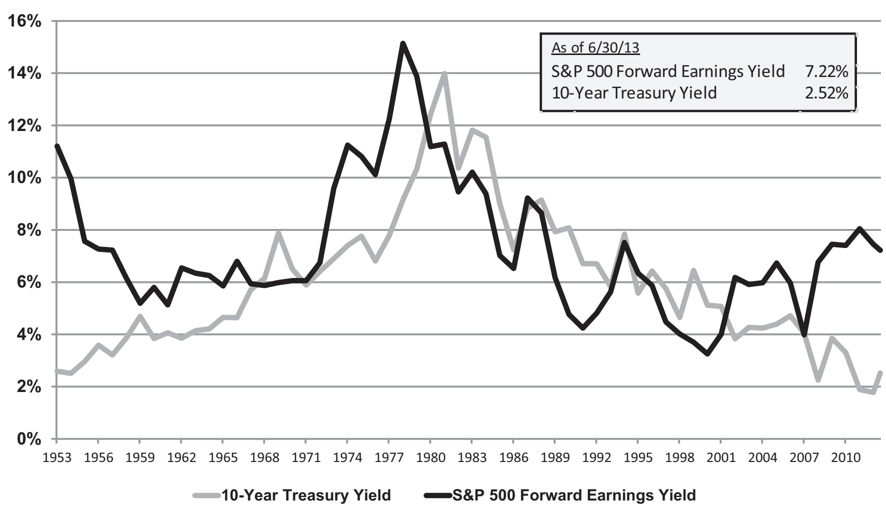
Partners Fund	**24.93%**
S&P 500	22.42
Small-Cap Fund	**32.30**
Russell 2000	28.69
International Fund	**35.13**
EAFE	22.87

Return on Ownership vs. Return on Lending

Spread Between S&P 500 Forward Earnings Yield and 10-Year Treasury Yield



S&P 500 Forward Earnings Yield vs. 10-Year Treasury Yield



Sources: Treasury yields – Federal Reserve; S&P yields – Bloomberg LP and Sanford C. Bernstein & Co. LLC earnings estimates; Treasury returns – Aswath Damodaran and Citigroup 10-year Treasury Benchmark (since 12/31/11); S&P returns – Ibbotson Associates Inc. and FactSet Research Systems Inc. (since 12/31/11).

Note: S&P forward earnings yield calculated using the next year's actual earnings/year-end price. 12/31/12 yield uses 2013 actual and estimated earnings, and 6/30/13 yield uses blended 2013-14 estimated earnings.

Letter To Our Shareholders

Second, those qualities that guided our successful historic results and attracted you to Southeastern and Longleaf remain firmly in place. A disciplined, long-term, concentrated partnership approach has defined our firm since 1975. Our core investment criteria remain good business, good people, and good price, and our research-intensive, team-driven process is intact. The leadership team who created our successful multi-decade record remains fully engaged and committed. Few firms can boast a consistent culture and stable management for almost four decades. Even fewer are as aligned with clients given our unique ethics policy mandating that, unless granted an exception, all of our public equity money be invested in the Longleaf Partners Funds.

Our third reason for confidence is that the quality and accuracy of our research continues to improve. We have gained knowledge, experience, and an expanded network of contacts over the last 38 years, and, more importantly, we have addressed where our investment execution has fallen short. Since Southeastern's inception, we have focused on Ben Graham's imperative that every investment should qualify quantitatively and qualitatively. We believe few investment organizations have more thorough quantitative appraisal methodologies, more extensive comparable transaction data bases of business sales, mergers, buyouts, and liquidations, or more significant "margin of safety" requirements for value over price. However, any appraisal incorporates critically important qualitative assumptions about a company's future competitive position and management's ability to effectively operate and wisely allocate capital for prudent building of intrinsic value per share. When we have assessed these mandatory qualitative factors well, we have had huge investment success as with DIRECTV, Disney, Yum! Brands, Texas Industries, Dillard's, Philips, and Fairfax, which have been among our strongest performers over the last decade. Where we have been wrong on our qualitative inputs, our returns have suffered, as with Dell, Chesapeake, Level 3, and HRT. To further improve our investment execution and results, we will be laser focused on whether a company's competitive advantages are strengthening; management is operating effectively; and the board and CEO are wisely deploying the business' financial resources. If an investee falls short on any of these critical necessities, we will move with alacrity to rectify the shortcoming or exit the investment.

As with all of our investments, the companies we highlighted as disappointments initially met our quantitative hurdles, had competitive advantages versus peers, and were led by CEOs with histories of building value for shareholders. What separated the winners from the losers over time was not the quantitative, but rather management's ability to overcome challenges and generate value growth over time. As we analyze what has worked and what has not, we have enhanced our process in various ways to emphasize the qualitative and more quickly identify shortcomings in our cases and management teams. We have taken an even more skeptical view of managements without ownership and/or heavily aligned incentives (particularly in Japan), companies with substantial debt/enterprise value (limited flexibility in adversity even with great assets), and asset-rich businesses that produce little cash flow (too reliant on things going right). The team tracks monthly values to emphasize value growth in addition to the P/V discount. Analysts present a formal reassessment of at least one existing holding at every weekly research meeting. We have broadened the devil's advocate role to identify risks to what we currently own as well as to new ideas. We will not add to a position when value is declining or a case is uncertain, barring unique circumstances. We will avoid being seduced by more attractive P/Vs if generated by lower prices without higher values. As indicated by our recent actions to improve governance at Chesapeake, Level 3, and HRT, and to fight the Dell buyout, we are holding CEOs and boards more accountable for doing what they promise and delivering what we expect in a timely manner. We believe in a long-term time horizon for stock returns – we are less patient about value growth. We will exit more quickly - as we did within a few quarters at Republic Services, Leucadia, Vivendi, and Anglo American last year - when competitive advantages or values appear at risk and we do not believe becoming more active would yield results.

The fourth and most important determinant of our future returns will be the investments we own. Most of our holdings and CEO partners remain low profile because they deliver results over time. Our portfolios contain a collection of high-return franchises, at attractive multiples of free cash flows and/or deep discounts to asset values, with capable partners at the helm. In addition to the aforementioned proven winners that we own, the Longleaf Funds' investments include companies that meet our qualitative hurdles such as the number one global insurance broker, the world's dominant logistics and package delivery business, a top provider of corporate financial services, market-leading snack and coffee brands, several cement and aggregates leaders, top-performing non-life insurance underwriters, the strongest set of ski resort properties in the U.S., premier global engineering and construction firms, one of the world's largest agricultural equipment manufacturers, and the most successful Asian gaming companies. Most of our corporate partners are properly aligned and are growing value per share as they successfully manage in a slow-growth environment and reinvest capital at attractive rates of return. Where results are not meeting expectations, we are engaged with management to evaluate their action plan and whether the case still meets our investment criteria. At the companies where we have successfully sought changes, we believe that new leadership has the skills to increase returns on capital and free cash flow from the best-in-class assets they oversee. They have the owner-orientation to build intrinsic value. Both Southeastern and their boards will hold these leaders accountable.

Our investments should succeed if we buy businesses that, in addition to having a margin of safety in the price, also have competitive positions that will be stronger three years out and have leadership with the ability and commitment to prudently grow value per share. We are on track to deliver strong absolute results this year and are highly confident that our disciplines and current investments will post future relative returns that meet your and our long-term expectations.

Sincerely,

O. Mason Hawkins, CFA
Chairman & Chief Executive Officer
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President & Chief Investment Officer
Southeastern Asset Management, Inc.

August 9, 2013

The most important determinant of our future returns will be the investments we own.

Letter To Our Shareholders

We are pleased with our strong start to 2013. All four Longleaf Funds outpaced our absolute annual return goal of inflation plus 10% in the first quarter. Both the Partners and Small-Cap Funds posted double-digit performance. The Partners and International Funds also outperformed their respective indices over the last three months.

Cumulative Returns at March 31, 2013

	Since Inception[(1)]	20 Year	Ten Year	Five Year	Three Year	One Year	1Q
Partners Fund (Inception 4/8/87)	**1464.24%**	**610.51%**	**107.01%**	**26.87%**	**39.38%**	**15.22%**	**11.63%**
S&P 500 Index	872.35	414.19	126.78	32.64	43.05	13.96	10.61
Small-Cap Fund (Inception 2/21/89)	**1164.43**	**932.34**	**247.80**	**62.61**	**54.69**	**25.40**	**12.08**
Russell 2000 Index	761.12	443.78	197.48	48.55	46.03	16.30	12.39
International Fund (Inception 10/26/98)	**227.88**	**na**	**136.16**	**-1.03**	**15.39**	**16.53**	**7.19**
EAFE Index	82.05	na	152.23	-4.36	15.76	11.25	5.13
Global Fund (Inception 12/27/12)	**3.90**	**na**	**na**	**na**	**na**	**na**	**3.90**
MSCI World Index	7.92	na	na	na	na	na	7.73

Average Annual Returns at March 31, 2013

	Since Inception[(1)]	20 Year	Ten Year	Five Year	Three Year	One Year
Partners Fund (Inception 4/8/87)	**11.17%**	**10.30%**	**7.55%**	**4.87%**	**11.70%**	**15.22%**
S&P 500 Index	9.14	8.53	8.53	5.81	12.67	13.96
Small-Cap Fund (Inception 2/21/89)	**11.10**	**12.38**	**13.27**	**10.21**	**15.65**	**25.40**
Russell 2000 Index	9.34	8.84	11.52	8.24	13.45	16.30
International Fund (Inception 10/26/98)	**8.58**	**na**	**8.97**	**-0.21**	**4.89**	**16.53**
EAFE Index	4.24	na	9.69	-0.89	5.00	11.25

(1) *During the inception year, the S&P 500 and the EAFE Index were available only at month-end; therefore the S&P 500 value at 3/31/87 and the EAFE value at 10/31/98 were used to calculate performance since inception.*

See pages 6,12,18 and 26 for additional performance information.

Letter To Our Shareholders

"Activism" is not part of our normal process, nor is it our preferred work.

Stock prices increased faster than values over the last three months. As price-to-value ratios (P/Vs) and portfolio weights rose, we trimmed a number of holdings. We sold several companies that approached our appraisals. Cash levels increased as few new qualifiers met our requisite discount. Not surprisingly, with an S&P return double that of EAFE, we are finding more opportunities in companies based outside the U.S.

Our approach to activism

Almost all of our holdings positively contributed to our good returns, including two widely publicized names, Dell and Chesapeake, which have received much of our clients' attention. Our work to make changes at these two companies, combined with efforts at HRT outside of the U.S., have generated questions about how Southeastern decides to become active in a name, and if our approach has changed. "Activism" is not part of our normal process, nor is it our preferred work. When we make an investment, we believe that we have management partners who will run the business well, prudently allocate capital to grow value per share, and ultimately seek paths to value recognition. In the large majority of our investments, our partners prove capable. Assessing humans, however, is more difficult and less reliable than analyzing the quality of a business or appraising value. Nothing can measure people's future actions, no matter how good their previous performance may have been or how strong and shareholder-aligned their incentives might be. Becoming active generally indicates that we made a mistake in assessing our partners.

Activism is not our only recourse when we make a research error. Most of the time, we exit the position. Because we have moved on, people easily forget that exiting is our normal path. Although automatic selling might be easier, we have a responsibility to evaluate the investment case before deciding our next step. When the company's underlying assets remain strong, the stock's undervaluation is compelling, and the primary "fix" relates to people, we will generally become active if we believe we have good odds of successfully improving our clients' outcome.

This approach to activism is neither new to Southeastern, nor does it happen often. Figure 1 summarizes our 13D history (an SEC filing that changes our status in a stock from a passive investor to active) and shows Southeastern's number of U.S. holdings per year, shading those where we became active. Figure 2 demonstrates that in the last twenty years, we have owned 242 U.S. names and filed just twenty-five 13D's. While activism outside the U.S. is not subject to a clear 13D-type designation, and thus is harder to track, a subjective review shows a similarly low level of activity in non-U.S. names. Fighting for our clients has been worth the effort. In over three-fourths of the cases where we filed 13D's, the stock price rose from the filing point through our holding period.

Figure 1 and Figure 2 demonstrate that:

- Becoming active is not a recent tactic,
- Making management assessment mistakes that warrant activism has been infrequent, and
- Standing up for our clients via activism has been worthwhile.

Figure 1: Number of U.S. Holdings and 13D Filings at Southeastern Over 20 Years

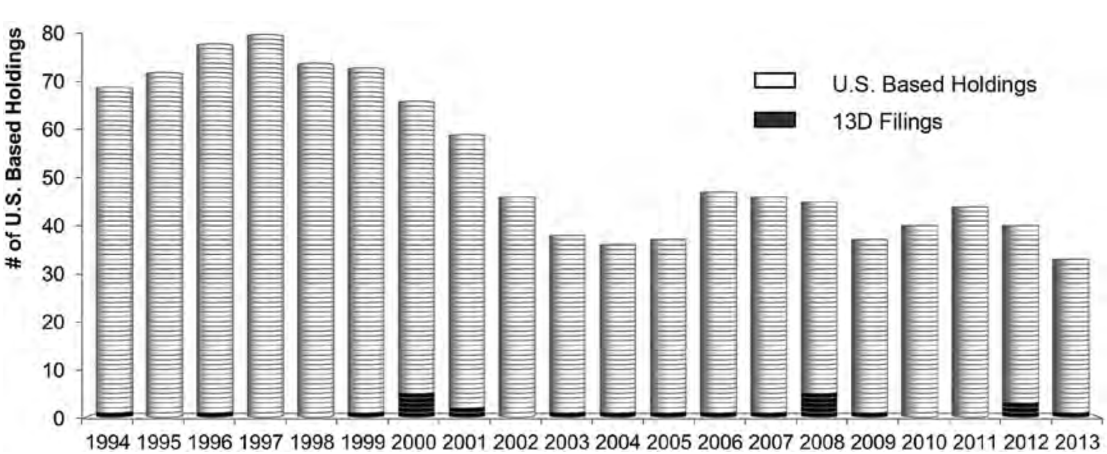
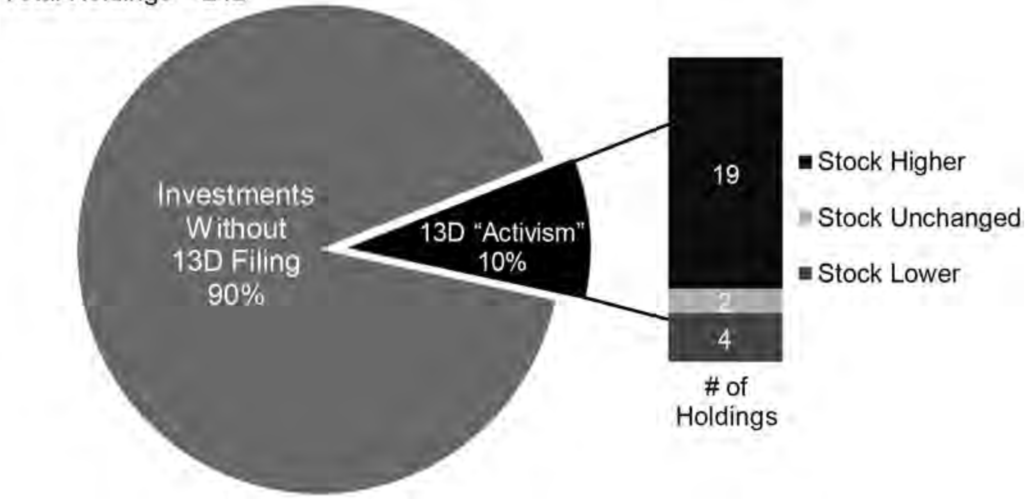


Figure 2: % U.S. Holdings with 13D Filing Since 12/31/93

Total Holdings = 242



Investments subject to a 13D discussed above may or may not have resulted in a gain for Southeastern's clients when that investment was sold. Southeastern's filing may be one of many factors contributing to the price increase discussed. Holdings of the Longleaf Partners Realty Fund are excluded, which does not materially impact the data.

In the first quarter, our efforts at Dell and Chesapeake began to pay off, although we believe that significant upside remains in both stocks. We also have worked productively in the last year with HRT and Level(3) to improve governance and ultimately results, though the stocks do not yet reflect our progress. Fortunately, at our 47 other holdings across portfolios, management appears to be working hard for the benefit of shareholders. Good partners make our job easier. The operating skills and capital allocation decisions of our capable CEOs should help values continue to increase at our holdings.

Our outlook

At the end of 2011, we expressed our conviction by writing in all caps, "WE OWN SUPERIOR BUILDING BLOCKS THAT SHOULD GENERATE OUTSTANDING FUTURE INVESTMENT RETURNS." Performance since then has been 30% or greater for the Partners, Small-Cap, and International Funds, well ahead of inflation plus 10%. We remain optimistic about our long-term opportunity, but we expect the return pace to slow following the recent sprint. Sentiment is no longer universally fearful. Many who abandoned equities in the "flight to safety" have begun to slowly migrate from cash and bonds to high dividend, low volatility stocks, and very recently, to more cyclical stocks. The timid move back into equities is in early stages with much money still on the sidelines, but flows could occur sporadically. Although earnings yields remain substantially higher than Treasurys, corporate margins will be harder to improve from current levels. Our appraisal values over the next five years will increase more rapidly if GDP in developed economies grows faster than 2% and/or if we have a modest rise in interest rates. Recovery could last for a while, though it easily could be a bumpy path.

We are not macro forecasters, and do not require a broad market tailwind to compound. Even after recent strong performance, we have additional upside in our P/Vs, with most holdings selling between 60-80% of our appraisals and growing values. Our appraisals are conservative, with modest assumptions and high discount rates. Our conservatism combined with the strong market positions and the financial strength of our companies also should help protect values in the event of an unexpected economic setback. Our cash positions will allow us to exploit short-term market or company-specific dislocations. Longer term, we believe our absolute return goal of inflation plus 10% remains achievable.

Sincerely,

O. Mason Hawkins, CFA
Chairman & Chief Executive Officer
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President & Chief Investment Officer
Southeastern Asset Management, Inc.

May 13, 2013

Letter To Our Shareholders

We are pleased to report that each of the Longleaf Partners Funds' 2012 returns exceeded our annual goal of inflation plus 10% and outperformed its relevant benchmark index. We also posted strong fourth quarter gains in all three Funds. Our business appraisals, combined with the quality of our companies and our management teams, anchor our investment decisions and provide the foundation for our confidence that market prices will reflect corporate worth over time. At the outset of 2012, we highlighted the investment cases and free cash flow yields of the Funds' largest holdings, noting that we were "highly confident future returns should be exceptionally rewarding because of the quality of the businesses we own, their prospects over the next five years, and the compellingly low prices we are paying for them." Over the year, intrinsic values built, and the gap between prices and values started to close.

Cumulative Returns at December 31, 2012

	Since Inception[(1)]	Ten Year	Five Year	Three Year	One Year	4Q
Partners Fund (Inception 4/8/87)	**1301.23%**	**83.52%**	**1.27%**	**33.46%**	**16.53%**	**3.11%**
S&P 500 Index	779.12	98.58	8.59	36.30	16.00	-0.38
Small-Cap Fund (Inception 2/21/89)	**1028.10**	**194.89**	**28.24**	**53.10**	**22.96**	**3.52**
Russell 2000 Index	666.18	152.79	19.09	41.43	16.35	1.85
International Fund (Inception 10/26/98)	**205.87**	**94.23**	**-18.27**	**9.85**	**21.23**	**8.31**
EAFE Index	73.16	120.21	-17.13	11.06	17.32	6.57

Average Annual Returns at December 31, 2012

	Since Inception[(1)]	Ten Year	Five Year	Three Year	One Year
Partners Fund (Inception 4/8/87)	**10.80%**	**6.26%**	**0.25%**	**10.10%**	**16.53%**
S&P 500 Index	8.81	7.10	1.66	10.87	16.00
Small-Cap Fund (Inception 2/21/89)	**10.69**	**11.42**	**5.10**	**15.25**	**22.96**
Russell 2000 Index	8.91	9.72	3.56	12.25	16.35
International Fund (Inception 10/26/98)	**8.20**	**6.86**	**-3.95**	**3.18**	**21.23**
EAFE Index	3.95	8.21	-3.69	3.56	17.32

(1) *During the inception year, the S&P 500 and the EAFE Index were available only at month-end; therefore the S&P 500 value at 3/31/87 and the EAFE value at 10/31/98 were used to calculate performance since inception.*

See pages 6, 12 and 18 for additional performance information.

Letter To Our Shareholders

...the companies we own have larger opportunity for earnings growth and stock return...

Most holdings posted solid 2012 returns. The largest contributors were among our most disdained in 2011. In particular, our cement and aggregates companies illustrated why conservative business appraisals, not short-term price movements, should dictate investment decisions, as these stocks sharply rebounded without improvement in global GDP growth or overall industry volumes. In the third quarter of 2011, when macro fears about global growth and sovereign debt caused stocks to tumble, cement companies were among the worst performers as the timing of a construction rebound grew more uncertain. We did not know when infrastructure, housing, and commercial building investment would turn, but we felt confident that over five years, our companies' unit sales and pricing would improve. We could adopt a longer time horizon because we had a meaningful margin of safety in the discount placed on cement plants and rock quarries – they sold for far below replacement cost and recent comparable sales. Had we waited for more certainty about recovery and less recession fear, we would have missed the 66-90% gains in our core cement holdings and 30+% appreciation in our aggregates companies over the last year as prices moved to more fully reflect asset values.

Even after the good results of 2012, our compounding opportunity over the next 3-5 years remains compelling. Broadly, yields on the growing, after-tax earnings coupons of businesses are over four-and-a-half times the fixed, pretax yields of 10-year Treasuries, and within our portfolios, free cash flow yields are even more attractive.* Our price-to-value ratios offer attractive upside with the Partners and International Funds in the mid-60%s and Small-Cap in the low-70%s. Much like cement companies a year ago, a few of our core positions are excessively discounted and have yet to receive market recognition for addressing their challenges and successfully repositioning. Beyond our opportunity to close the gap between price and value, corporate worth should grow because of our holdings' competitive advantages and our corporate partners' competence. Any tailwind from top line growth, anemic since 2008, can provide additional value upside.

The beliefs that U.S. profit margins will decline to their historic mean and that earnings will grow at permanently lower rates have exacerbated skepticism over future equity returns. We are not macro-based investors, but we have a different view. First, higher profit margins are sustainable in the U.S. even as world-wide regression occurs, because many low margin businesses have migrated from the U.S., leaving an era of more profitable companies based on intellectual capital such as Apple, Facebook, Google, and their successors. Second, reported margins should be higher due to a larger portion of foreign earnings being accounted for as "equity affiliates." (Equity affiliates represent a net operating profit number which is 100% profit margin on the income statement.) Third, given where we are in the economic cycle, top lines are likely to grow more in the next five years than in the recent past, so earnings power can grow as revenues increase, even with steady margins. In both the U.S. and Europe, revenues remain far below peak with additional capacity available to support growth. Finally, top lines should also grow as companies earning nothing on corporate cash in many developed countries see interest rates increase.

More importantly, we believe the companies we own have larger opportunity for earnings growth and stock return than the overall market. First, their prices are trading at a much larger discount to our intrinsic values than the market. Second, a number of companies we own have more potential top line growth than the average business because their industries, such as construction, U.S. natural gas, and non-life insurance, have yet to see much revenue recovery post-recession. Third, many of our holdings based in low-growth GDP geographies have a meaningful portion of their revenues tied to higher growth developing markets. Fourth, our investment returns are not limited to dividends plus GDP-driven organic growth. Because of the quality of what we own and our shareholder-oriented management partners, our free cash flow coupons exceed what is needed to fund growth. Our partners are retaining the excess and redeploying it at higher returns, in particular by buying in discounted shares.

We are confident that the components of our portfolios should deliver significant returns over the next five years. We are also certain that prices will be volatile, and we will have periods of disappointment. Corporate values are much more stable than stock prices. Our appraisals will continue to anchor us in choppy seas as we embrace volatility and buy at points of pessimism. We then will wait patiently as values grow, and the market ultimately recognizes intrinsic worth.

Sincerely,

O. Mason Hawkins, CFA
Chairman & Chief Executive Officer
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President & Chief Investment Officer
Southeastern Asset Management, Inc.

February 13, 2013

* *Based on the 12/31/12 forward earnings yield of the S&P 500 and MSCI EAFE Indices as compared to 10 Year Government bond yields for the U.S., Germany, U.K., and Japan.*

Letter To Our Shareholders

We are pleased to report that all three Longleaf Partners Funds posted strong absolute results for the third quarter and double-digit gains for the first nine months of 2012, well ahead of our inflation plus 10% goal. The International Fund also outperformed the EAFE Index for both periods. The Small-Cap Fund outperformed its Russell 2000 benchmark for the year-to-date (YTD). Returns for the large majority of the stocks we own have been strong this year. The Small-Cap Fund's relative underperformance in the quarter equated to the impact of one name, Quicksilver. Likewise, Dell's impact on the Partners Fund's return accounted for essentially all of the difference between the Fund and the S&P 500 Index for the quarter and YTD. Although global challenges are unchanged since the huge macro-driven market downdraft a year ago, we have seen substantial progress not only in stock prices but also within most of our portfolio companies. Our management partners have had a large hand in building value and closing some of the discounts in their stocks' prices. In the few names that have detracted from performance, we have engaged with management as needed to insure that our partners' primary focus is to protect and build value per share.

Cumulative Returns at September 30, 2012

	Since Inception[1]	Ten Year	Five Year	Three Year	One Year	YTD	3Q
Partners Fund (Inception 4/8/87)	**1259.03%**	**89.25%**	**-10.18%**	**35.69%**	**24.92%**	**13.02%**	**5.61%**
S&P 500 Index	782.45	116.15	5.37	45.07	30.20	16.44	6.35
Small-Cap Fund (Inception 2/21/89)	**989.79**	**208.68**	**12.62**	**58.84**	**29.61**	**18.79**	**4.97**
Russell 2000 Index	652.23	163.47	11.57	44.24	31.91	14.23	5.25
International Fund (Inception 10/26/98)	**182.42**	**89.88**	**-24.98**	**2.94**	**12.55**	**11.93**	**10.72**
EAFE Index	62.48	119.97	-23.60	6.48	13.75	10.08	6.92

[1] *During the inception year, the S&P 500 and the EAFE Index were available only at month-end; therefore the S&P 500 value at 3/31/87 and the EAFE value at 10/31/98 were used to calculate performance since inception.*

Average Annual Returns at September 30, 2012

	Since Inception[1]	Ten Year	Five Year	Three Year	One Year
Partners Fund (Inception 4/8/87)	**10.78%**	**6.59%**	**-2.12%**	**10.71%**	**24.92%**
S&P 500 Index	8.92	8.01	1.05	13.20	30.20
Small-Cap Fund (Inception 2/21/89)	**10.65**	**11.93**	**2.41**	**16.68**	**29.61**
Russell 2000 Index	8.92	10.17	2.21	12.99	31.91
International Fund (Inception 10/26/98)	**7.74**	**6.62**	**-5.58**	**0.97**	**12.55**
EAFE Index	3.55	8.20	-5.24	2.12	13.75

See pages 8, 16 and 24 for additional performance information.

Letter To Our Shareholders

...our management partners have the operational skills, capital allocation discipline, and proper incentives to drive value per share growth.

Our Process to Assess and Engage Management

Great corporate partners can mean the difference between a good investment return and a stellar one. Our investment criteria include having "Good People" at the helm. Our management assessment begins long before we own a company and continues once we are shareholders. If we see ways in which management could enhance value at our holdings, we consider increasing our engagement. Each stage of the process – deciding to invest, monitoring results, and engaging further with management – requires a great deal of time and careful evaluation, but the payback can be substantial.

Before we make an investment, we attempt to insure that the person running the company will meaningfully contribute to our successful outcome. We conduct our diligence in four primary ways. First, we see how aligned the CEO's interests are with shareholders. Significant stock ownership on the same terms as other shareholders is the optimal formula, but we also examine the overall compensation structure to fully understand management's economic incentives. Second, we review the CEO's operating and capital allocation record, at the current company and in previous roles. Third, we use our vast network of clients, corporate managers, industry experts, and friends to find out everything we can about the CEO, including personal as well as professional insights. Finally, armed with our research, we normally meet with the CEO and CFO not only to ask questions about the business, but also to determine whether management approaches decisions with the passion and orientation of an owner-operator focused on building value per share. The board can also impact our results, especially as it oversees capital allocation decisions. Before investing, we consider whether board members are significant stock owners, have relevant knowledge to assess the CEO's work, and have a record of strong governance and oversight. We weigh all of our research to determine whether management and the board are committed to improving the company's competitive position, growing intrinsic value per share prudently, and representing our interests as shareholders.

Once we buy a position, we monitor management through quarterly results, major announcements, yearly or more frequent meetings, and ongoing feedback from our contacts outside of the company, including its competitors and large customers. We evaluate operating progress relative to expected results and capital allocation decisions based on whether they optimize the prudent building of value per share. If shares sell at a large discount to intrinsic value for a persistent time, we assess the actions that management takes to close the gap.

When we believe that management could improve operating decisions, capital allocation, or governance and alignment, we decide whether and how to further engage our corporate partners. In most cases, our engagement takes the form of constructive conversations with management listening to our analysis and often incorporating our perspective into their actions. On occasion, management dismisses our views and continues down a path that is either suboptimal or detrimental to shareholders. At this point, we recognize that our original assessment of management was flawed, and we must determine whether engaging more actively has a likelihood of success using a reasonable amount of effort. If the answer is no, we typically sell the stock. If the answer is yes, we pursue whatever course we believe has the highest possibility of protecting and rewarding shareholders. Over our history, we have not needed to become "active" often, but when we have, our efforts have driven better investment outcomes with few exceptions.

Managements' Contributions and Southeastern's Engagement at Longleaf's Holdings

Faced with an anemic U.S. recovery, a European recession, and slowing growth in Asia and emerging markets, our management partners have had to build and gain value recognition without significant demand-driven top line growth over the last year. Because of the caliber of our management teams, most have taken constructive action with little-to-no engagement from Southeastern.

Operational Contributions: On the operating side, a number of our partners have implemented meaningful expense reductions including those at Dell, Disney, FedEx, and Quicksilver in the U.S., and Lafarge and Philips in Europe. HRT and Vulcan, where we have become more engaged, also have lowered costs. Additionally, managements have implemented price increases at the cement and aggregates businesses we own, our insurance holdings, other U.S. companies such as Abbott, Disney, Lamar, Scripps Networks, and Vail Resorts, and in our Asian names – Cheung Kong, Henderson, Melco, and Nitori. Spanish based Ferrovial's two primary assets, the ETR-407 toll road and airport owner BAA, have raised tariffs well above inflation rates. In a more unique action, Greg Case strengthened Aon's strategic proximity to international clients by moving headquarters from Chicago to London, which also significantly lowered the company's prospective tax rate and freed up excess capital.

Capital Allocation Contributions: Capital allocation decisions such as repurchasing shares and restructuring debt have been laudable. Collectively, of the 55 companies across the three Funds, roughly half have added value by buying back undervalued shares over the last year. Management teams at ACS in Europe, Cemex in Mexico, and Level(3) and Quicksilver in the U.S., have improved their balance sheets by successfully restructuring debt, extending maturities, and/or negotiating favorable covenants. Conversely, several companies with strong balance sheets such as Accor, DIRECTV, Disney, Cheung Kong, Ferrovial, and Henderson, locked in historically low interest rates by issuing cheap long-dated debt.

Value Recognition Contributions: Many management teams have taken steps to remove their stocks' discounts through spinning out divisions, selling all or portions of their companies, and initiating, reinstating, or meaningfully increasing dividends. Abbott is splitting into two companies, and Liberty Interactive has further simplified by spinning off Liberty Ventures. Cemex plans to IPO a portion of its Latin American business. Energy companies including Chesapeake, Consol Energy, and Quicksilver have sold reserves and other assets at attractive prices. A number of our European management partners have taken action. Ferrovial has sold part of its stake in BAA at a high price. Hochtief has sold its stake in a Chilean toll road at a premium to our appraisal and is selling its airports. Leighton, the Australian construction firm that Hochtief controls, has begun to dispose of its non-core assets. ACS has sold its stake in Abertis as well as numerous infrastructure assets, and has more on the block. Accor has executed on its "asset-right" plan by selling a number of hotels including its U.S.-based Motel 6 properties. Intercontinental Hotels is selling the Barclay in New York. In Asia, Cheung Kong and Henderson have been monetizing some of their low-cost China and Hong Kong real estate at attractive returns. In Small-Cap, DineEquity has sold the last of its owned Applebees restaurants to become 99% franchised; Potlatch has taken advantage of private funds' interest in timber by selling acreage at attractive prices; and management at Lamar Advertising is exploring converting its billboards into a REIT structure.

Since the outset of 2011, many of our corporate partners have returned capital to shareholders through higher dividends. Disney, Ingersoll-Rand, Nitori, Scripps Networks, and Vail Resorts have raised their dividends by 20% or more. Dell has initiated a meaningful dividend. Numerous companies have paid a special dividend or plan to by year-end including Accor, Ferrovial, Franklin Resources, Intercontinental Hotels, and Vodafone. While spins and dividends have not created additional value for shareholders, they have helped close some of the gap between price and corporate worth. In cases where management has sold assets for more than our appraisal, we have benefitted from value growth as well.

Southeastern Engagement: We have been actively engaged at several holdings, primarily to improve governance. With pressure from Southeastern as well as Carl Icahn, Chesapeake replaced six of nine directors, split the CEO and Chairman roles, and restructured board and CEO compensation. From the stock's low in May, the price has risen 39% following these changes. Going forward, the directors, who collectively own meaningful shares, will seek to insure financial discipline in capital expenditure and debt decisions. At HRT we have pushed the company to expand the board and replace directors to gain a

Letter To Our Shareholders

majority of independent members and enough industry expertise to impose prudent operating and capital decisions. With the acquisition of Global Crossing at Level(3), the board added three representatives from Temasek, which owns approximately 26% and is focused on shareholder value growth. Just after quarter-end, the company announced that Mike Glenn, whom we have known for many years as EVP of Market Development and Corporate Communications at FedEx, is joining the board. Mike brings not only an understanding of the value of an infrastructure network (whether logistics or data), but true expertise in the disciplines of pricing and sales that are critical to Level(3)'s future success. At Texas Industries, where we suggested three new board members, the company successfully has managed costs and capex through the cement industry depression, and is now growing in its primary Texas market. Our public engagement over Martin Marietta's offer to buy Vulcan has created pressure on Martin Marietta's management to exercise price discipline while focusing Vulcan on substantial cost cuts. In each case where we have become more actively engaged, we believe we have positively impacted shareholder interests.

We Are Well Positioned for the Long-term

We expect our investments to do well over the next five years without a tailwind from meaningful economic growth. Most of our companies are market leaders with competitive advantages that should enable some degree of pricing power as well as unit growth. Just as important, almost all of our management partners have the operational skills, capital allocation discipline, and proper incentives to drive value per share growth. Many have increased their shareholder alignment by buying shares personally over the last year. To the extent needed, we will push as hard as is feasible to insure that managements and boards remain focused on their obligation to act in the best interest of owners. We will move on to better opportunities if we believe our engagement will not produce positive change. We are using modest assumptions in our appraisals. To the extent that economic growth returns to a more normal level, natural resource supply and demand becomes more balanced, or modest inflation adds a few hundred basis points to interest rates, the values of our businesses should rise much faster than we are anticipating.

Sincerely,

O. Mason Hawkins, CFA
Chairman & Chief Executive Officer
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President & Chief Investment Officer
Southeastern Asset Management, Inc.

November 2, 2012

Letter To Our Shareholders

Broad uncertainty about economic growth – in the U.S., China, and most prevalently in Europe – weighed down global stock markets over the last three months. The S&P 500 was down 2.8%; the Russell 2000 lost 3.5%; and non-U.S. markets took a bigger hit as EAFE declined 7.1%. While the Small-Cap Fund appreciated in the quarter, Partners and International declined. These results reversed the relative standing of each Fund for the year-to-date, leaving Small-Cap ahead of the Russell 2000 but Partners and International behind their benchmarks. Within the indices and Southeastern's portfolios, stocks tied to broad economic expansion such as commodities, materials, and industrials suffered. However, most of our holdings' appraisals grew or were little changed, because our models already assumed slow growth over the next few years and revenue declines in Europe through 2014.

With the recent market schizophrenia, we trimmed holdings that had approached their values or become overweight. Conversely, as certain stocks declined relative to their appraisals, we added, as did a number of our management partners. We also identified a few new qualifiers, primarily in names we have previously owned, where we typically have a deeper knowledge.

Cumulative Returns at June 30, 2012

	Since Inception(1)	Ten Year	Five Year	Three Year	One Year	2Q
Partners Fund (Inception 4/8/87)	**1186.83%**	**57.04%**	**-16.19%**	**51.87%**	**-5.65%**	**-5.22%**
S&P 500 Index	729.75	68.13	1.09	57.70	5.45	-2.75
Small-Cap Fund (Inception 2/21/89)	**938.15**	**146.13**	**9.47**	**87.60**	**1.28**	**2.96**
Russell 2000 Index	614.69	96.75	2.73	63.46	-2.08	-3.47
International Fund (Inception 10/26/98)	**155.06**	**37.90**	**-31.65**	**7.32**	**-22.31**	**-9.34**
EAFE Index	51.96	65.13	-26.99	18.98	-13.83	-7.13

(1) *During the inception year, the S&P 500 and the EAFE Index were available only at month-end; therefore the S&P 500 value at 3/31/87 and the EAFE value at 10/31/98 were used to calculate performance since inception.*

Average Annual Returns at June 30, 2012

	Since Inception(1)	Ten Year	Five Year	Three Year	One Year
Partners Fund (Inception 4/8/87)	**10.66%**	**4.62%**	**-3.47%**	**14.95%**	**-5.65%**
S&P 500 Index	8.74	5.33	0.22	16.40	5.45
Small-Cap Fund (Inception 2/21/89)	**10.54**	**9.42**	**1.83**	**23.33**	**1.28**
Russell 2000 Index	8.79	7.00	0.54	17.80	-2.08
International Fund (Inception 10/26/98)	**7.09**	**3.27**	**-7.33**	**2.38**	**-22.31**
EAFE Index	3.11	5.14	-6.10	5.96	-13.83

See pages 8, 16 and 24 for additional performance information.

Letter To Our Shareholders

... if we are right on two-thirds of our picks, and wrong without losing substantial permanent capital on the other third, we can achieve our inflation plus 10% goal.

Portfolio Discussion Norms

Volatile quarterly performance often accompanies concentrated investing. Over Southeastern's almost four decades, the twenty or so positions we have owned at any given point have fallen into three categories in client discussions. The first are those holdings that are rarely mentioned because their gains make them obvious winners such as DIRECTV, FedEx, DineEquity, tw telecom, Fairfax, or Vodafone today. Most names fall into the second category, which also receives little attention. These companies generally are meeting operating expectations, but their stocks have not appreciated significantly. The large majority of discussion focuses on the third category, the few names that are in the penalty box at the time either because of real or perceived business challenges or management issues often highlighted in headlines. We expect and welcome discussing holdings that are most out of favor. We think it is important, however, to put those names in the context of what is normal within our investment approach. We will not be right on every investment. Hypothetically, if we are right on two-thirds of our picks, and wrong without losing substantial permanent capital on the other third, we can achieve our inflation plus 10% goal as long as we adhere to our margin of safety discipline. Given portfolio discussion norms, we will not elaborate here on Disney, Travelers, Abbott, Texas Industries, tw telecom, Vail Resorts, Scripps Networks, and Henderson Land – the largest contributors to second quarter performance. Instead, we review the recent events, investment case, and broader lessons from our most controversial name. Although Chesapeake Energy is only in the Partners Fund, its recent visibility has generated discussions with shareholders across the three Funds.

Chesapeake Energy (CHK)

Summary of 2Q: Chesapeake is an exploration and production company with a leading acreage position in three of the top U.S. gas plays and four top U.S. liquids plays. The stock fell 20% in the quarter. As natural gas declined in April to its lowest price since 1998, below $2.00/mcf, the media raised questions about CEO Aubrey McClendon's potential conflicts, board oversight, and CHK's ability to meet its 2012 cash flow needs. At its lowest point, the stock fell 42% from the end of March. Almost all of what was reported was previously known, but the rapid onslaught of stories blurred the lines between perception and reality. To best represent our clients' interests, we became more active to push the board and McClendon to focus on what mattered – de-risking the balance sheet, managing costs and reducing discretionary spending while gas prices stayed at uneconomic levels, and focusing on operating the company rather than convincing the world of the long-term case for natural gas. The stock's decline, pressure from Southeastern and Carl Icahn, and a looming proxy vote brought the most significant governance changes that we have ever witnessed at a company.

- They split the chairman and CEO roles;
- They ended the controversial Founders Well Participation Program (FWPP) early;
- They reduced board compensation and benefits;
- They replaced four board members, with three nominees from Southeastern and one from Icahn, and replaced a fifth member with a new chair;
- They vetted the new, independent chair with Southeastern and Icahn;
- They will replace an additional director at the conclusion of a current audit committee investigation.

In total, the nine board members will consist of seven nominees pre-approved and/or submitted by Southeastern, including Lou Simpson who joined in 2011. The board fully embraces its duty to represent shareholders' interests. Each member has a record of overseeing corporate assets and holding management accountable for value growth and recognition. Most have indicated their view of CHK's upside by significant share purchases since their appointments.

Our process and case: Throughout the controversy, nobody has questioned the quality of the company's assets. McClendon has done an excellent job building a portfolio of some of the best oil and gas acreage in the U.S. at attractive prices. Given the headlines, however, many have asked how CHK meets our "good people" criteria. As a first mover in leasing many shale plays and in pioneering horizontal drilling and fracking, McClendon has long been controversial. From the outset of our investment, we required even more due diligence than normal. Through our multiple industry, client, professional, and personal contacts, we gained insight about McClendon and arrived at a different conclusion than the image currently portrayed by CHK short sellers and much of the media. Also ignored in the criticism is that in 2011, McClendon was recognized as one of only eight public company CEOs who have been in place for over two decades and have earned a 20%+ yearly return for shareholders over that time.

As with every investment, from the outset we had to weigh CHK's positives against its negatives. We fought against the FWPP behind the scenes well before it dominated headlines. Other negatives were not nearly as dramatic as recently characterized and had been available for years in the public domain to those who took the time to do their research. All of the leadership controversy is now moot. We go forward at CHK with one of the best and most vested independent boards that we have seen. They will be well informed and will make decisions only in the best interests of owners. Combining the new governance with some of the best physical assets that we have owned makes us enthusiastic to have CHK as a core holding in the Partners Fund.

Lessons learned: Our conviction about CHK does not mean we are complacent about our path of ownership. We have learned two important lessons as our investment has unfolded. First, we recognize that in commodity businesses, being a low cost provider is not enough of an advantage for an overweight position since the commodity price is subject to going below the cost of production for an unpredictable period of time. Second, we learned a lesson that reinforces the importance of being a long-term investor who tries to work productively with management when change is warranted. We had much more influence in the tremendous governance transformation than we would have otherwise had if we had initiated our investment with guns blazing. The board and management listened to, trusted, and addressed our views knowing that our only agenda was to benefit long-term shareholders.

Context Beyond the Quarter

The second quarter serves as a microcosm of the much broader and longer lasting safety bubble that began inflating in the 2008 bear market. Whether measured by net flows of $1.2 trillion from U.S. equity funds into bond funds over the last 4.5 years, or the fact that dividend yields are materially higher than 10 year U.S. Treasuries for only the third time post-World War II, the flight to safety has had a dramatic impact on equity valuations. Investors are avoiding volatility at an arguably high cost. They prefer U.S. or German bonds yielding less than 2% to corporate earnings yields at 6-9%, as measured by S&P 500, Russell 2000, and EAFE P/E estimates. They are paying large premiums for long-lived stable income via owning toll roads or airports in private infrastructure funds. They have pushed stocks with high dividend yields and stable earnings to or through fair values and abandoned the margin of safety priced into competitively entrenched businesses with high returns on capital but with more cyclical earnings and/or any debt. As with all investment bubbles, while it lasts, participants are rewarded, but when it collapses, which is always unexpected, the capital losses can be tremendous. This may be particularly true when investors think they own safety. If bonds begin to migrate to their 50 year average yield-to-maturity of 6+%, the bond price devastation will be substantial.

Many Longleaf shareholders have been our partners long enough to remember other periods when our intrinsic value investing approach was out of favor, causing disappointing relative returns. Those clients' patience was rewarded by the strong outperformance when these periods reversed. When the current safety bubble bursts, our holdings should again greatly benefit. Our investment philosophy and rigorous discipline have been the mainstays that enabled us to generate our long-term

Letter To Our Shareholders

Our investment philosophy and rigorous discipline have been the mainstays that enabled us to generate our long-term successful results.

successful results. We believe our unwavering investment process is more relevant than ever.

- Require investments to qualify on business, people, and price.
- Constantly test our assumptions and investment cases, making any necessary adjustments to appraisals and portfolios.
- Take advantage of macro market movements to improve the risk/reward profile of portfolios by trimming more fully valued holdings and investing in more discounted names or holding cash until we find qualifiers.
- Be introspective and analytical about the world around us and our experience at each company to make future decisions better informed.
- Maintain our commitment to client alignment via our substantial investment in the Longleaf Funds. (In addition to our normal personal inflows, the portfolio management team invested a substantial amount into the International Fund in the second quarter.)

We are grateful for your partnership and enthusiastic about the Funds' current opportunity for future compounding.

Sincerely,

O. Mason Hawkins, CFA
Chairman & Chief Executive Officer
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President & Chief Investment Officer
Southeastern Asset Management, Inc.

August 10, 2012

Letter To Our Shareholders

Southeastern is pleased to report a first quarter of strong absolute returns in all three Longleaf Funds as well as results above the benchmark indices for both the Partners and International Funds. Most holdings rose, with many posting significant double-digit gains. Our companies' growing intrinsic values and an improving U.S. economy powered stock returns. Even following the solid gains over the last three months, each Fund's P/V remains attractively below Southeastern's long-term average in the high-60%s.

Cumulative Returns at March 31, 2012

	Since Inception(1)	Ten Year	Five Year	Three Year	One Year	1Q
Partners Fund (Inception 4/8/87)	**1257.67%**	**52.18%**	**(4.42)%**	**102.90%**	**0.87%**	**12.91%**
S&P 500 Index	753.23	49.72	10.48	87.99	8.54	12.59
Small-Cap Fund (Inception 2/21/89)	**908.33**	**128.25**	**9.74**	**121.17**	**2.02**	**9.91**
Russell 2000 Index	640.41	86.81	11.12	104.37	(0.18)	12.44
International Fund (Inception 10/26/98)	**181.36**	**44.02**	**(17.96)**	**46.84**	**(13.60)**	**11.51**
EAFE Index	63.63	74.04	(16.36)	60.69	(5.77)	10.86
Inflation + 10%	(2)	225.50	78.12	42.61	12.63	na

(1) *During the inception year, the S&P 500 and the EAFE Index were available only at month-end; therefore the S&P 500 value at 3/31/87 and the EAFE value at 10/31/98 were used to calculate performance since inception. The annualized expense ratios for the Longleaf Partners, Small-Cap, and International Funds are 0.91%, 0.91% and 1.26%, respectively. The risks associated with an investment in the Longleaf Partners Funds are detailed on pages 15 to 17 of the Prospectus. These risks include stock market risk, investment selection risk, corporate ownership risk, non-diversification risk, non-US investment risk, small cap risk (particularly with respect to the Small-Cap Fund), focused geographic risk, and derivatives risk.* ***Call (800) 445-9469 or go to southeasternasset.com for current performance information and southeasternasset.com/mutual_fund_documents/prospectus for the Prospectus and Summary Prospectus, both of which should be read carefully before investing to learn about Fund investment objectives, risks, and expenses. Funds distributed by Rafferty Capital Markets, LLC.***

(2) *Inflation + 10% since inception for the Partners, Small-Cap and International Funds was 1979.66%, 1529.33% and 392.90%, respectively.*

Average Annual Returns at March 31, 2012

	Since Inception(1)	Ten Year	Five Year	Three Year	One Year
Partners Fund (Inception 4/8/87)	**11.01%**	**4.29%**	**(0.90)%**	**26.60%**	**0.87%**
S&P 500 Index	8.95	4.12	2.01	23.42	8.54
Small-Cap Fund (Inception 2/21/89)	**10.52**	**8.60**	**1.88**	**30.29**	**2.02**
Russell 2000 Index	9.05	6.45	2.13	26.90	(0.18)
International Fund (Inception 10/26/98)	**8.01**	**3.72**	**(3.88)**	**13.66**	**(13.60)**
EAFE Index	3.74	5.70	(3.51)	17.13	(5.77)

See pages 8, 16 and 24 for additional performance information.

Letter To Our Shareholders

...a margin of safety...helps protect against permanent capital loss in the case of an unexpected event or analytical mistake.

Since 2008, investors have become increasingly paralyzed by trying to avoid risk as defined by stock price volatility. But short-term market fluctuations tell nothing about long-term investment outcome or business worth, which is determined by assets and free cash flow generation. Over the long run, corporate intrinsic values determine stock prices. For long-term investors in businesses, risk is not volatility but the probability that they may not get their capital back and earn an adequate return after taxes and inflation. Those who fear stock price swings are beholden to the notion that risk and return are highly correlated. The two are actually inversely related – prospective returns rise and risk of loss falls as a stock declines in relation to a company's underlying worth. Over Southeastern's 37 year history, we have built our investment process, disciplines, and criteria to protect the assets of our clients as well as our ownership stake in the Longleaf Funds from the possibility of incurring permanent capital loss and to generate adequate returns. The following discussion contrasts Southeastern's approach to risk management with the predominant view that avoiding price volatility makes investing less risky.

Reducing Risk by Owning Quality Businesses

As equity investors, we own a percentage interest in businesses. Our analysts consider the five primary risks to business ownership in determining whether we are likely to get our principal back plus an acceptable return within a reasonable time period.

1) **Business or competitive risk:** We assess a company's threats, competitive advantages, and their sustainability. The Porter model (see *Competitive Strategy* by Michael Porter) provides a helpful framework for analyzing an industry and an individual company's position therein. We want to own companies impervious to the risk of business decline and obsolescence.

2) **Pricing power risk:** Related to competitive strength is a company's ability to maintain margins by increasing prices at least as much as costs escalate. We want businesses capable of maintaining profitability in the face of increasing expenses.

3) **Financial risk:** We want companies that have financial flexibility and limited exposure to creditor obligations. We review the amount of financial leverage, who the lenders are, coverage ratios, maturity schedules, borrowing limits, restrictions, and covenants. In addition, we evaluate a business' operating leverage to understand how much a top line downturn could impact balance sheet stability and our position as owners.

4) **Regulatory, government, or control risk:** If regulators can dictate profitability, rulers can nationalize a company or its assets, or someone with an objective other than earning an adequate return can alter the investment outcome, the chance of losing permanent capital may be too great for us to become shareholders.

5) **Case-specific risk:** A company may have unique challenges beyond its control such as legal liabilities or complete industry overhaul via legislation. Because forecasting the impact generally presents too much uncertainty around whether investment principal will remain intact, Southeastern tries to avoid these companies.

Reducing Risk by Partnering with High Caliber People

Capable, ethical, shareholder-oriented management stewards mitigate against capital loss because they prioritize prudent growth in value per share. Study, due diligence, and meeting with management teams prior to an investment and regularly once we own a company are important parts of our process. We consider numerous factors before we entrust our capital to a management team – properly aligned incentives, good historic operating results, high returns from capital allocation decisions, and personal integrity.

Reducing Risk by Paying a Deeply Discounted Price

The prices of public equities fluctuate, but the values of underlying businesses normally accrete steadily. Waiting for a stock to trade at a big discount to the underlying value of the free cash flow or assets of a business provides a margin of safety that helps protect against permanent capital loss in the case of an unexpected event or analytical mistake. Insisting on a margin of safety also leads us to sell fully valued stocks. In addition, we preserve capital by being patient and disciplined, and hold cash when no investments meet our criteria.

Reducing Risk by Portfolio Construction

Owning 18-20 companies across a number of industries provides the diversification to reduce company-specific risk and minimizes the risk of loss by limiting holdings to only the most qualified businesses, managements, and discounts. To introduce significantly more stocks would compromise the best-in-class criteria that are so crucial to preserving principal and generating excess return. We generally keep single industry exposure below 15%, and we manage positions to concentrate more heavily in our best qualifiers. We reduce or eliminate holdings as security prices approach companies' intrinsic values.

Reducing Risk by Contemplating Unknowable Events

Nobody, including Southeastern, can accurately and consistently forecast future events, but unpredictable occurrences can impact business values. Southeastern protects portfolios to the extent possible in three primary ways. First, corporate appraisals must be conservative, and our purchase prices must be significantly discounted from our values. Second, we stress test appraisals for difficult operating environments and extreme events – how have previous recessions, inflationary periods, terrorist attacks, or investment bubbles bursting impacted a company's results? Finally, we assess overlapping exposures across a portfolio. Reducing the risk of exogenous and/or macroeconomic challenges is best managed by those factors we can control – owning competitively entrenched, financially sound companies with capable management partners and having a large margin of safety between what we paid and what the company is worth.

Reducing Risk by Embracing Volatility and Benchmark Deviation

One of Southeastern's biggest advantages is the long-term time horizon that we and our clients share. For those who demand consistent quarterly or yearly returns and determine capital allocation based on stock price movement, volatility defines risk, and material price changes over short periods are terrifying. Intrinsic value investors with an ownership perspective of a decade or more know that market declines create opportunity and reduce risk. Extreme price declines such as those that occurred in the fall of 2008 and third quarter of last year provide the chance to buy great business at rare discounts to intrinsic worth with minimal chance of permanent capital loss.

Those focused on short-term stock price changes versus business values try to minimize volatility via statistics such as tracking error, Sharpe ratio, and beta, which indicate relative price moves but tell nothing about whether capital will be preserved over time. The return for investors who expect to own a business for ten years is not impacted by these statistics. In the market's "lost decade" that began at the outset of 2000, owners of the S&P lost principal with the so-called low risk of low tracking error. Conversely, Longleaf Partners Fund delivered 68% in the period and Small-Cap and International more than doubled by following our investment discipline and embracing opportunities that volatility offered. Over the long run our high conviction, benchmark-agnostic approach and resulting high tracking error have rewarded clients with superior compounding even though in shorter periods our beta may be high, and we experience intervals of underperformance.

Letter To Our Shareholders

Market volatility is reality, but long holding periods dramatically reduce the possibility of a negative return.

Reducing Risk by Having Secure Operations

Investors have risks beyond security selection and execution. Southeastern maintains conservative operational and financial policies to further protect against capital loss. Securities lending is not done in the Longleaf portfolios except in rare circumstances. The Funds exclusively use U.S. government securities for cash management. We have ongoing reviews by our Chief Compliance Officer as well as heads of key operational areas to identify and ameliorate any potential firm or procedural risks.

Reducing Risk through Proper Investment Manager Alignment

Southeastern is 100% owned by its employees, and employees are limited to Southeastern-managed funds for their public equity investing unless granted an exception. Collectively, we are Longleaf's largest shareholder and among Southeastern's largest clients. The long-term viability of the firm and Funds is critical to us. We have built continuity and sustainable business strength through hiring to build next generation leaders across departments, creating an orderly transfer of firm ownership as individuals retire, relying on a team-based research process with individual accountability, and importantly, building a long-term, supportive client base.

Summary

Only two questions should matter to equity investors: 1) Did I get my money back, and 2) What return did I make? If the answer to the first is "no," the second is irrelevant. We know of only two ways to satisfactorily answer both consistently. First, use Mr. Market's temperamental moves to buy qualifying businesses at deep discounts to their intrinsic values. Second, invest with a long time horizon. Going back to 1970 (1979 for the Russell 2000), the S&P 500, Russell 2000, and EAFE indices have recorded declines in more than 20% of one year periods, while rolling ten year returns have rarely been negative. For holding periods of fifteen and twenty years, performance has been positive 100% of the time. Market volatility is reality, but long holding periods dramatically reduce the possibility of a negative return.

Southeastern combines the benefit of long-term investment horizon with quantitative and qualitative intrinsic value-based investment disciplines to generate a return of capital and a return on capital. As owners of our firm and one of its largest customers, nobody has more at stake in our future compounding than your partners at Southeastern, and consequently, nobody is more focused on reducing our risk of capital loss. Every facet of our approach to investing and to running our business is designed to preserve principal and earn an adequate return over the long run. We are grateful for your partnership in this endeavor.

Sincerely,

O. Mason Hawkins, CFA
Chairman & Chief Executive Officer
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President & Chief Investment Officer
Southeastern Asset Management, Inc.

April 27, 2012

Letter To Our Shareholders

After delivering strong returns in 2009 and 2010, we are disappointed to report weak results for 2011. We prefer every year be outstanding, but our multi-year orientation focuses us on longer investment time horizons. Over Southeastern's 36 year history, most five year holding periods have been rewarding. Currently, however, our five year returns are burdened by the unprecedented 2008 price declines. Unfortunately, 2011 did nothing to offset our most challenged year.

Cumulative Returns at December 31, 2011

	Since Inception[(1)]	20 Year	Ten Year	Five Year	Three Year	One Year	4Q
Partners Fund (Inception 4/8/87)	**1102.46%**	**612.03%**	**44.35%**	**(13.48)%**	**75.92%**	**(2.85)%**	**10.53%**
S&P 500 Index	657.84	350.12	33.35	(1.24)	48.59	2.11	11.82
Small-Cap Fund (Inception 2/21/89)	**817.43**	**754.61**	**130.85**	**7.21**	**85.91**	**1.79**	**9.11**
Russell 2000 Index	558.51	413.44	72.76	0.75	54.59	(4.18)	15.47
International Fund (Inception 10/26/98)	**152.31**	**na**	**33.76**	**(22.27)**	**11.61**	**(20.29)**	**0.55**
EAFE Index	47.60	na	57.78	(21.48)	24.75	(12.14)	3.33
Inflation + 10%	(2)	953.31	224.06	78.30	41.97	12.96	na

(1) During the inception years, the S&P 500 and the EAFE Indices were available only at month-end; therefore the S&P 500 value at 3/31/87 and the EAFE value at 10/31/98 were used to calculate performance since inception.

(2) Inflation + 10% since inception for the Partners, Small-Cap and International Funds was 1896.82%, 1464.43% and 373.27%, respectively.

Average Annual Returns at December 31, 2011

	Since Inception[(1)]	20 Year	Ten Year	Five Year	Three Year	One Year
Partners Fund (Inception 4/8/87)	**10.58%**	**10.31%**	**3.74%**	**(2.85)%**	**20.72%**	**(2.85)%**
S&P 500 Index	8.53	7.81	2.92	(0.25)	14.11	2.11
Small-Cap Fund (Inception 2/21/89)	**10.18**	**11.32**	**8.73**	**1.40**	**22.96**	**1.79**
Russell 2000 Index	8.60	8.52	5.62	0.15	15.63	(4.18)
International Fund (Inception 10/26/98)	**7.27**	**na**	**2.95**	**(4.91)**	**3.73**	**(20.29)**
EAFE Index	3.00	na	4.67	(4.72)	7.65	(12.14)

See pages 10, 18 and 24 for additional performance information.

Letter To Our Shareholders

...we have summarized the investment case for the five largest holdings in each Fund.

As the largest shareholder of the Longleaf Partners Funds, we are not pleased with these results. We are, however, highly confident future returns should be exceptionally rewarding because of the quality of the businesses we own, their prospects over the next five years, and the compellingly low prices we are paying for them. This unique collection of opportunities would not exist had there not been the macro fears and resulting high market correlations in the third quarter that damaged 2011 results.

Because our future returns will be determined by the companies in the Longleaf portfolios, we have summarized the investment case for the five largest holdings in each Fund. These names are representative of the caliber of our portfolio components. The qualified merits of "business, people, price," including the current free cash flow (FCF) yield at each, will illustrate why we are convinced we should deliver positive, excess performance over the next few years.

Building Blocks for Future Performance

Partners Fund

Five Largest Holdings	%
Dell	8.9
Chesapeake Energy	7.7
Loews	6.6
Aon	6.1
DIRECTV	5.7

Dell: Based in Austin, Dell has transformed its business by offering a combination of servers, services, storage, and software to provide enterprise solutions which now dominate and complement the desktop and laptop computing segment. As the world becomes "unplugged," demand for solutions to manage hardware, software, and security will grow. With Dell's product mix change, the company has delivered substantially higher margins and earnings. Michael Dell, founder and CEO, is a multi-billion dollar owner and has been a major insider purchaser over the last year. The market continues to focus on the "dying" PC business even though it is only a little over 25% of our appraisal value, and analysts persist in evaluating the company against the consumer market which represents only about 10% of revenues. In assigning a multiple to the earnings, most analysts also disregard the large net cash that generates virtually no earnings and equals over a quarter of the share price. As long as the market ignores the growing free cash flow coupon, Dell should continue to use much of it to repurchase shares and build value even faster. Using expected 2012 FCF, the company's FCF yield is 16.2%, but adjusted for the net cash, is over 20%.

Chesapeake Energy: Based in Oklahoma City, Chesapeake has assembled at low cost the best set of natural gas assets in the U.S. and a rapidly growing portfolio of oil reserves and production. Aubrey McClendon, co-founder and CEO, has been controversial but has consistently monetized assets at far above cost through either joint ventures like the most recent Utica transaction in late 2011 or the full sale of the Fayetteville holdings in early 2011. The stock sells for less than half of our NAV in part because the market doubts McClendon's willingness to spend less than cash flow on additional lease acreage, but mostly because natural gas has declined to under $3/mcf due to oversupply and the current warm winter. At these prices, drilling is unprofitable, and supply will eventually decline as gas drilling commitments are met and rigs move to much more profitable oil wells. Longer term, LNG (liquefied natural gas) facilities are preparing to export gas to Asia and Europe where prices are over $10/mcf and transportation, industrial, and electricity generation demand is accelerating. Natural gas assets continue to attract large offshore buyers at substantially higher prices than Chesapeake sells for in the market. The free cash flow yield with $3/mcf gas and flat production in 2012 is 7.6%, but if adjusted for a higher gas price a year or two out as the futures curve suggests, the yield is well into the double digits. These numbers are also before backing out $10-15 per share for assets such as drilling carries, oil service company investments, and pipelines that provide little in earnings today but will probably soon be monetized at good prices.

Loews: Based in New York, Loews is a diversified holding company sagaciously stewarded by Jim Tisch and his management team. In addition to $4 billion in cash available to deploy opportunistically, the company's primary assets are CNA, a dramatically improved property/casualty insurer led by talented Chubb alum, Tom Motamed, Diamond Offshore, an offshore drilling rig operator with substantial cash flow and a history of acquiring, leasing, and disposing of rigs successfully in a volatile industry, and Boardwalk, a natural gas pipeline and storage company with a growing cash coupon. The Tisch family owns approximately 25% of the stock and has intelligently allocated capital and delivered value growth for investors over decades. The company sells for roughly half of appraised value, in large part due to the mispricing of publicly traded CNA and the resulting conglomerate discount on Loews. Not only does insurance remain out of favor, but the results of Motamed's turnaround have not been given credit, and earnings are highly volatile with the unpredictability of insured events. CNA shares sell for half of book value. As long as Jim Tisch is making capital allocation decisions, whether for large share repurchases at these discounts or for high-return acquisitions, we believe value will grow materially. Using consensus 2012 earnings, the company's current FCF yield is 9.0%, but adjusted for the net cash, is 11.6%.

Aon: With a planned headquarters move from the U.S. to London, Aon is the top global insurance broker in an oligopoly. The company also is a leader in the investment and benefits consulting business. CEO Greg Case and his team have increased margins substantially and gained share over the last six years. Additionally, they have reinvested the growing cash coupon into Aon's discounted shares and several successful acquisitions. The stock sells below 70% of our appraisal because of both depressed earnings from low interest on premium float and a substantial difference in reported and cash earnings due to goodwill amortization from acquisitions. As long as the shares remain significantly undervalued, management expects to grow value-per-share by meaningful repurchase activity. Based on 2012 expected FCF, Aon yields 10.1%.

DIRECTV: Based in El Segundo, DIRECTV is the largest satellite broadcaster in the U.S. and has dominant market share in Latin America. Domestically the company offers unique technology and programming that attract high-end customers with little churn. In Latin America, most countries have no alternative because neither cable nor fiber have been or will be laid where there is minimal infrastructure. The market puts a low growth multiple on the entire earnings stream, not accounting for the more valuable emerging market growth. Additionally, SAC (subscriber acquisition cost) is counted against earnings rather than being treated as discretionary capex that provides a return via revenues over multiple years. The stock trades below 70% of our appraisal, and Mike White has done a tremendous job building value by using the substantial cash coupon to buy in shares aggressively at deeply discounted levels. The free cash flow yield based on 2012 expected FCF is 10.3%.

Partners Fund FCF Yield Summary	%
Average FCF Yield[a]	10.6
Average Adjusted FCF Yield[a]	13.9
S&P 500 Earnings Yield[b]	7.9

See footnote on page 7.

Small-Cap Fund

Five Largest Holdings	%
Texas Industries	7.6
tw telecom	7.1
Lamar Advertising	6.4
Service Corp	6.1
Madison Square Garden	5.5

Texas Industries: Based in Dallas, Texas Industries (TXI) owns valuable aggregate assets and cement plants in California and Texas, where TXI is the largest producer. These are two of the most populous states with Texas among the fastest growing, and they receive the largest share of federal highway spending. Since new cement

Letter To Our Shareholders

These names are representative of the caliber of our portfolio components.

plants are difficult to permit and build, TXI's facilities have a capacity and cost advantage in these top markets. The stock sells far below replacement value because depressed residential and commercial construction and lack of a transportation bill in Congress have created uncertainty as to when demand will increase utilization rates beyond 50% to levels that produce meaningful free cash flow. In the last year, others have paid per ton prices for U.S. cement plants that make TXI a steal. Our appraisal is based on future free cash flows and replacement values for the assets. Because of the low plant utilization, TXI may not generate FCF in 2012.

tw telecom: With headquarters in Littleton, CO, tw telecom (TWTC) is a leading national provider of managed telecommunications services for businesses. Because they own their local area fiber networks, the company provides superior facilities-based services versus most competitors who are re-sellers that must pay to use others' networks. Management has the best operating record among CLECs (competitive local exchange carriers). The market puts an industry multiple on GAAP earnings, which are far below net free cash flow because of large depreciation from building out the network. TWTC's margins are much higher than those of industry re-sellers, warranting a higher multiple for TWTC. The FCF yield based on estimated 2012 free cash flow is 0.6%. Adjusted for the excess depreciation, the yield is 10.8%.

Lamar Advertising: Based in Baton Rouge, Lamar owns supply-constrained real estate via billboards, primarily in mid-tier markets. The company's boards have a competitive advantage due to strong local market share and regulations that make building new supply difficult. We have owner operators in the Reilly family who added to their stake near the lows of 2011. Their history includes smart acquisitions as well as prudent balance sheet management. The market has sold the stock down because of skepticism over the virtue of converting to digital boards and concerns about leverage given volatile local advertising since the recession. Debt is being paid down at a rapid pace, and the company's recent results have shown improved local advertising as well as incremental benefits from digital. Our appraisal is below comparable transactions, and the value should grow rapidly as the economy returns to more normal growth. Based on 2012 FCF estimates, the FCF yield is 10.9%.

Service Corp: Headquartered in Houston, Service Corp is the largest provider of death care products and services in the U.S. The company's vast real estate assets cannot be replicated because of the difficulty permitting cemeteries. Management not only has delivered strong operating results, but has a record of generating high returns through acquisitions and share repurchases. The market penalizes the stock because a decreased death rate is currently depressing earnings. This challenge will fade with the wave of baby boomers moving into their later years. Estimated free cash flow for 2012 provides a 10.3% FCF yield.

Madison Square Garden: Based in New York, Madison Square Garden (MSG) owns one of the most valuable regional sports networks at a time when live sports content is increasingly important to traditional distributors. In addition, the company owns two of the best franchises in the NBA and NHL (Knicks and Rangers) and the iconic Madison Square Garden arena in which these teams play. The Dolan family controls the company, owns 20%, and has done a tremendous job building network value. The market is punishing the stock because the teams are generating no profits currently, and MSG's billion dollar arena renovation that will draw higher team revenues is depressing this year's earnings. The media network generates a valuable cash coupon, and comparable transactions imply a breakup value of the teams and arena over twice the stock's price. Additionally, programming contracts with huge revenues are being signed, causing the values of big-market NBA teams to explode. Because of the current renovation, 2012 FCF will be negative. Adjusted for the arena renovation, the FCF yield is 7.0%.

Small-Cap Fund FCF Yield Summary	%
Average FCF Yield(c)	4.3
Average Adjusted FCF Yield(c)	9.8
Russell 2000 Earnings Yield(b)	6.4

See footnote on page 7.

International Fund

Five Largest Holdings	%
Fairfax	8.4
ACS	7.0
Ferrovial	6.4
Philips	6.3
Carrefour	6.0

Fairfax: Based in Toronto, Fairfax is a holding company with an array of global insurance and reinsurance companies that constitute a significant emerging markets presence. The company has the underwriting capacity to significantly grow profits and float when insurance prices are attractive. The decentralized management culture has attracted high-caliber talent that has generated cheap float. Prem Watsa, the founder, a large owner, and a uniquely capable investor, has used these float assets to deliver stellar investment returns. The price is less than 70% of our conservative assessment of intrinsic value due to the market's dislike of the unpredictability of reported earnings (uncertain timing of insured events) and depressed insurance pricing over the last five years. Premiums have begun to increase, and Watsa is taking advantage of market volatility to produce large capital gains on investment assets. Using consensus 2012 EPS estimates, the free cash flow yield is 6.4%, but assuming a 15% ROE which the company historically has delivered, the yield is 13.7%.

ACS: Headquartered in Madrid, ACS is one of the world's largest global infrastructure engineering firms providing construction and management of utility networks, transportation systems, airports, waste facilities, and similar large projects. Through its own business and its stakes in Hochtief and Leighton, the company's unique capabilities and experience provide an advantage in pursuing large civil works projects. CEO Florentino Perez owns 13%, and other board members hold an additional 40%. The company sells for approximately half of our valuation because the market oversimplifies this as a Spanish business with optically high leverage. In addition, many question ACS' strategy around its 19% ownership of Iberdrola, Spain's #1 utility and the largest owner of renewable assets in the world. In fact, less than half of ACS' direct operating exposure is to Spain, and most is outside of Europe when looking through their 50% ownership of Hochtief. The debt, which financed the stakes in Iberdrola and Hochtief, is extended through 2015, and, importantly, is non-recourse to ACS. A recent court victory gives ACS increased rights at Iberdrola, making it easier to pursue a significant and profitable investment outcome. Over the next few years without any Spanish or European economic recovery, ACS should generate a stable earnings coupon from its long-dated concession contracts, build construction projects around the world, and monetize assets when buyers are willing to pay fair prices for high-yielding infrastructure as they did in 2011 with some of ACS' wind, solar, and toll road assets. Although strapped municipalities have made the market bearish on infrastructure spending, projects that physically must be done will have to be private-public partnerships, aided by today's low interest rates. ACS is a world leader in privatized infrastructure projects. The company's current free cash flow yield based on expected 2012 FCF is 16.8%, and if adjusted for sold assets and assets held for sale, is over 30%.

Ferrovial: Based in Madrid, Ferrovial owns two of the best infrastructure assets in the world: London's Heathrow Airport (through BAA) and the ETR-407 toll road in Toronto. These assets are superior because of the long-term concession agreements in place and their pricing power (tariffs in the U.K. are raised at RPI + 7%, and in Canada toll tariffs have risen an average of over 10% per year for the past eleven years). Rafael del Pino's family founded the company, owns 45%, and has been an opportunistic value builder. Within the last two years, they sold 10% of the 407 and 6% of BAA at substantial premiums to

Letter To Our Shareholders

Never in our investing careers has the prospective return on corporate ownership so surpassed the return on long-term lending.

our value and the stock's market multiple. We bought Ferrovial at less than 60% of our appraisal in 2011 as others focused on what looks like a levered Spanish construction company at first glance. The debt is 100% non-recourse held against the concession assets, and they have net cash at the holding company. Over 80% of assets are outside Spain and the Eurozone. Asset values should continue to grow with increasing transportation demand and the pricing allowances. Additionally, BAA will start paying dividends to Ferrovial in 2012. Management is likely to continue to crystallize value through the sale of stakes in these core infrastructure properties as long as the market under prices them. The 2012 estimated free cash flow yield is 8.7% and adjusted for the cash, is 9.9%.

Philips: Based in Amsterdam, Philips is one of the three leading medical diagnostic and treatment device companies in the world and the leader in lighting. The company's consumer health products such as Norelco dry shavers and Sonicare toothbrushes are also dominant brands. Nearly 40% of revenues come from burgeoning emerging markets. When the new CEO and CFO, Frans van Houten and Ron Wirahadiraksa, took over in the second quarter of 2011, they immediately began to address bloated costs, set achievable 2013 targets for each segment, and announced a share buyback of €2bn, equal to 15% of the company. They also disposed of the challenged television division. The stock trades at 60% of our appraisal. Philips' profit misses under previous management have made analysts skeptical that the improvements implemented by our current partners will deliver results by 2013. These dominant worldwide businesses are growing, and the substantial repurchases at discounted prices are augmenting value-per-share accretion. The current free cash flow yield is 8.6% based on expected 2012 FCF which includes a number of one-time charges. Adjusting for those, the yield is 10.1%.

Carrefour: Headquartered in Paris, Carrefour is the number two retailer in the world with top food share in France, Spain, and Brazil. Over one third of cash flow comes from rapidly growing emerging markets including China. Blue Capital, a joint venture between Colony Capital and Europe's richest man, Bernard Arnault, holds three board seats and more than 20% of votes. Over the last fourteen months they successfully pursued selling both non-core geographies such as Thailand and owned real estate such as French supermarkets for multiples well above those implicit in the stock's price. In addition, the company successfully spun off Dia, its hard goods discount retailer. Dia is now listed on the Spanish stock exchange and a member of the IBEX 35. Carrefour's 60% price-to-value ratio reflects the market's assumption that margins and sales in France will stay at trough levels and ignores both the faster growing emerging market business and the significant worth of the company's real estate. Blue Capital is committed to capturing value recognition for Carrefour's dominant market share positions and valuable real estate. We believe they are likely to pursue additional high-return asset sales and to force adjustments needed to move French operating margins from current trough levels. Unlike most of our holdings which have positive momentum, the challenges for Carrefour in the very short term will get harder before they get easier. Premised on conservative 2012 free cash flow projections, the company's current FCF yield is 11.4%.

International Fund FCF Yield Summary	%
Average FCF Yield[(a)]	10.4
Average Adjusted FCF Yield[(a)]	15.5
EAFE Earnings Yield[(b)]	9.3

See footnote on page 7.

The Great Dichotomy

Never in our investing careers has the prospective return on corporate ownership so surpassed the return on long-term lending. Never has the risk of permanent capital loss from long-term lending been so great. Oft-discussed macro fears and the accompanying market volatility have driven investors from equities into the supposed security of U.S. government bonds and other highly rated sovereign and corporate debt. The January 5, 2012 *USA Today* headline, "Bonds Outperform Stocks over 30 Years," highlighted this flight and was reminiscent of the 1979 *Business Week* "Death of

Equities" headline that preceded the high stock returns of the 1980s. Unlike the double-digit yields that 10-year Treasurys offered in the early eighties, today's below 2.0% government yields are meager competition for the S&P 500's earnings yield of 7.9%, the Russell 2000's 6.4%, and the EAFE's 9.3%. Moreover, and surprising to some, equities are even more attractive vis-à-vis bonds today than at the end of 2008, the worst economic downturn and bear market in our lifetime. Because of the large and unprecedented spreads between "safe" lending and business ownership yields shown above, we believe it is almost certain investors will begin swapping low or no return debt instruments for the much higher returns that high quality equities offer. According to the *Wall Street Journal* story on January 13th titled "China Reserve Changes Weighed," China has begun to reconsider its approach to investing its $3.2 trillion in foreign-exchange reserves. The chairman of China's largest state-owned bank indicated that "China may invest more of its...reserves in stocks, enterprises, and other assets as it looks for ways to boost returns."

The Opportunity

As indicated in each Fund's summary table, our largest holdings' adjusted FCF yield, which represents how true business owners would calculate their current FCF yield ranges between 9.8% and 15.5%, and is growing and after-tax. Not only are the adjusted yields much more attractive than the earnings yields of the indices, but the quality of our businesses far surpasses that of a random collection of hundreds of companies. We own a select group of industry leaders with sustainable competitive advantages and vested CEO and board partners who are building shareholder value. The Funds are selling at or below a 60% P/V. We expect to deliver outsized, risk-adjusted returns as our business franchises continue to produce, grow, retain, and intelligently reinvest their FCF coupons, and the markets arbitrage our FCF yields and values to those offered by inferior companies and low-yielding debt securities.

When our analysts communicate in writing, in the absence of being able to raise our voices and pound the table to convey our convictions, we WRITE IN ALL CAPS. As we enter 2012, we want to express to you our belief that WE OWN SUPERIOR BUILDING BLOCKS THAT SHOULD GENERATE OUTSTANDING FUTURE INVESTMENT RETURNS.

Sincerely,

O. Mason Hawkins, CFA
Chairman & Chief Executive Officer
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President & Chief Investment Officer
Southeastern Asset Management, Inc.

February 10, 2012

[a] *Unweighted average from five largest holdings.*

[b] *FactSet 2012 P/E estimates inverted to calculate yield.*

[c] *Unweighted average from five largest holdings, excluding TXI where replacement value is more relevant than 2012 FCF.*

Letter To Our Shareholders

All three Longleaf Funds succumbed to the same macro pressures that caused every industry group and the stock market in every country in the Dow Jones Global Index to fall in the third quarter. Each Fund's double-digit decline took year-to-date performance into negative territory. Sentiment is as fearful and irrational as we have experienced. Not surprisingly, your partners at Southeastern are finding the most compelling opportunities we have seen since early 2009.

Cumulative Returns Through September 30, 2011

	Since Inception[1]	20 Year	Ten Year	Five Year	One Year	YTD	3Q
Partners Fund (4/8/87 Inception)	**987.9%**	**585.9%**	**50.5%**	**(15.6)%**	**(2.8)%**	**(12.1)%**	**(20.2)%**
S&P 500 Index	577.8	336.3	32.0	(5.8)	1.1	(8.7)	(13.9)
Small-Cap Fund (2/21/89 Inception)	**740.8**	**696.4**	**124.5**	**7.4**	**5.0**	**(6.7)**	**(18.0)**
Russell 2000 Index	470.3	370.1	81.2	(5.0)	(3.5)	(17.0)	(21.9)
International Fund (10/26/98 Inception)	**150.9**	**na**	**37.6**	**(16.7)**	**(14.9)**	**(20.7)**	**(23.6)**
EAFE Index	42.8	na	63.3	(16.1)	(9.4)	(15.0)	(19.0)
Inflation + 10%	[2]	**963.6**	**223.1**	**78.3**	**13.9**	**na**	**na**

(1) *During the inception year, the S&P 500 and the EAFE Index were available only at month-end; therefore the S&P 500 value at 3/31/87 and the EAFE value at 10/31/98 were used to calculate performance since inception.*

(2) *Inflation + 10% since inception for the Partners, Small-Cap and International Funds was 1862.5%, 1437.5% and 365.1%, respectively.*

Average Annual Returns Through September 30, 2011

	Since Inception	20 Year	Ten Year	Five Year	One Year
Partners Fund (4/8/87 Inception)	**10.2%**	**10.1%**	**4.2%**	**(3.3)%**	**(2.8)%**
S&P 500 Index	8.1	7.6	2.8	(1.2)	1.1
Small-Cap Fund (2/21/89 Inception)	**9.9**	**10.9**	**8.4**	**1.4**	**5.0**
Russell 2000 Index	8.0	8.1	6.1	(1.0)	(3.5)
International Fund (10/26/98 Inception)	**7.4**	**na**	**3.2**	**(3.6)**	**(14.9)**
EAFE Index	2.8	na	5.0	(3.5)	(9.4)

See pages 8, 16, and 24 for additional performance information.

Letter To Our Shareholders

Macro fear around well-known issues of European sovereign debt, U.S. deficit reduction, and Chinese inflation control rendered company fundamentals temporarily irrelevant.

"I think the future of equities will be roughly the same as their past; in particular, common-stock purchases will prove satisfactory when made at appropriate price levels. It may be objected that it is far too cursory and superficial a conclusion; that it fails to take into account the new factors and problems that have entered the economic picture in recent years — especially those of ... the movement towards less consumption and zero growth. Perhaps I should add to my list the widespread public mistrust of Wall Street as a whole, engendered by its well-nigh scandalous behavior during recent years in the areas of ethics, financial practices of all sorts, and plain business sense." — Excerpt from June 1974 speech by Benjamin Graham, printed in *Financial Analyst Journal*, September/October 1974

The opportunities created in the equity market disarray of the early 1970's cited above precipitated the 1975 founding of Southeastern Asset Management. Similarly, uncertainty relating to various global economic conditions has created numerous opportunities for today's long-term investor. We have endured material stock price declines in the last few months as macro fear around well-known issues of European sovereign debt, U.S. deficit reduction, and Chinese inflation control rendered company fundamentals temporarily irrelevant. As evidence of how little the market discriminated among businesses, stock price correlations in both the U.S. and Europe surpassed the level experienced in 2008 after Lehman's collapse. The closer correlation moves to 100%, the less differentiation there is in how individual stocks trade. Correlation in September reached 85% for the FTSE 100, and the S&P 500 hit 90% compared to its historic average of 30%.

In other previous periods of high correlations, including 1982, 1990, and 2008, Southeastern suffered short-term underperformance. The third quarter of 2011 was no different. Out of favor companies became more disdained, and any perceived challenges became magnified in people's minds. Similar to past periods, the companies that most negatively impacted results were economically sensitive businesses and/or those with some financial leverage. Following these periods, Southeastern has posted outperformance when company fundamentals return to the spotlight and correlations fall back to normal levels. Severely discounted prices tend to snap back like a tightly compressed spring.

If we know this common refrain, why not alter our investment strategy to avoid the types of companies that suffer when pessimism and correlations rise? Warren Buffett commented on this idea in his July 1966 Partnership Letter.

"I am not in the business of predicting general stock market or business fluctuations. If you think I can do this, or think it is essential to an investment program, you should not be in the partnership... We don't buy and sell stocks based upon what other people think the stock market is going to do, (I never have an opinion) but rather, upon what we think the company is going to do. The course of the stock market will determine, to a great degree, when we will be right, but the accuracy of our analysis of the company will largely determine whether we will be right... Who would think of buying or selling a private business because of someone's guess on the stock market?"

We are incapable of knowing what stocks will do in the short run. To make investments based on correlation changes would require two correct calls — when to sell and when to reinvest. Being accurate in either prediction is a low probability, but when the two probabilities are multiplied, the chance of success is remote. Patience and discipline historically have rewarded our partners who believed in intrinsic value-based investing and who maintained ownership through full market or correlation cycles. Price declines are painful, but do not equate to capital losses if investors stay long-term and business values remain intact.

Our most important task is to ensure that whatever is causing stocks to decline will not permanently impair the businesses we own. We have assessed what is causing individual security price weakness, what might alleviate this pressure, and where we could be vulnerable to appraisal risk for each portfolio company. A number of our stocks have been under pressure because of the macro unknowns related to economic growth over the next few years and to government actions addressing debt and growth. Across all portfolios, those securities hardest hit have included cement and aggregates companies such as Cemex, economic bellwether businesses such as FedEx (transportation), Accor (lodging), and Lamar (billboard advertising), emerging market energy firm HRT, and companies with a combination of operating and financial leverage like Level(3). The market's misunderstanding of our businesses also has weighed on certain companies such as Ferrovial (not a Spanish construction business), Philips (not a consumer electronics company), and Dell (not a hardware company).

In spite of global economic uncertainties, the prospects for our companies to grow units and pricing over the next 5+ years are solid. The competitive strength of our holdings combined with rational pricing within many of their industries will provide some protection in a downturn. Weak U.S. and European economies will have less impact than is apparent because at a number of our businesses, emerging markets have become an increasingly meaningful part of value either directly or indirectly. Although U.S. housing starts may not rise to meet new household formations for a couple of years, political leaders both within and outside of the U.S. must address infrastructure needs sooner to maintain their elected positions. The few companies whose stocks have been penalized because of some financial leverage have no major maturities for over two years and have extremely valuable, severable assets worth more than debt requirements. Those asset values have been affirmed by recent comparable sales at or above our appraisal metrics. To the extent we have had concern about a company's intrinsic value or its growth, we have sold shares to buy a similar or more attractive P/V with higher quality and predictability.

Much of the fear in the market is a residual of the fresh scars from 2008 causing a "flee first and ask questions later" reaction. Slowing economies and western government debt are real issues, but do not inherently translate into the corporate value deterioration that many businesses experienced in 2008. Then, the burst of the U.S. housing and credit bubbles catapulted much of the world into a deep recession and created a liquidity panic. Most investors did not anticipate an economic interruption, and few had any idea how far it would permeate. The primary challenge today is neither a liquidity shortage nor corporate or consumer excess but government policy related to sovereign debt and emerging market inflation. These same issues have weighed on stocks over the last year, are well known, and seem more than incorporated into our securities' prices.

As a further contrast, in 2008 businesses were structured for peak operating levels. Companies were geared to expand and meet consumer demand fostered by cheap and abundant debt. When credit was withdrawn, the consumption decline was immediate and widespread. Today, companies have significantly less exposure. Although the global recession officially ended two years ago, slow recovery and caution have tempered businesses' expansion plans for growth, as unemployment numbers indicate. Cost structures are already sized to recession levels; inventories are lean; balance sheets are strong with almost all of them de-risked; and industry-leading companies have become more dominant over the last few years. A number of our businesses have not rebounded. Property/casualty insurance underwriters such as Travelers, NKSJ, CNA, and Fairfax, reinsurers including Everest Re, and brokers, Aon and Willis, have had minimal pricing gains, and the industry's overcapitalization still weighs on insurance rates. Additionally, bonds, a meaningful component of these companies' investment portfolios, are producing minimal yield given current interest rates. Low interest rates also have kept BNY Mellon's earnings depressed. Cement and aggregates companies such as Cemex, Lafarge, Texas Industries, Vulcan, and Martin Marietta have seen no U.S. or European recovery. U.S. natural gas prices around $4/mcf have kept Chesapeake's revenues at recessionary levels. While these companies have tremendous operating profit upside when economic growth improves, our appraisals do not assume a normal GDP bounce will help in the next few years. Adapting to a possible 2012 recession would be like stepping off of a curb rather than falling from a skyscraper for these businesses and their values, unlike 2008.

While the market is ignoring positive fundamentals, many of our investees are using the

Letter To Our Shareholders

We have both little uncertainty about how [our businesses] will fare over the next five years and the rare opportunity to purchase them at half or less of appraised value.

negative sentiment to meaningfully grow value through share repurchases. When stocks completely decoupled from corporate values in late 2008-early 2009, we called on our CEO partners to repurchase as many shares as possible. A few responded, but most were too fearful of how bad the economic damage might become to aggressively use any cash cushion. Today, most of our corporate partners see minimal growth but believe that their strong business prospects over the intermediate term make repurchasing today's discounted shares the optimal capital allocation choice. Our portfolio companies collectively are shrinking shares at an average 4% annualized rate, with CEOs at DIRECTV, Travelers, Philips, FICO, and Wendy's repurchasing at a rate in the teens. Warren Buffett has initiated Berkshire Hathaway's first buyback. Not only have strengthened balance sheets and strong cash flow given companies the arsenal to steal shares, beneficial capital allocation work over the last two years has put our partners in a much improved position. Companies such as Chesapeake, Ferrovial, Vodafone, and ACS have sold assets at attractive prices; Cemex, Liberty Interactive, Level(3), and Dine Equity have decreased and/or termed out their debt opportunistically; a few holdings such as DIRECTV and Disney have issued cheap corporate long-term debt to buy much higher returning shares.

Over time, economic fears and downturns inevitably will occur. The most successful investors view these periodic events as opportunities. Southeastern's 36 year experience indicates that the best assurance for both protecting capital from permanent losses and compounding at above average rates is to:

- Have a long-term investment horizon for buying and holding through economic cycles,
- Use conservative assumptions in our appraisal models,
- Own high quality, competitively entrenched businesses that can go on offense in challenging times,
- Partner with management teams who can operate successfully through business cycles and who will always work to prudently maximize value per share, and
- Pay a substantial discount to a conservative appraisal to provide protection against the impact of unpredictable events.

As the largest owners of the Longleaf Partners Funds, we have used the recent price downdraft to add to our stakes. Not coincidentally, never in our history have our investees repurchased this much stock as a percentage of their equity capitalizations. Broadly speaking, the return on corporate ownership vis-à-vis the return on lending seldom has been so compelling. With the S&P 500's growing, after-tax free cash flow yield around 10% and the pre-tax, fixed 10-year Treasury at 1.8%, shareholders receive over five times the return of bondholders, before adjusting for taxes or future growth. More specific to the collection of businesses we own, we have both little uncertainty about how they will fare over the next five years and the rare opportunity to purchase them at half or less of appraised value. We encourage our partners to join us in adding capital at this opportune time.

Sincerely,

O. Mason Hawkins, CFA
Chairman & CEO
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President & CIO
Southeastern Asset Management, Inc.

November 7, 2011

Letter To Our Shareholders

All three Longleaf Partners Funds had positive returns during the second quarter, a challenging period for many investors. Based on Dow Jones data, most countries' stock markets declined in local currency terms. A few small emerging markets were in positive territory for the second quarter, and among developed nations, only Ireland (up 3.1%) and Germany (up 1.8%) delivered better than flat or negative returns. The Partners and Small-Cap Funds exceeded their benchmark indices over the last three and six months, achieving double-digit performance thus far in 2011. The International Fund was short of the EAFE Index whose gains came from the dollar's weakness rather than from strength in underlying securities. For the last year all three Longleaf Funds have compounded at over twice our absolute annual goal of inflation plus 10%.

Cumulative Returns Through June 30, 2011[1]

	Since Inception[1]	20 Year	Ten Year	Five Year	One Year	YTD	2Q
Partners Fund (4/8/87 Inception)	**1263.9%**	**786.4%**	**62.9%**	**9.5%**	**32.0%**	**10.2%**	**1.3%**
S&P 500 Index	686.9	433.6	30.8	15.6	30.7	6.0	0.1
Small-Cap Fund (2/21/89 Inception)	**925.0**	**910.7**	**148.3**	**41.9**	**40.3**	**13.7**	**3.7**
Russell 2000 Index	629.9	550.9	83.7	22.2	37.4	6.2	(1.6)
International Fund (10/26/98 Inception)	**228.3**	**na**	**66.2**	**14.2**	**29.7**	**3.7**	**0.8**
EAFE Index	76.4	na	73.4	7.6	30.4	5.0	1.6
Inflation plus 10%	[2]	967.5	222.1	77.5	13.7	na	na

[1] *During the inception year, the S&P 500 and the EAFE Index were available only at month-end; therefore the S&P 500 value at 3/31/87 and the EAFE value at 10/31/98 were used to calculate performance since Inception.*

[2] *Inflation plus 10% since inception for the Partners, Small-Cap and International Funds was 1808.8%, 1395.5% and 352.4%, respectively.*

Average Annual Returns through June 30, 2011

	Since Inception[1]	20 Year	Ten Year	Five Year	One Year
Partners Fund (4/8/87 Inception)	**11.4%**	**11.5%**	**5.0%**	**1.8%**	**32.0%**
S&P 500 Index	8.9	8.7	2.7	2.9	30.7
Small-Cap Fund (2/21/89 Inception)	**11.0**	**12.3**	**9.5**	**7.3**	**40.3**
Russell 2000 Index	9.3	9.8	6.3	4.1	37.4
International Fund (10/26/98 Inception)	**9.8**	**na**	**5.2**	**2.7**	**29.7**
EAFE Index	4.6	na	5.7	1.5	30.4

See pages 6, 14, and 20 for additional performance information.

Letter To Our Shareholders

The price-to-value ratio (P/V) has grown more attractive in each Fund for three reasons: 1) we have sold and trimmed more fully priced names, 2) we have bought and added to holdings that were trading below 60% of appraisal, and 3) the values of most companies have grown.

The second quarter exhibited investors' temperamental nature aptly characterized by Peter Cundill, a highly regarded devotee of Ben Graham's investment teachings. Peter, who was a good friend, died earlier this year. He started his Canadian investment firm the same year that Southeastern formed. We shared many similar views. The recent book about Peter, *There's Always Something to Do* by Christopher Risso-Gill, quoted an early, insightful journal entry on page 8.

> My primary objective is to make money for my clients and then to make my business profitable. I believe that the way to achieve this is through associating with truly competent people with unshakeable business integrity, to ensure strict financial controls, a culture of thoroughness, a measured capacity for action; i.e. no seat of the pants stuff and a spirit of humility and cohesive teamwork. What I am beginning to perceive is that investors tend to follow trends and fashion rather than taking the trouble to look for value. This must offer opportunity for the professional investment manager, as a result of the short term mispricing of securities.

Peter's observation that investors are unwilling to do valuation work occurred **before** the development of 24/7 business networks and "always on" connectivity. Instantaneous reaction and speculation dominate stock swings today. In May and June sentiment dramatically changed with more speculation around slower global economic growth and Greek debt default. No significant new developments accompanied the confidence reversal. Market fluctuations are nothing new, but the speed and magnitude of the market's mood change indicated a reactive rather than reflective environment. Equity funds, which had positive flows through April, experienced outflows every week in May and June, with significantly larger withdrawals in the final three weeks of the quarter. Conversely, bond fund flows peaked in May and were strong again in June. We saw similar movement among institutions as the pace of pension plan "de-risking" increased. The Advisors Sentiment report in *Investors Intelligence* measured the rapid and dramatic confidence swing. The 57% of advisors who were bulls in early April fell to 37% in mid-June, while fewer than 16% started as bears but grew to 28% over the same period. The difference between bulls and bears, therefore, went from over 41% to under 10% in fewer than three months.

These market observations did not impact our investment decisions, but they provide context for the opportunity change over the last three months. At the end of the first quarter we noted that few new companies met our qualifications and the cash in our portfolios would give us flexibility if markets declined. One of Southeastern's advantages is our discipline of doing detailed business analysis and generating in-depth company appraisals. Armed with our long-term investment horizon and conservative appraisals, we capitalized on the short-term mispricing created by the market's rapid reversal. By the end of June we had found five new qualifiers as well as added to nine existing holdings across the three Funds.

Even though returns in 2011 have been positive, the price-to-value ratio (P/V) has grown more attractive in each Fund for three reasons: 1) we have sold and trimmed more fully priced names, 2) we have bought and added to holdings that were trading below 60% of appraisal, and 3) the values of most companies have grown. We believe the Funds contain a great deal of compounding opportunity. Not only are they selling at a large discount to appraisal, but the high quality, competitively advantaged businesses we own and the capable corporate stewards running them should drive additional strong value growth for the foreseeable future.

Sincerely,

O. Mason Hawkins, CFA
Chairman & CEO
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President & CIO
Southeastern Asset Management, Inc.

July 29, 2011

P.S. Volatility has become more extreme from the official date of this report, June 30th, through the report release date, August 10th. Though prices have declined significantly, our message has not changed — opportunities for reward are more abundant. To view updated performance, go to www.southeasternasset.com.

Letter To Our Shareholders

All three Longleaf Funds have exceeded our annual absolute return goal of inflation plus 10% for the year ended March 31, 2011. Longleaf Partners Fund and Longleaf Partners Small-Cap Fund also outperformed their benchmark indices by wide margins in the first quarter. Longleaf Partners International Fund's gain fell short of the EAFE Index, primarily pressured by price declines in our Japanese holdings. The tables below show the value that the Funds have delivered to our long-term partners, especially those who have held the Funds for over ten years.

Cumulative Returns through March 31, 2011

	Inception[1]	20 Year	Ten Year	Five Year	One Year	YTD
Partners Fund (Inception: 4/8/87)	**1245.9%**	**796.6%**	**79.0%**	**6.7%**	**19.9%**	**8.7%**
S&P 500 Index	686.1	431.9	38.3	13.8	15.7	5.9
Small-Cap Fund (Inception: 2/21/89)	**888.3**	**875.2**	**161.3**	**33.9**	**20.9**	**9.7**
Russell 2000 Index	641.8	551.1	113.3	17.9	25.8	7.9
International Fund (Inception: 10/26/98)	**225.6**	**na**	**74.8**	**11.4**	**14.6**	**2.9**
EAFE Index	73.7	na	69.0	6.7	10.4	3.4
Inflation plus 10%	[2]	965.1	222.2	78.4	12.8	na

(1) *During the inception year, the S&P 500 and the EAFE Index were available only at month-end; therefore the S&P 500 value at 3/31/87 and the EAFE value at 10/31/98 were used to calculate performance since inception.*

(2) *Inflation plus 10% since inception for the Partners, Small-Cap and International Funds was 1746.5%, 1346.7% and 337.6%, respectively.*

Average Annual Returns through March 31, 2011

	Inception[1]	20 Year	Ten Year	Five Year	One Year
Partners Fund (Inception: 4/8/87)	**11.5%**	**11.6%**	**6.0%**	**1.3%**	**19.9%**
S&P 500 Index	9.0	8.7	3.3	2.6	15.7
Small-Cap Fund (Inception: 2/21/89)	**10.9**	**12.1**	**10.1**	**6.0**	**20.9**
Russell 2000 Index	9.5	9.8	7.9	3.4	25.8
International Fund (Inception: 10/26/98)	**10.0**	**na**	**5.7**	**2.2**	**14.6**
EAFE Index	4.6	na	5.4	1.3	10.4

See pages 6, 12 and 20 for additional performance information.

Letter To Our Shareholders

Your partners at Southeastern believe that the companies we own will deliver material value growth and generate long-term returns that meet our absolute goal.

The solid results reflected sound execution by our corporate management partners. The companies that most impacted the positive returns had top line and/or margin growth that drove earnings and free cash flow above expectations and created optimism going forward. Several management teams initiated additional cost reduction plans. Capital allocation moves also increased values as several companies sold or announced plans to sell pieces of their businesses at attractive prices. Many of our management partners recognized that their stocks remained significantly discounted and built value through share repurchases.

While company fundamentals drove the Funds' good performance, macro events hurt prices of a few names. The slow pace of recovery in U.S. housing weighed on cement and aggregates producers, and Middle Eastern turmoil drove up their energy costs. Additionally, uncertainty around Cemex's Egyptian operations further pressured the stock (held in Partners and International). The earthquake and tsunami in Japan created the most widespread impact as the Funds' Japanese holdings (NKSJ in Partners and International, Olympus in Small-Cap and International, and Seven Bank in International) all declined.

The human toll both in Japan and the Middle East uprisings is tragic. The tsunami recovery will take many months as could political and economic stability in Tunisia, Egypt, Libya, Yemen, and the other countries that are in flux. Ironically, the uncertainty has enhanced the longer term attractiveness of several portfolio companies. Middle Eastern oil supply concerns have placed a higher premium on growing reserves outside of the region including Pioneer Natural Resources' Spraberry field in the US (in Partners and Small-Cap) and HRT's Brazilian and Namibian exploration rights (in International). The sharp price rise in oil relative to natural gas has also improved the longer term outlook for Chesapeake's natural gas reserves (in Partners). Gas rigs will decline as more operators move to extract more profitable oil, and demand will increase as the cost to convert from oil to natural gas is more economically attractive. Higher oil prices also should benefit Cemex because the Mexican government's oil receipts will rise and lead to more infrastructure and housing spending.

The combination of natural disasters this year including the New Zealand earthquake, Australian floods, and Japan's massive earthquake and tsunami, will remove substantial capital from insurance underwriters, particularly reinsurers, as claims are paid. The insurance industry has suffered from multiple years of soft pricing because of the global economic decline, excess cheap capital, and few major disasters drawing down reserves. These pressures have provided the opportunity for the Funds to own some of the industry's best-in-class firms. Pricing cycles historically have moved in conjunction with significant insured events. Rising insurance premiums will benefit brokers (Aon in Partners and Willis in all three Funds) whose revenues are significantly tied to premiums, and who have no underwriting risk. Reinsurers and Japanese non-life companies will get higher pricing over multiple years that will more than offset the near-term reserve draw downs (the Odyssey Re unit of Fairfax in both Small-Cap and International, Everest Re in Small-Cap, and NKSJ in Partners and International). Ultimately, economic growth and less capital in the system will benefit even underwriters not directly tied to the Japanese disaster (Travelers and Loews in Partners and Markel in Small-Cap).

The Funds' insurance holdings illustrate one of Southeastern's major advantages in generating superior long-term returns — time horizon arbitrage. Most analysts make stock recommendations based on the outlook for a company over the next few quarters. For them, a one-year horizon is long-term. Conversely, Southeastern appraises business values which are dependent on multi-year free cash flows. If an industry or a company faces short-term pressures such as a soft pricing cycle, but the strength of the business and its prospects over five years remain intact, we may get the opportunity to buy a high quality company at a substantial discount to its underlying value. At the time of purchase, each portfolio holding had short-term factors that made the company cheap and a long-term intrinsic value far above our cost.

Currently we are finding fewer businesses that meet our required discount given the overall rise in global stock prices over the last two-and-one-half years. Since reaching lows on November 20, 2008, the Partners Fund has gained 146%, Small-Cap 154%, and International 86%. (By comparison, the S&P 500 is up 86%, the Russell 2000 126%, and the EAFE 73% over the same time. See page 1 for additional performance information.) The majority of the gains came from closing the gap between historically low prices relative to values. The P/V ratios of the Funds fell below 40% at the bottom and now have risen to the high-60%s in the Partners Fund, the low-70%s in Small-Cap, and the low-60%s in International.

Inflation plus 10% remains a worthy and achievable annual goal but will be more difficult to deliver over the next few years given the higher P/Vs. As opposed to the recent period when appraisal growth was anemic but returns were huge, we anticipate that most of our performance in the next few years will come from considerable value growth and finding new investments at less than 60% of conservative appraisals. We have begun to see explosive appraisal increases in the last quarter or two at some companies. We anticipate additional substantial gains given the quality of our businesses, the abilities of our management partners, and the conservatism in our appraisals. In contrast to concerns some market bears have about high corporate margins, most businesses we own are still operating well below peak margin and/or revenue levels. Additional margin improvements and revenue gains will contribute to the anticipated value growth. Meanwhile, if the market pulls back, we have significant financial flexibility either to add to existing holdings or to purchase new qualifiers.

Currently we are seeing few qualifiers in the U.S., and those we started to buy moved away from our price limit rapidly. Most concerns we hear from our corporate management teams are outside of the U.S. — When will European economies grow, and what will happen to those countries with substantial debt? What will be Japan's path to recovery and full production? What will be the fallout if the China real estate bubble bursts? What types of governments will ultimately control oil in the Middle East? Because international stocks have risen less since late 2008, and the above concerns are weighing on markets, we are finding more opportunities outside of the U.S. Most interesting are companies tainted by these broad concerns but with underlying businesses that largely will be unaffected by the above unknowns. The International Fund has slightly less cash than the other two Funds, and the P/V is more compelling.

As the largest collective owners of the three Longleaf Partners Funds, your partners at Southeastern believe that the companies we own will deliver material value growth and generate long-term returns that meet our absolute goal. Market volatility may continue, and short-term performance may be lumpy. We will adhere to our investment discipline and be ready to act when Mr. Market offers us companies that meet our stringent criteria. We are grateful for the support and long-term commitment of our investment partners and look forward to delivering the results that you have come to expect from Southeastern.

Sincerely,

Mason

O. Mason Hawkins, CFA
Chairman & CEO
Southeastern Asset Management, Inc.

Staley

G. Staley Cates, CFA
President & CIO
Southeastern Asset Management, Inc.

April 29, 2011

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS: February 8, 2011

We are pleased to report that the Longleaf Partners Funds compounded your capital significantly in 2010. Each Fund exceeded our absolute annual return goal of inflation plus 10%. Additionally, the Partners and International Funds outperformed their benchmark indices last year. All three Funds have added substantial value versus their benchmarks for long-term investors who have been shareholders over the past one and two decades.

	Cumulative Returns through December 31, 2010				
	Since IPO(1)	20 Year	10 Year	5 Year	1 Year
Partners Fund (4/8/87 IPO)	**1137.7%**	**920.1%**	**64.0%**	**8.3%**	**17.9%**
S&P 500 Index	642.2	475.1	15.1	12.0	15.1
Small-Cap Fund (2/21/89 IPO)	**801.3**	**960.5**	**139.2**	**28.8**	**22.3**
Russell 2000 Index	587.2	682.5	84.8	24.5	26.9
International Fund (10/26/98 IPO)	**216.5**	**NA**	**85.4**	**14.2**	**13.7**
EAFE Index	68.0	NA	41.1	12.9	7.8
Inflation plus 10%	(2)	954.3	220.0	77.6	11.5

(1) *During the inception year, the S&P 500 and the EAFE Index were available only at month-end; therefore the S&P 500 value at 3/31/87 and the EAFE value at 10/31/98 were used to calculate performance since IPO.*

(2) *Inflation plus 10% since inception for the Partners, Small-Cap and International Funds was 1667.7%, 1284.9% and 319.0%, respectively.*

	Average Annual Returns through December 31, 2010				
	Since IPO(1)	20 Year	10 Year	5 Year	1 Year
Partners Fund *(4/8/87 IPO)*	**11.2%**	**12.3%**	**5.1%**	**1.6%**	**17.9%**
S&P 500 Index	8.8	9.1	1.4	2.3	15.1
Small-Cap Fund *(2/21/89 IPO)*	**10.6**	**12.5**	**9.1**	**5.2**	**22.3**
Russell 2000 Index	9.2	10.8	6.3	4.5	26.9
International Fund *(10/26/98 IPO)*	**9.9**	**NA**	**6.4**	**2.7**	**13.7**
EAFE Index	4.4	NA	3.5	2.5	7.8

See pages 12, 20, and 28 for additional performance information.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

Stock Price Volatility Provided Opportunity

The large 2010 gains mask periods of extreme volatility within the twelve month period. Early in the year rising prices gave us an opportunity to sell certain stocks as they approached intrinsic value or when positions became overweighted. When European sovereign debt concerns scared investors in the spring, prices declined in most markets and created buying opportunities. Optimism returned in September, and stocks began their rally to year-end. Within the year, the S&P 500 had 8 months, EAFE had 10 and Russell 2000 had 11 where the low to high was at least a 6% swing. The most extreme fluctuation occurred in May when the S&P moved just under 13% from its high to low, ending the month down 8.2%; EAFE moved just under 19% within the same month and finished down 12%; and Russell 2000 swung over 14%, declining 7.7%. Volatility is the friend of long-term investors who know the value of the underlying cash flows and assets of a business. We bought 16 new names across the Funds and added to 20 existing holdings when prices declined. We sold 12 companies and scaled back 26 others amid stock gains. The combined transactions represent an unusual amount of activity given our long-term holding periods.

Performance Drivers

Many of the Funds' largest contributors benefitted directly or indirectly from growth in developing economies. Genting rose over 70% after this Malaysian casino company successfully expanded in Singapore. Cheung Kong gained 23% as improved economic demand benefitted the ports and retail businesses. Newly purchased HRT, a Brazilian oil and gas exploration and production company, appreciated 40% from our initial purchase. Less obvious beneficiaries of emerging market growth were some of our best U.S. performers. Yum! Brands gained over 40% in the year driven largely by Chinese growth and the opportunity to rapidly expand in areas such as India and Africa. Pioneer Natural Resources' 80% rise was due in part to oil prices heating up over demand from emerging markets. Within the Partners Fund's largest holding at the outset of 2010, DirecTV's Latin American business grew at over twice the pace of domestic revenues and became an increasingly meaningful portion of the company's results.

An improvement in U.S. consumer spending also helped results. In particular, Liberty Interactive, the owner of QVC, saw meaningful growth both in television and internet sales as its superior lower cost model grew faster than almost all traditional retailers. Dillard's stock price more than doubled. The owner-operator management team delivered comparable sales that outpaced expectations and competitors. In the last few months of the year, economic and political news increased U.S. growth expectations. Our holdings of real assets such as aggregates (Cemex, Martin Marietta, Vulcan, and Texas Industries) and oil and gas (Chesapeake, Pioneer, and HRT) gained substantial ground.

Inexpensive capital via the debt markets positively impacted our holdings in several ways. The few companies that have a meaningful amount of financial leverage strengthened their balance sheets through attractive refinancing. A number of management teams increased corporate value by issuing cheap debt to repurchase heavily discounted shares. The low interest environment helped create opportunities to buy discounted businesses such as insurance underwriters and brokers whose future earnings potential increases when they roll their liquidity into higher yielding securities.

"High Quality Stocks"

Throughout the year we increasingly heard clients and others call for "high quality" equities for several reasons. On a relative valuation basis "high quality" companies are selling for lower multiples than "low quality." From a macro view, many associate quality with dividend yield and prefer higher yielding stocks given current fixed income rates and the desire for this buffer in the case of another major economic downturn. Additionally, those who believe that inflation is inevitable bet that high quality stocks will perform better. Many equate quality with larger cap companies whose businesses tend to be multinational, and therefore will benefit from the faster growth rates anticipated outside of the U.S.

For Southeastern, qualitative strength matters a great deal in stock selection at all times, no matter what the macro environment or relative valuations are. "Cheap" is not enough to protect capital and earn adequate returns. Broadly used quality categories and metrics, however, do not adequately capture the strengths of many businesses. In our 35 year experience the following characteristics **when purchased at a steep discount** (price matters), almost always lead to investment success.

- Distinct and sustainable competitive advantages that enable pricing power, earnings growth, and stable or increasing profit margins.
- High returns on capital and on equity as measured by free cash flow rather than earnings, which are subject to so much accounting gimmickry.
- A properly geared balance sheet that takes advantage of the lower cost of debt versus equity but will not overextend the company in tough times. The debt/equity ratio is only one measure for capital structure prudence. We

consider overall leverage versus the sum of the parts value of a company. We also review debt structure, covenants, and major maturity dates as well as operating cash flow/interest coverage to determine whether a company can meet its obligations comfortably.

- Corporate management's operating skills, capital allocation prowess, and properly aligned, ownership-based incentives. In over three-and-one-half decades our investments that have outperformed most have been due in large part to capable, vested owner-operators who made decisions that increased business quality as well as value per share.

Sometimes investors question the "quality" of our holdings, usually because these companies either do not fit a formulaic definition of quality or because of a recent headline scare that obscures an incredibly strong long-term competitive position. It is not exactly to our benefit to correct this misperception. We can pay far more attractive prices for assets which are of the highest quality though not yet perceived that way compared to the price premium usually built into those companies that have universally achieved consensus as "high quality" based on simplistic measures that may or may not properly reflect the risk of losing permanent capital.

The Longleaf Funds own primarily high quality businesses today, many of which remain misunderstood and therefore cheap. We anticipate solid value growth in 2011 from our companies. In the few cases where qualitative characteristics are in question, we are working internally and with managements and boards to assist in building values. In rare cases where we believe the business might become permanently impaired, we exit.

We strongly disagree with those who equate stock price volatility with low quality and increased risk. Amidst the extreme price fluctuations in 2010, our best performers were some of the highest quality companies we own. None were among the most heavily levered (by any metric). The high returns generated involved little to no risk. (We define risk as the chance of permanent capital loss). Price movements have no bearing on capital loss unless one is forced to sell at a low point. Long-term investors who know the value of their businesses and intelligently take advantage of price volatility increase their return opportunity and lower their risk of loss.

Southeastern's Progress in 2010

Southeastern is 100% employee owned, and we are our largest client via our collective investment in the Longleaf Partners Funds. For over 35 years we have worked to improve our company daily. In 2010 almost every group at Southeastern made changes that enhanced our global capabilities and more fully integrated our work across geographies, departments, and individuals. We added a second analyst in Singapore when we hired Manish Sharma in January and in London when Josh Shores moved from our Memphis office where he had been for three years. We also welcomed the return of Jim Thompson to the research team. Jim started at Southeastern in 1996 and opened our London office in 2000. He became a consultant to Southeastern when his family moved to California in 2007. Jim's experience in Europe, the U.S., and more recently in Canada, broadens our research and client reach. Neither geographic borders nor industry assignments restrict our analysts or prevent them from collaborating and acting as a unified team. In a recent example, HRT, a new international name, was sponsored by Ken (Singapore) and Josh (London). Ross (Memphis) contributed significantly because of the work he has done in the oil and gas E&P industry. Additionally, Mason and Staley (both Memphis) spent time with various industry contacts, seed investors, and management (Brazil) prior to our investment commitment.

Brandon Arrindell joined the research team in Memphis. Brandon and Manish are enabling us to deepen our coverage on existing holdings by attending analyst days and other relevant conferences, interviewing numerous competitors and customers of our investees, running financial models, maintaining our comparable sales data base, and doing numerous other tasks. This work not only enhances coverage of our current names, but also helps insure that the most senior analysts have adequate time to look for new opportunities.

Our trading group made systems and process changes to improve effectiveness. We also used data amassed from our internal assessments to highlight external factors that can impact trading. We aggressively communicated with legal and regulatory bodies the importance of a level trading field, and our message received significant attention and traction especially after the flash crash in the U.S. in May. Some high frequency trading practices are beginning to migrate offshore. We believe our knowledge will be an advantage as we continue to pursue best execution worldwide.

The client portfolio management team added resources to provide additional support for our investment partners. Fraser Marcus, who is working out of both Memphis and London, has experience and relationships in Europe, the Middle East, and Asia that are expanding and complimenting our global research contacts and backlog of like-minded partners. We hired Peter Montgomery to help us stay more current with Longleaf institutional clients and registered investment advisors who use the Longleaf Funds. John Owen joined us from an investment consulting firm to ensure that we are properly assisting the consultants who work with our clients and effectively responding to client referrals.

With over 40% of our separate account assets based outside of the U.S., we decided to replicate our U.S. model overseas by offering a pooled vehicle. Longleaf Partners Global Fund, a UCITS fund based in Ireland and seeded by our private foundation, allows individuals, smaller institutions, and groups who prefer pooled funds outside of the U.S. to access the investment expertise of Southeastern. Finally, we have been working on improving and broadening the relevance of our web site. In the first half of 2011 we plan to launch a new Southeastern site to address the needs of all of our partners wherever they are located and whatever form of investment they prefer.

Outlook

We believe our superior businesses, their capable managements, and their discounted prices position us well. We are hopeful that our active engagement with a number of investees will deliver incremental benefits. We are “on the case” in every investment as stewards of your capital and ours.

Our Client Partners Provide a Competitive Advantage

Our clients’ stability and long-term investment time horizon have allowed us to be patient and successfully execute our disciplines. The average tenure of our separate accounts is 10 years, and a number of relationships have been in place for over two decades. For the three Funds the average account life is between 6-8 years which reflects newer accounts after Fund reopenings, newer accounts such as IRA’s or trusts added by shareholders with longstanding accounts, and a newer (since 1998) International Fund relative to more than 20 years of domestic offerings. Amidst the market turmoil and decline in long-only equity allocations over the last five years, our client base has remained stable. We encourage all of our partners, whether in the Longleaf Funds or separate accounts, to let us know ways we can serve you better.

We have found that our clients are increasingly among our most helpful research resources — whether providing insight on a particular company or giving background on corporate managers. Southeastern does not have a monopoly on good investment

Longleaf Partners Funds
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ideas. To the extent that your experience has led you to identify the rare instance of a business with significant advantage or a superlative corporate partner, please let us know. We are not asking for frequent input, detailed analysis, or any type of non-public information. We do, however, know that the high caliber and partnership approach of our client base can benefit all of our investors. Please contact us at ideas@longleafpartners.com if you have unique research or better servicing suggestions. The Longleaf Partners annual shareholder gathering will be Tuesday, May 10th at 5:30 p.m. at Theatre Memphis located at 630 Perkins Extended in Memphis. All of our partners are welcome, and we hope to see many of you there.

Sincerely,

O. Mason Hawkins, CFA
Chairman & CEO
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President & CIO
Southeastern Asset Management, Inc.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS:

All three Longleaf Funds made substantial gains in the quarter. Results far exceeded inflation plus 10% over the last three months but were less than the relevant indices. Thus far in 2010 both the Partners Fund and International Fund remain well ahead of their benchmarks, and each Fund has exceeded its benchmark over the last twelve months. The Funds have delivered superior long-term returns. Market volatility continued with September accounting for much of the quarter's gain. We are continuing to find compelling opportunities for the three Funds.

	Cumulative Returns through September 30, 2010						
	Since IPO[1]	20 Year	10 Year	5 Year	1 Year	YTD	Q3
Partners Fund (4-8-87 IPO)	**1019.6%**	**874.9%**	**66.3%**	**(1.2)%**	**11.8%**	**6.6%**	**8.4%**
S&P 500 Index	570.1	465.8	(4.2)	3.2	10.2	3.9	11.3
Small-Cap Fund (2-21-89 IPO)	**700.8**	**778.6**	**125.1**	**19.5**	**16.7**	**8.7**	**9.6**
Russell 2000 Index	491.1	607.2	48.0	8.3	13.4	9.1	11.3
International Fund (10-26-98 IPO)	**194.7**	**NA**	**76.4**	**9.5**	**7.4**	**5.9**	**16.4**
EAFE Index	57.6	NA	28.8	10.2	3.3	1.1	16.5
Inflation plus 10%	[2]	958.1	219.4	75.4	11.1	8.0	3.2

[1] *During the inception year, the S&P 500 Index and the EAFE Index were available at month-end only. The S&P 500 Index value at 3-31-87 and the EAFE Index value at 10-31-98 were used to calculate performance since inception.*

[2] *Inflation plus 10% since inception for the Partners, Small-Cap and International Funds was 1622.6%, 1249.6% and 308.3%, respectively.*

	Average Annual Returns through September 30, 2010				
	Since IPO[1]	*20 Year*	*10 Year*	*5 Year*	*1 Year*
Partners Fund	***10.8%***	***12.1%***	***5.2%***	***(0.2)%***	***11.8%***
S&P 500 Index	*8.4*	*9.1*	*(0.4)*	*0.6*	*10.2*
Small-Cap Fund	***10.1***	***11.5***	***8.5***	***3.6***	***16.7***
Russell 2000 Index	*8.6*	*10.3*	*4.0*	*1.6*	*13.4*
International Fund	***9.5%***	***NA***	***5.8%***	***1.8%***	***7.4%***
EAFE Index	*3.9*	*NA*	*2.6*	*2.0*	*3.3*

See pages 8, 14 and 22 for additional performance information.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

The number of on-deck prospective investments remains higher than normal. Our analysts have presented numerous new ideas for consideration; we are fully invested; our most difficult decisions are choosing between great companies we own and qualified new ones; and we have added ten names across the three Longleaf portfolios over the last six months. Investor fear driven by global macro concerns is fueling our research productivity. During the quarter *Investors Intelligence* reported that the spread between bulls and bears had fallen to levels not seen since March of 2009.[1] The *New York Times* noted on October 1 that "fixed income markets have seen greater inflows than equities did during the tech bubble of 2000."[2] Record low interest rates in many developed countries imply macro concerns about a double-dip recession and/or deflation. Conversely, gold's record highs and the concomitant "flight to safety" prognosticate higher inflation. Evidence of the macro obsession and utter disregard for individual company merits comes in various forms – individual stock movements are highly correlated with overall market moves; macro funds have increased in number and net flows; and perhaps most tellingly, the *Wall Street Journal* recently quoted one research firm as declaring that "Stock picking is a dead art form."[3]

Not only are investors concerned about sovereign debt, growing deficits, and lack-luster economic growth, they also extrapolate the "lost decade" as representative of what most developed markets will deliver in the future. Our conservative and growing company appraisals, our long-term time horizon, and that of our clients give us the ability to seize the opportunity created by short-term macro worries and the mispricing of superior global businesses.

Overwhelming pessimism coupled with the Funds' single-digit ten year returns have led some to ask if Southeastern's goal of inflation plus 10% is still relevant and achievable. It is certainly relevant, and we are confident it is achievable over the coming decade. We and our clients require positive real rates of return to fund retirement, pay tuitions, and support charitable causes. As business owners via equities we demand a meaningful premium for the risks inherent in owning versus lending. For over 80 years corporate bonds have generated 5.9% per year, or a real rate closer to 3%. Additionally, as active equity investors we should deliver a premium to the market over time. Over a 40 year history international stocks have delivered a nominal 10.2% annually, and U.S. stocks have done 9.9%.[4] Inflation plus 10%

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[1] *Investors Intelligence*, September 1, 2010, "Advisors Sentiment."

[2] *New York Times*, October 1, 2010, "Cautious Positions May Be Overdone."

[3] *Wall Street Journal*, September 24, 2010, "Macro Forces in Market Confound Stock Pickers."

[4] Historic market data sourced from *2010 Ibbotson Stocks, Bonds, Bills and Inflation Classic Yearbook*, pages 25 and 152.

corresponds with our view that over market cycles we should deliver positive returns that properly compensate us for ownership versus lending and that provide a meaningful premium to what an unmanaged basket of securities will produce. Our absolute goal does not imply, however, a "market neutral" approach that tries to remove market volatility from our results via shorting, derivatives, or other methods. While we will suffer from the headwinds and benefit from the tailwinds of equity market cycles, our long-term results should add excess returns above the market's net moves.

For the majority of the Funds' lives, we have exceeded inflation plus 10%. We analyzed annual cumulative returns assuming an investment was made at the outset of every year in each Fund. Over the 529 measuring periods shareholder results exceeded our goal 56% of the time. The huge markdowns of 2008 dominate recent data. Prior to 2008 we exceeded a real 10% return in 69% of the periods. The Funds have also delivered a substantial premium to their indices. The same cumulative return data shows that the Funds outperformed their benchmarks in 74% of the periods, including the last two years.

For our current partners the important question is not whether we achieved our goal in the past, but whether inflation plus 10% is realistic from this point. We believe mid-teen returns are achievable based solely on the metrics of the businesses we own. The collective free cash flow yield of our companies is approximately 10% today – meaning that if revenues and expenses show no improvement, the businesses will deliver an annual free cash flow return of 10%. In addition, most of our investees have excess capacity that will allow them to grow their revenues in mid-single digits over the next 5 years with little or no expansionary capital spending. Beyond these implied double-digit returns that our holdings can generate in a static spending mode, additional gains will come if P/E's migrate to historic averages. Finally, hindsight bias is fostering the expectation that the substantially lower ten year average returns of the last decade will be repeated in the next. Ironically, this hindsight is a poor predictor since the mathematic probability of returning to more normal multiples of earnings and cash flow is much higher following a prolonged period of depressed stock prices. The Longleaf Funds' companies are worth a great deal more than their current prices, with P/Vs in the low-60%s range. Those values are conservative and growing. In more macro terms, given that both U.S. and international markets have delivered approximately 10% per year over multiple decades, and given the S&P 500's current 10 year performance of (0.4)% and EAFE's paltry 2.6%, the law of averages would argue for a significantly more rewarding decade than the last for equity owners. We have the portfolio foundation to deliver our goal without a market reversion to the mean, but the rampant pessimism surrounding stocks and the level of macro-based fear increases the likelihood of a tailwind.

Longleaf Partners Funds
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We have included several articles to provide additional perspective on how discounted equities are (*New York Times*) and the compelling case for some of our core holdings (*Value Investor Insight*). If you are interested in the 20 page reprint of the August 9, 2010 *Outstanding Investor Digest* article on Southeastern, you may order a printed copy at http://www.longleafpartners.com/about/gen_articles.cfm. We are grateful for your partnership. We believe the outstanding quality both of what we own and our management partners, as well as the discounted prices of those businesses, will be particularly rewarding.

Sincerely,

O. Mason Hawkins, CFA
Chairman & CEO
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President
Southeastern Asset Management, Inc.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS:

The three Longleaf Funds' NAVs retreated in the second quarter and pushed year-to-date results into negative territory. Each Fund has outperformed its respective benchmark in 2010 but is behind our absolute annual goal of inflation plus 10%. The price movements from the highs in late April to the lows at quarter end reminded stockholders that the market periodically misprices businesses. The expected cash flows our companies will produce over the next five to ten years have changed little. Yet, the market's pricing of those businesses changed materially in a two month period.

The Funds have delivered superior long-term returns.

	Cumulative Returns through June 30, 2010[3]						
	Since IPO[1]	20 Year	10 Year	5 Year	1 Year	YTD	Q2
Partners Fund (4/8/87 IPO)	**932.9%**	**639.7%**	**60.9%**	**(5.3)%**	**21.9%**	**(1.6)%**	**(8.0)%**
S&P 500 Index	502.1	338.5	(14.8)	(3.9)	14.4	(6.7)	(11.4)
Small-Cap Fund (2/21/89 IPO)	**630.8**	**539.8**	**115.5**	**10.7**	**32.1**	**(0.8)**	**(10.6)**
Russell 2000 Index	431.2	380.0	34.4	1.9	21.5	(2.0)	(9.9)
International Fund (10/26/98 IPO)	**153.2**	**NA**	**66.1**	**1.6**	**6.5**	**(9.1)**	**(10.9)**
EAFE Index	35.3	NA	1.6	4.5	5.9	(13.2)	(14.0)
Inflation plus 10%	(2)	976.8	220.9	78.6	11.0	4.9	2.1

(1) During the inception year, the S&P 500 Index and the EAFE Index were available at month-end only. The S&P 500 Index value at 3-31-87 and the EAFE Index value at 10-31-98 were used to calculate performance since inception.

(2) Inflation plus 10% since inception for the Partners, Small-cap and International Funds was 1579.6%, 1215.9% and 298.1%, respectively.

(3) Average annual returns for the periods ended June 30, 2010 follow:

	Since IPO	*20 Year*	*10 Year*	*5 Year*	*1 Year*
Partners Fund *(4/8/87 IPO)*	***10.6%***	***10.5%***	***4.9%***	***(1.1)%***	***21.9%***
S&P 500 Index	*8.0*	*7.7*	*(1.6)*	*(0.8)*	*14.4*
Small-Cap Fund *(2/21/89 IPO)*	***9.8***	***9.7***	***8.0***	***2.0***	***32.1***
Russell 2000 Index	*8.1*	*8.2*	*3.0*	*0.4*	*21.5*
International Fund *(10/26/98 IPO)*	***8.3***	***NA***	***5.2***	***0.3***	***6.5***
EAFE Index	*2.6*	*NA*	*0.2*	*0.9*	*5.9*

See pages 8, 14, and 22 for additional performance information.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

Much of our first quarter letter remains relevant. Macroeconomic concerns continue to dominate market sentiment, which in the last two months has grown considerably more pessimistic. In late June at the Morningstar Conference where many investors gathered, the overwhelming participant focus, as described by a Morningstar panel moderator, was the "three D's" – debt, demographics, and doom. We would add another "D" – double dip.

As our investment partners might expect, the widespread angst and concomitant volatility have helped us find new opportunities. A number of high quality businesses have become discounted enough to meet our criteria. This trend began overseas as fear of the Greek debt crisis weighed on much of Europe, and a healthy cooling of Asian growth pushed down many of those markets. In the last six weeks, the doom hit the U.S. Across the three Funds we initiated eight new positions during the quarter and sold one position from the Partners and International Funds in April when prices approached our appraisal of each.

Equities offer a superior opportunity for investors today, particularly compared to fixed income. The earnings yield of the S&P 500 based on 2011 projected EPS is 9.4%. If adjusted for the approximately $100 of cash imbedded in the S&P, the operating earnings yield increases to 10.4%. The numbers are slightly more attractive overseas. Based on 2011 estimates, the EAFE Index earnings yield is 9.8%. If earnings grow organically from today's depressed levels at only 5% per year (a rate that does not require the reinvestment of earnings because of current excess capacity), and even if the P/E ratio remains below the long-term average, an investor's five year average annual return will be in the mid-teens.

By contrast, corporate bonds with fixed, taxable coupons yield much less than the growing, after-tax coupons that companies produce. The following table compares corporate earnings yields to bond yields at bear market lows since 1932. When stocks have been at their lowest levels, earnings yields have been an average of 2.8% higher than Aa2 bond yields. At the beginning of July earnings yields are 4.3% above debt yields or almost twice stocks' relative attractiveness to bonds at bear market lows. We have rarely witnessed this much disparity between the benefits of being an owner of a growing coupon versus being a lender for a fixed one.

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Earnings Yields versus Bond Yields
at Market Lows Following a 20% Market Correction

Market Low Date	DJIA Bear Market Low	Following Year Earnings[1]	DJIA Earnings Yield	Moody's Aa2 Yield[3]	Yield Difference
3/9/2009	6,547.1	810.0[2]	12.4%	6.4%	(6.0%)
10/9/2002	7,286.3	523.2	7.3%	6.7%	(0.6%)
9/21/2001	8,235.8	461.1	5.6%	7.4%	1.8%
10/11/1990	2,365.1	100.8	4.3%	9.9%	5.6%
10/19/1987	1,738.7	228.0	13.1%	10.9%	(2.2%)
8/12/1982	776.9	84.9	10.9%	14.5%	3.6%
2/28/1978	742.1	124.5	16.8%	8.7%	(8.1%)
12/6/1974	577.6	75.7	13.1%	9.4%	(3.7%)
12/5/1973	788.3	99.0	12.6%	7.7%	(4.9%)
5/26/1970	631.2	55.1	8.7%	8.4%	(0.3%)
10/7/1966	744.3	53.9	7.2%	5.6%	(1.6%)
6/26/1962	536.8	41.2	7.7%	4.5%	(3.2%)
10/22/1957	419.8	28.0	6.7%	4.4%	(2.3%)
6/13/1949	161.6	30.7	19.0%	2.9%	(16.1%)
4/28/1942	92.9	9.7	10.4%	3.3%	(7.1%)
3/31/1938	99.0	9.1	9.2%	4.1%	(5.1%)
7/8/1932	41.2	2.1	5.1%	6.9%	1.8%
				Median:	**(2.3%)**
				Average:	**(2.8%)**
7/2/2010	**9,686.5**	**930.4**[2]	**9.6%**	**5.3%**	**(4.3%)**

(1) Source: Value Line except as noted.
(2) First Call/Thomson Financial earnings estimate.
(3) Long-term corporates.

Despite the short-term market noise that the "D's" are creating, over the long run equities should reflect the value of the free cash flow streams that businesses produce. We are highly confident that (1) the competitive strengths of our companies make them more certain to deliver growing free cash flow coupons than the average business; (2) our companies have superior corporate captains; and (3) the stock prices of our holdings are much cheaper than the S&P 500, EAFE, and the DJIA. P/Vs are in the mid-50% range for all three Funds, implying a large margin of safety as well as tremendous upside performance opportunity which will be magnified as values grow.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

Advocacy for long-term investors

We believe capital markets exist to facilitate the transfer of capital between long-term investors and businesses. Securities and Exchange Commission regulations are designed to promote fair, transparent, and accessible markets. Recent advances in technology, however, have enabled select short-term traders to gain structural advantages over other market participants. This inequality began in the U.S. but is spreading to foreign exchanges as well. The "Flash Crash" on May 6th highlighted some of the issues. Southeastern believes (1) our intellectual capital (i.e. investment trading decisions) should not be sold by exchanges or used by others to interpose in transactions; (2) all market participants should have simultaneous access to the same exchange data; and (3) submitted orders should be true intentions to transact and remain applicable for a minimum increment of time. In response to SEC requests for comment on U.S. equity market structure, over the last several months we have submitted a letter to the SEC (www.sec.gov/comments/s7-02-10/s70210-164.pdf); met with all five of the SEC Commissioners, including Chairman Schapiro, as well as various members of Congress (www.sec.gov/comments/s7-02-10/s70210-228.pdf); and testified before the Joint CFTC-SEC Advisory Committee on Emerging Regulatory Issues (www.sec.gov/news/openmeetings/2010/jac062210.shtml). The links provide more detail about our assessment of market structure imperfections. We encourage you to ask your other managers their views and activities related to this important topic for long-term investors.

During the quarter we held our Annual Shareholder meeting in Memphis. For those who were unable to attend but who are interested in the content, an indexed audio is available on our web site at www.longleafpartners.com/news/annual_presentation_2010.cfm.

We greatly appreciate your investment partnership. With analysts based in Singapore, London, and Memphis we have the deepest and most capable research team in Southeastern's history. This vested group is uncovering qualifying investments that we believe will produce above average returns.

Sincerely,

O. Mason Hawkins, CFA
Chairman & CEO
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President
Southeastern Asset
Management, Inc.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS:

Each Longleaf Partners Fund outperformed its respective market index in the first quarter, and the Partners and Small-Cap Funds also exceeded our annual absolute goal of inflation plus 10%. Most of the three month returns were generated in March. Market volatility continued, giving us the opportunity to add to several names when prices fell in late January and February, and to scale back or sell positions when stock prices rose in early January and again in March. Over the last year each Fund has materially exceeded our absolute goal of inflation plus 10%.

	Cumulative Returns through March 31, 2010[(3)]					
	Since IPO	20 Year	10 Year	5 Year	1 Year	YTD
Partners Fund						
(4/8/87 IPO)	**1022.3%**	**719.5%**	**89.6%**	**2.9%**	**67.7%**	**6.9%**
S&P 500 Index	579.8[(1)]	426.2	(6.4)	10.0	49.8	5.4
Small-Cap Fund						
(2/21/89 IPO)	**717.4**	**607.6**	**157.4**	**26.7**	**79.3**	**10.9**
Russell 2000 Index	489.7	453.1	43.6	18.0	62.8	8.9
International Fund						
(10/26/98 IPO)	**184.2**	**NA**	**105.3**	**13.1**	**48.3**	**2.1**
EAFE Index	57.3[(1)]	NA	13.5	20.2	54.4	0.9
Inflation plus 10%	[(2)]	984.4	222.5	79.3	12.3	2.7

(1) *During the inception year, the S&P 500 Index and the EAFE Index were available at month-end only; therefore, the S&P 500 Index value at 3-31-87 and the EAFE Index value at 10-31-98 were used to calculate performance since inception.*

(2) *Inflation plus 10% since inception for the Partners, Small-Cap and International Funds was 1537.4%, 1182.9% and 288.1%, respectively.*

(3) *Average annual returns for the periods ended March 31, 2010 follow:*

	Since IPO[(1)]	*20 Year*	*10 Year*	*5 Year*	*1 Year*
Partners Fund	**11.1%**	**11.1%**	**6.60%**	**0.6%**	**67.7%**
S&P 500 Index	8.7	8.7	(0.7)	1.9	49.8
Small-Cap Fund	**10.5**	**10.3**	**9.9**	**4.8**	**79.3**
Russell 2000 Index	8.8	8.9	3.7	3.4	62.8
International Fund	**9.6**	**NA**	**7.5**	**2.5**	**48.3**
EAFE Index	4.1	NA	1.3	3.8	54.4

Longleaf Partners Funds
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We have emerged from the seventh and worst bear market in Southeastern's history. Unique to the 2008 meltdown was the availability of so many best-in-class industry leaders at severely discounted prices. As we wrote in the third quarter of 2008, "the Funds hold the highest quality businesses in Southeastern's history." We have noted that the corporate managements at our holdings are the best collective group of partners with whom we have co-invested. The competitive advantages of our companies have grown, and our management partners' abilities have been demonstrated more clearly over the last eighteen months. In addition to superior qualitative characteristics, the Funds' quantitative attractiveness is equally strong. We believe the return opportunity that remains in the Funds even following the appreciation over the last year is substantial.

- The price-to-value ratios for all three Funds are in the low to mid-60%s, below our long-term averages.
- The return opportunity could be much higher than our P/Vs imply because our current appraisals are calculated assuming low secular growth from a depressed 2009. If the cyclical economic recovery is normal, our value assessments will prove to be low.
- Appraisal acceleration is likely to be greater than in previous post-recession periods due to the substantial cost cuts that occurred at our companies. Modest top line increases will generate much larger free cash flow gains due to the operating leverage.
- Meaningful cash on hand combined with growing free cash flow coupons will enable our owner-operator partners to make capital allocation decisions that will further build value and/or return more capital to shareholders.
- Market participants and asset allocators remain skeptical of U.S. and developed non-U.S. equities as measured by the direction of fund flows into fixed income, emerging markets, and alternatives over the last 15 months. A great deal of liquidity sits on the sidelines. These observations do not pertain to our appraisals, but do imply that prices within our universe have not been driven by speculation but predominantly by fundamental improvements at our companies.

We find that many investors currently have little interest in hearing about our company valuations, P/V ratios, the great businesses we own, or the terrific managements with whom we have partnered. This lack of interest in our fundamental research corresponds with ongoing macro concerns. Many believe that another shoe will drop from government intervention, monetary and fiscal policy mismanagement, a second leg to the recession, or some combination of these. Didn't 2008 show that such negative macro scenarios will overwhelm our appraisals and our "margin of safety?"

The investment case for the Longleaf Funds outweighs macro concerns for several reasons:

- These macro predictions appear adequately discounted. We submit that they are baked into prices because so many investors share the same concerns. The magnitude of 2008 stock market declines was extremely anomalous, especially compared to previous bear markets associated with severe economic downturns, wars, or double-digit inflation. Prices reacted far more negatively than the recession's meaningful impact on companies.
- We are not oblivious, however, to potential negative macro scenarios as evidenced by our investments. Core holdings such as DIRECTV, tw telecom, Yum, Fairfax, and Genting were "battle-tested" in the first leg of the recession and demonstrated their ability to hold up if recession recurs. The majority of our companies have pricing power which would protect them in an inflationary scenario, and many would be net beneficiaries of inflation.
- The dread scenarios could actually help some of our holdings. If governments remain interventionist, then intervention will probably expand infrastructure spending, benefitting Cemex, Texas Industries, ACS, and Hochtief. If the U.S. government gets serious about energy policy and its relationship to national security, Chesapeake's natural gas and Pioneer's domestic oil will gain additional advantage. Weak capital markets would impair marginal insurance underwriters, eliminate industry capacity and likely push pricing higher, thus helping our insurance broker and company holdings.

The fact that value-based bottom-up investing is taking a back seat to macro issues at this particular time is ironic for two reasons. First, even though our appraisals looked academic and irrelevant in 2008, those intrinsic values were the entire reason for holding onto our best ideas, and they served as the navigational guide or "North Star" in an extremely stormy environment. Those very same values have been the basis for our substantial rebound in 2009 and early 2010 because intrinsic worth has begun to win out (as it usually does.) Second, the mathematical probability of our current appraisals being too high is meaningfully lower than it was in 2007 because of the mark downs we made to reflect the recession. Adjusting values down further from today's levels, even with a second leg to the recession or with inflation pushing up bond yields and discount rates, would be like stepping off the curb instead of falling off the building. So far in 2010, our appraisals have actually surprised strongly to the upside.

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We continue to find new opportunities around the globe. We added a new Small-Cap name in the first quarter and have begun buying two new non-U.S. names as well as one domestic one since the start of April. The Partners Fund's cash reserves are approaching 20%. We patiently are waiting to invest when the prices of our existing holdings and/or on-deck names come our way, or we find a new opportunity.

We are grateful to our partners in the Funds. We believe your commitment will continue to pay off for years to come.

Sincerely,

O. Mason Hawkins
Chairman & CEO
Southeastern Asset Management, Inc.

G. Staley Cates
President
Southeastern Asset Management, Inc.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS:

It was a terrific year for the owners of the Longleaf Partners Funds. Each Fund posted another positive quarter and ended 2009 with strong absolute returns that materially exceeded our annual goal of inflation plus 10%. The Partners and Small-Cap Funds produced the best results in their 20+ year histories. They also beat their respective indices meaningfully with Small-Cap having its best relative year ever and Partners having its second best. Although headlines describe the "lost decade," over the last ten years the Funds generated positive returns that were substantially greater than the relevant benchmarks. The table below shows cumulative returns over both the long run and the more recent periods.

	Cumulative Returns through December 31, 2009[3]				
	Since IPO[1]	20 Year	10 Year	5 Year	1 Year
Partners Fund (4-8-87 IPO)	**949.9%**	**623.9%**	**67.7%**	**(4.8)%**	**53.6%**
S&P 500 Index	545.0	384.3	(9.1)	2.1	26.5
Small-Cap Fund (2-21-89 IPO)	**636.9**	**506.4**	**120.5**	**16.7**	**49.3**
Russell 2000 Index	441.7	396.7	41.3	2.6	27.2
International Fund (10-26-98 IPO)	**178.4**	**NA**	**105.4**	**13.4**	**23.2**
EAFE Index	55.9	NA	12.4	19.0	31.8
Inflation plus 10%	[2]	997.9	225.5	80.7	12.7

(1) *During the inception year, the S&P 500 Index and the EAFE Index were available at month-end only; therefore, the S&P 500 Index value at 3-31-87 and the EAFE Index value at 10-31-98 were used to calculate performance since inception.*

(2) *Inflation plus 10% since inception for the Partners, Small-Cap and International Funds was 1485.5%, 1142.1% and 275.8%, respectively.*

(3) *Average annual returns for the periods ended December 31, 2009 follow:*

	Since IPO[1]	20 Year	10 Year	5 Year	1 Year
Partners Fund	**10.90%**	**10.40%**	**5.31%**	**(0.98)%**	**53.60%**
S&P 500 Index	8.54	8.21	(0.95)	0.42	26.46
Small-Cap Fund	**10.05**	**9.43**	**8.23**	**3.13**	**49.31**
Russell 2000 Index	8.44	8.34	3.51	0.51	27.17
International Fund	**9.59**	**NA**	**7.46**	**2.54**	**23.17**
EAFE Index	4.06	NA	1.17	3.54	31.78

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

Lessons of 2009

After the market meltdown of 2008, the most frequently asked question we received was, "What have you learned?" In previous shareholder communications we have elaborated on the things we learned including painful lessons from mistakes that cost us a few permanent losses.

In addition to that oft asked question, the most discussed topic has been macroeconomic forecasting's importance. The macro environment dominated everything in 2008. For those doing solid bottoms-up corporate analysis, the credit crisis overwhelmed individual company analytical conclusions. "Micro" work seemed practically irrelevant, generating suggestions that macro issues should become a greater focus for Southeastern to better protect our investment partners. An understanding of how the macro will affect those names that we own or are considering always has been important. For example, in a vacuum we would not follow Mexican macroeconomic statistics. But as a shareowner of Cemex, we must have some grasp of the Mexican economy's drivers to properly assess intrinsic value and understand appraisal risks.

Interestingly we have not been asked about the "lessons of 2009." The first answer to that unasked question is that bottoms-up fundamental company analysis matters quite a bit. If it were probable that every year could be like 2008, every investor should try to monitor the global banking system and engage in macroeconomic prognosticating. However, if it were highly probable that the worldwide economy, banking system, and equity markets would not look like 2008 in most years, then we should not abandon lessons from Graham, Buffett, and our 35 years to become macro driven "generals-fighting-the-last-war." Simply stated, 2009 reminded us that 2008 was anomalous.

A macro oriented investor could have logically decided on January 1, 2009 (or in March when stocks were meaningfully lower) that with the horrible global economy, the teetering banking systems across multiple countries, and the extremely weak stock markets, it was a good time to sit on the sidelines until some economic clarity emerged. By contrast, an intrinsic value investor who focused on the free cash flow that certain well-run, competitively advantaged companies generated – even in a severe recession – would have purchased those cash flow streams at incredibly low multiples, i.e. high cash flow yields. Those who chose the macro route and parked in cash missed what was the best purchase point for equities in our lifetime and earned virtually nothing on their liquidity.

This leads to the second lesson of 2009: comfort comes at a very high cost. Buffett made this point in an August 6, 1979 *Forbes* article entitled, "You Pay A Very High Price In the Stock Market For A Cheery Consensus." Selling stocks in 2007 would have been uncomfortable; in retrospect we all should have done more of that. Buying or even holding stocks in early 2009 was very uncomfortable; investors should have done that. Many investors feel most comfortable when the consensus confirms their view. Making the same investment choices as a large number of other intelligent people mathematically almost insures doing the wrong thing at the wrong time because security prices reflect the collective action of the consensus group.

So where are we now? We believe that we are between the valuation extremes of the mid-2007 highs and the early 2009 lows. With global markets having risen rapidly since March, bargains are less plentiful, and free cash flow yields are less attractive. However, valuations are still compelling when compared to the past. Our price-to-value ratios remain at or below the long-term average. Also, the "comfort gauge" still appears favorable given the excessive quantity of cash people are holding in lieu of equities. This cash on the sidelines constitutes significant future buying power that will someday make its way back to attractive, growing corporate free cash flow yields that almost always find their long-term recognition either in the stock market when overall psychology shifts or from corporate M&A. Today many macro mavens are comfortable owning the taxable, fixed coupons of 10-year Treasuries at yields of 3.7%. We much prefer the after-tax, growing free cash flow coupons of dominant businesses at yields of 9-10%.

The importance of aligning interests

Some years ago, Jack Byrne, a friend and an exemplary corporate leader at Geico, Fireman's Fund, and White Mountains, observed that to get proper Board and executive behavior, it is critical to properly align directors' and managements' interests with shareholders'. You do that best by equitably making them owners. Owners make better decisions than hired hands.

Subsequently, Southeastern has strived to create a best-in-class, accountable, owner-operator, partnership governance culture for Southeastern's and Longleaf Partners Funds' shareholders. Southeastern's employees must use the Longleaf Partners Funds exclusively for their public equity investing. Longleaf's Trustees are required to invest an amount equal to their cumulative board compensation in the three Funds. As a result, Southeastern's employees and affiliates are the largest group of owners across the Funds, and Longleaf's Trustees have nearly three times their cumulative remuneration invested in the Funds.

Southeastern seeks similar owner-operator corporate governance from our investees. We have found that when directors' decisions impact their personal economics, board members become extremely engaged and focus on prudently building owners' value per share. We believe directors should be paid in cash and use all of that cash to purchase shares of the company in the open market. Those shares should be retained for the director's tenure on the board. This simple standard provides the most accountability and properly aligns the board's interest with shareholders'. This alignment helps insure better operating and capital allocation decisions that responsibly weigh risks against the probabilities for future returns.

Southeastern is in the process of contacting every company owned by the Funds and asking them to adopt this simple governance standard for directors. We intend to back our conviction by adding this policy to proxy statements if directors do not sufficiently incorporate the ownership policies described.

International Fund changes

Several changes to Longleaf International in the last year position the Fund for even better compounding over the next decade. First, we reduced the management fee by at least 30 basis points, and as much as 50 basis points as the fee break takes effect on assets over $2.5 billion. In addition, we have elevated the roles of Scott Cobb and Ken Siazon to oversee their respective regions, and effective with the 2010 Prospectus, each will be a co-portfolio manager of the Fund. We have hired a junior analyst, Manish Sharma, who will be based in Singapore with Ken. Josh Shores, who has been at Southeastern since 2007, will be moving from Memphis to London to work more closely with Scott.

We also decided to eliminate hedging in the Fund. Historically, less than half of the portfolio has been hedged, but the no hedging policy will allow our partners to determine their own strategy for currency exposure.

Hiring Update

In our September 30th report we mentioned our effort to expand our research and client teams. We have had success on both fronts. In addition to adding Manish Sharma in Singapore, we hired Brandon Arrindell as a junior analyst in Memphis. On the client front, John Owen has joined us to work with consultants and prospective clients in the U.S. Peter Montgomery will join us in March to focus on our Longleaf client base. We currently have an open IT position in Memphis primarily focused on the development and management of trading and portfolio accounting systems. If you are interested in a detailed job description or would like to submit your resume, please email itposition@llpf.com.

Annual presentation and web site update

We hope that many of you will join us for the annual Longleaf shareholder gathering in Memphis on Wednesday, May 5 at 5:30 p.m. at the Germantown Performing Arts Center. As the date gets closer, we will have more information posted on our web site. Speaking of the web site, in early 2010 we are undertaking an effort to improve and enhance the Longleaf site, including adding more information related to Southeastern Asset Management, Inc. We welcome any suggestions you have for how the site could be more useful and easier to use. Please send these to website@longleafpartners.com.

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Conclusion

We are pleased to have delivered superior absolute returns in 2009. We believe that we are in the early innings of capturing the opportunity in the Funds. The collective quality and strength of the businesses we own is unprecedented. Our management partners have delivered their companies through the worst of times and positioned them as stronger competitors. P/V's are near or below the long-term average from which we have compounded successfully. Not only are the Funds quantitatively attractive, but the "V's", or appraisals are extremely conservative and probably understated. The returns of 2009 reflected excessively cheap prices moving to more normal discounts. None of the last twelve months' return was generated by value growth. Going forward our businesses are capable of double-digit value growth given the anemic operating results in 2009 as their base. Any cyclical economic recovery will amplify this growth. The foundation for the next five years is in place to not only protect our partners' capital, but earn better-than-adequate returns.

Sincerely,

O. Mason Hawkins, CFA
Chairman & CEO
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President
Southeastern Asset Management, Inc.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS:

We are pleased to report another quarter of substantial compounding. All three Longleaf Partners Funds materially exceeded our absolute annual goal of inflation plus 10% in the third quarter and for the year-to-date. The Partners and Small-Cap Funds also beat their respective indices for both periods. The table below shows the Funds' cumulative returns over both the long run and the more recent periods.

	Cumulative Returns through September 30, 2009					
	20 Year	15 Year	10 Year	5 Year	YTD	Third Quarter
Partners Fund (4/8/87 IPO)	**559.6%**	**251.5%**	**59.2%**	**(2.7)%**	**46.5%**	**18.2%**
S&P 500 Index	366.2	201.0	(1.5)	5.2	19.3	15.6
Small-Cap Fund (2/21/89 IPO)	**466.0**	**370.7**	**104.5**	**20.9**	**39.0**	**24.0**
Russell 2000 Index	354.6	188.8	61.1	12.7	22.4	19.3
International Fund (10/26/98 IPO). .	**NA**	**174.4***	**101.7**	**21.5**	**21.4**	**15.4**
EAFE Index	NA	52.6*	28.7	34.3	29.0	19.5
Inflation plus 10%	1006.6	484.2	226.2	81.1	9.5	3.1

** Returns since International Fund inception 10/26/98. Because the EAFE Index was available only at month-end in 1998 we used the 10/31/98 value for performance since inception. Additional performance information for each Fund can be found on pages 6, 14, and 22.*

Even after the strong performance over the last six months, all three portfolios remain attractively priced at P/Vs near or below their long-term averages. Most of our appraisals have stabilized, and some have increased. If the global economy grows, and 2009 proves to have been a single-year dramatic low in operating results rather than the "new normal," our appraisals are too conservative. Additionally, given how meaningfully our management partners have cut expenses, values should skyrocket whenever top line growth does return. Not only are the Funds attractive quantitatively, but they maintain the qualitative strengths that we described last quarter. We expect most of our companies to gain share, increase pricing, and/or improve their profit margins in the recovery. Our management partners are committed to growing shareholder value. In a number of cases, they have moved aggressively to strengthen their competitive advantages in this challenging environment.

Our on-deck list of qualifying new investments has shrunk over the last six months with the rally in worldwide markets. As we have sold businesses that approached appraisal and scaled back some overweight names that posted large gains, our cash reserves have grown. We have the liquidity to go on offense when opportunities

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emerge. The Partners Fund has 13% cash, and the International Fund has 4.5%. Small-Cap is more fully invested.

There will be no capital gain distribution this year in any of the Funds. In addition, all three Funds have loss carryforwards. Based on calculations at 10/31/09, the Funds can realize gains between 14-21% of NAV before future distributions occur. The Partners Fund will pay a small net income distribution in mid-December estimated to be $.01/share. We do not anticipate a net income distribution for the Small-Cap or International Funds in 2009. Final estimates will appear on our web site in early December.

During the quarter we made several enhancements to the structure of the International Fund to benefit our investment partners. First, we cut the Fund's management fee 20% reflecting the changes to Southeastern's cost structure over the last decade due to growth in accounts investing in international securities. Second, we ended our practice of hedging the Fund's economic exposure to non-US currencies given that shareholders wanted more flexibility to manage their currency exposure, and various methods for individuals and institutions to hedge easily have developed. Historically, the portfolio has been between 30-40% hedged, reflecting the weightings of country-specific holdings as opposed to more global businesses. Third, we restructured Southeastern's international research team, elevating Scott Cobb to head of European research and Ken Siazon to head of Asian research. As members of the investment team Scott and Ken have generated most of the Fund's new ideas over the last several years, proven their ability to originate successful investments, and been positive team participants. Andrew McDermott, one of the Fund's three co-managers, accelerated his Southeastern departure, an event that we began planning for over two years ago. We believe these changes to the Fund will improve the long-term opportunity for current shareholders. We hope that the Partners and Small-Cap Fund shareholders who do not own the International Fund will view these enhancements as an impetus to broaden their partnership with us.

Southeastern's opportunistic approach to investing parallels how we manage the firm. The industry turmoil of the last year has provided a qualified pool of people interested in long-term career opportunities. We view this as a unique chance to add resources to Southeastern that will be part of our team for decades. We would like to hire two entry level junior analysts who are starting their career paths in investing. One will be based in Memphis and the other in either London or Singapore. Additionally, we plan to add a somewhat experienced institutional client manager based in Memphis to be responsible for developing and maintaining client relationships in the Longleaf Funds over the next 20+ years. We welcome you to send suggestions for qualified candidates to jobs@longleafpartners.com.

We are grateful that the vast majority of our partners are solid, long-term investors. We thank you for your patience and support over the last year and are glad your loyalty is being rewarded.

Sincerely,

O. Mason Hawkins, CFA
Chairman & CEO
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President
Southeastern Asset Management, Inc.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS:

We are pleased to report that all three Longleaf Partners Funds outperformed our absolute annual goal of inflation plus 10% in the second quarter, and the Partners and Small-Cap Funds also beat their respective indices. The Partners Fund, which posted the best quarter in its 22 year history, is the top performing fund in its Morningstar peer group for 2009 YTD.* The quarter-end returns for Small-Cap and International were second only to their results in the second quarter of 2003. We recognize that to return to our historic levels of compounding from the debacle of last year's fourth quarter, the results of the last three months must be repeated. Fortunately we believe that all three Funds have the foundation to provide the returns necessary to regain our record of delivering long-term double digit rates. The chart below shows the Funds' cumulative returns over both the long run and the more recent periods.

	Cumulative Returns through June 30, 2009					
	20 Year	15 Year	10 Year	5 Year	YTD	2nd Quarter
Partners Fund (4/8/87 IPO)	**521.3%**	**213.4%**	**14.1%**	**(20.1)%**	**24.0%**	**26.6%**
S&P 500 Index	346.4	173.1	(20.1)	(10.7)	3.2	15.9
Small-Cap Fund (2/21/89 IPO)	**396.9**	**312.0**	**55.8**	**(4.4)**	**12.1**	**21.4**
Russell 2000 Index	306.8	158.9	26.5	(8.2)	2.6	20.7
International Fund (10/26/98 IPO)	**NA**	**137.7****	**77.9**	**0.3**	**5.1**	**24.0**
EAFE Index	NA	27.7**	12.4	12.1	8.0	25.4
Inflation plus 10%	1012.6	488.8	229.0	81.0	6.4	3.3

** The following information provided by Morningstar: Large-blend portfolios are fairly representative of the overall U.S. stock market in size, growth rates, and price. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as large-cap. The blend style is assigned to portfolios where neither growth nor value characteristics predominate. These portfolios tend to invest across the spectrum of U.S. industries, and owing to their broad exposure, the portfolios' returns are often similar to those of the S&P 500 Index. As of June 30, 2009, Longleaf Partners Fund was ranked #1 among 2,110 Large Blend funds in the YTD category. © 2009 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.*

*** Returns since International Fund inception on 10/26/98. During the inception year, the EAFE Index was available at month-end only; therefore, the Index value at 10/31/98 was used to calculate performance since inception. Additional performance information for each Fund can be found on pages 6, 12, and 18.*

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As investors emerge from the shock of 2008, the debates that always accompany bear markets are appearing. We hear low return expectations from the investment community and low profit expectations from the business community. Negative sentiment bottomed out in early March, but uncertainty remains dominant. Numerous CEOs have told us that they are stockpiling the cash flow from their businesses because of current challenges. The June 29^{th} *USA Today* contained an article about how buy-and-hold investing no longer works. One investor was quoted as saying, "I don't trust any stock anymore." Although advisor sentiment has rebounded from a decade low in October, the percent of bullish advisors relative to bearish advisors remains far below its levels over the last ten years. The active versus passive debate has re-emerged after many managers underperformed in 2008. Over the six months ended in March, data shows that institutional investors added to passive investments while taking money away from active managers.

This much negativism about long-term investing usually makes us optimistic. This sentiment alone, however, is not the source of our current confidence. We believe that the great returns over the last three months are only a partial reflection of what the future holds. The low price-to-value ratios embedded in the Funds combined with the quality of the businesses we own fuel our conviction. The Funds' P/Vs have moved from their low points in the mid-30%s to low-40%s to the mid-40%s to 50%s. If prices simply rose to our appraisals of intrinsic value, we would double our money. The math of the true opportunity is not that simple or small.

Values can grow at double-digit annual rates from here, thus increasing the return opportunity well beyond what today's P/V implies. First, the competitive strength of most businesses we own makes these companies likely to see market share, pricing, and/or margin gains coming out of the recession. Second, our management partners are capable of meaningfully growing value per share at the large majority of our holdings. Third, our appraisal assumptions are probably overly conservative. We use the depressed 2009 numbers as the base for normal growth going forward rather than assuming normalized levels of cash flow from an average of the last several years. A stock's price must be significantly discounted from what current business levels justify for us to buy. We have greater confidence in our appraisals because in addition to using conservative assumptions, some macroeconomic tailwinds could make our valuations too low. Credit remains tight, but its wider availability should help increase business activity. Stimulus spending across the world is in early stages and should show more impact going forward. Production levels dropped significantly more than GDP declined, thereby depleting inventories over the last six months. Industrial production will rise above current rates without demand growth.

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While we believe that the foundation is in place for successful long-term compounding, we will watch vigilantly the stability of inflation and currency, particularly over the next several years. We recognize that if inflation reaches a high enough level, our discount rates will rise, and our appraisals will fall. Today's large margin of safety between price and value gives us protection in the event that appraisals decline. In addition, a number of our businesses would benefit from a moderate inflationary environment.

As we look ahead we believe that our investment partners will be rewarded for their patience over the last year. We will need more quarters like the one that just closed to return to our long-term averages of compounding at double digits. We are confident that we have the building blocks to do so.

Enjoy what remains of your summer.

Sincerely,

O. Mason Hawkins, CFA
Chairman & CEO
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President
Southeastern Asset Management, Inc.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS:

We are happy to report that in the first quarter the Longleaf Partners and Small-Cap Funds materially outperformed their market benchmarks and most of their peers, although they did not meet our absolute return goal. All three Funds have made impressive gains versus their benchmarks over the last decade and longer. Subsequent to quarter end, each Longleaf Fund has surged some 10-13% through April 22nd. We believe "Mr. Market" is in the early stages of weighing our investees' economics more justly, and hope that the strong start to the second quarter portends good results for the rest of the year.

	Cumulative Returns through March 31, 2009					
	20 Year	15 Year	10 Year	5 Year	1 Year	Q109
Partners Fund (4/8/87 IPO)	**463.2%**	**159.7%**	**2.8%**	**(35.8)%**	**(45.7)%**	**(2.1)%**
S&P 500 Index	319.1	136.5	(26.3)	(21.7)	(38.1)	(11.0)
Small-Cap Fund (2/21/89 IPO)	**338.8**	**227.0**	**46.1**	**(18.4)**	**(41.4)**	**(7.6)**
Russell 2000 Index	258.6	106.2	21.1	(23.6)	(37.5)	(15.0)
International Fund (10/26/98 IPO)	**NA**	**91.6***	**65.9**	**(19.3)**	**(42.2)**	**(15.2)**
Index	NA	1.8*	(8.1)	(10.5)	(46.5)	(13.9)
Inflation plus 10%	1013.3	484.1	227.0	80.7	9.6	3.7

* *Returns since International Fund inception on 10/28/98. During the inception year, the* EAFE *Index was available at month-end only; therefore, the Index value at 10/31/98 was used to calculate performance since inception. Additional performance information for each Fund can be found on pages 8, 16 and 24.*

Never in our investing careers has the obsession with macro economic trends so overwhelmed the interest in fundamental analysis. People ask about our forecasts on interest rates, economic growth, inflation, currencies, government debt, geopolitical events, commodity prices, and the stock market. Our answers surely disappoint because we tell them we offer no unique clairvoyance that has a high probability of being useful. When we discuss the characteristics of the businesses we own, something we can talk about with a degree of certainty, many lose interest. Market commentators' remarks often imply that the old-fashioned approach of buying and holding individual undervalued securities as a protection against future events is not only antiquated but worthless in this environment. Because macro events indeed dominated returns in all asset classes in 2008, people illogically are extrapolating that macro events will exclusively dictate all future performance. Just as capitalism must be explained and even defended in these incredible times, the purpose and benefit of disciplined security analysis, accepted as a given until 2008, actually needs to be re-explained to many investors.

Security analysis not only remains relevant, but is more important today than at any point in Southeastern's history. Current conventional wisdom, which holds the opposite view, is pricing in an Armageddon macro scenario and driving equity prices to levels that offer huge opportunity to a good business analyst and long-term investor. In January the S&P 500 concluded the worst ten year period in the Index's 82 year history. We are spending our days sifting through the rubble of worldwide stocks to make the all-important determination of which companies have had their moats permanently impaired and which stocks are temporarily out of favor but have long-term futures unaffected by the current set of unpleasant economic realities. Business quality has to be even more durable than before; management at our investees has to be so good that they can lead their companies out of this stronger than when they entered; and balance sheets have to be able to survive the most duress ever tested.

Rigorous security analysis represents the first critical step to successful investing. This environment also has confirmed the importance of a large margin of safety between the price paid for a stock and its true worth as determined by security analysis. Southeastern pays less than 60% of appraised value for a business because this margin of safety helps to insulate **not** from short-term price swings, but from appraisal mistakes or business changes such as we have seen in the last six months. This margin also provides a large portion of the eventual return. Though not apparent from recent results, the required discount is paying off handsomely in this bear market, assuming one subscribes to Ben Graham's view that the market will weigh businesses properly over the long term. After adjusting our appraisals downward to account for this recession, the large majority of our portfolio companies still have a cost basis materially lower than intrinsic value. Reaching fair value will create a gain, which is why we believe that returns have been deferred but not lost. If we did not have the large margin of safety in the prices we originally paid for securities, we would be facing the prospect of a loss in many names given the appraisal markdowns.

Because most have abandoned security analysis and long-term investing, and many have sworn off equities for fear of short-term macro uncertainties, our opportunity to own severely discounted dominant companies has never been better. Anchored by our conservative appraisals, which assume that the global recession lasts through 2009 and becomes the new base for earnings going forward, we have a substantial margin of safety. Our portfolios are trading at a price-to-value ratio below 45% even with April's price appreciation. We have stress tested our assumptions. If the recession lasts longer, appraisals could decline. The P/V might rise, but would remain far below the long-term average. The future implied returns still would be compelling. Not only does the

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current P/V contain downside protection against loss as well as substantial return opportunity, but the expected returns will increase rapidly as appraisals move up materially when the economy recovers.

The fear and risk-averse posture in the market's pricing today make now the perfect opportunity to go on offense – not only within our portfolios but also for our management partners. Many are retiring shares, thereby increasing values per share and our ownership interest. We have been working diligently to ensure that our partners are optimizing capital allocation and pursuing value recognition.

As for the specifics of the first quarter: the bad news is that corporate values worldwide continued to suffer from weaker profits than forecast even from last quarter. The good news, however, is that the discounting mechanism of corporate profits seems to be healing. Corporations have been able to offer debt that, in terms of total interest expense, is quite reasonable, even if spreads over puny Treasury yields are large. This affordable credit not only offers liquidity to many companies, but most importantly, validates the discount rates that we use to appraise the equity of the same or similar corporations. We have built double conservatism into our analysis by applying the validated high discount rates against depressed 2009 earnings streams (**not** "normalized" earnings used by many.) Bond yields are increasingly relevant rather than just academic. Against those bond yields in both absolute and historical terms we own dramatically higher equity yields that suggest far higher equity returns. Across our composite, corporate bond yields probably average in the high single digits, while our average free cash flow "earnings yield" averages in the mid-teens. Additionally, corporate cash flows should grow significantly over time while bond coupons will not.

We are encouraged by the brief period since the market made initial lows in mid-November. Since that time Longleaf's relative and absolute returns have gained significant ground. Market volatility is likely to continue, but for the businesses we own, the extreme discounting that took the P/V as low as the mid-30%s has begun to turn. We have a long way to go both to make up for 2008's results and to reach full value, but since November 20th, the Funds have made significant progress:

	Partners	S&P 500	Small-Cap	Russell 2000	International	EAFE
11/20/08 to 4/22/09	**38.7%**	13.5%	**31.9%**	23.2%	**19.8%**	8.9%

Additional performance information for each Fund can be found on pages 8, 16 and 24.

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We look forward to being with many of you and answering your questions in person at the Longleaf Partners Funds annual shareholder presentation on May 7 at 5:30 p.m. at The Bridges Center, 477 N. Fifth Street in Memphis. For those who cannot attend, our audio and transcript of the meeting will be posted on our website, www.longleafpartners.com, before the end of May.

Sincerely,

O. Mason Hawkins, CFA
Chairman & CEO
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President
Southeastern Asset Management, Inc.

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TO OUR SHAREHOLDERS:

In 2008, the Longleaf Funds recorded the worst absolute returns in their history. The International Fund beat its EAFE benchmark for the year, but both the Small-Cap and Partners Funds fell short of their respective indices. The steep absolute declines, particularly in October and November, caused some of the longer-term numbers below to look anemic. A few very bad months at the endpoint, rather than consistently weak returns, dramatically eroded the 5 and 10 year results.

	Cumulative Returns through December 31, 2008				
	Inception	15 Year	10 Year	5 Year	1 Year
Partners Fund (4/8/87 IPO)	**583.5%**	**175.0%**	**11.6%**	**(33.6)%**	**(50.6)%**
S&P 500 Index*	410.0	155.7	(13.0)	(10.5)	(37.0)
Inflation plus 10%	1306.5	482.9	225.3	81.6	10.1
Small-Cap Fund (2/21/89 IPO)	**393.5**	**259.0**	**53.7**	**(10.3)**	**(43.9)**
Russell 2000 Index	326.0	136.0	34.7	(4.6)	(33.8)
Inflation plus 10%	1002.0	482.9	225.3	81.6	10.1
International Fund (10/26/98 IPO)	**126.1**	**NA**	**107.4**	**1.4**	**(39.6)**
EAFE Index*	18.3	NA	8.3	8.6	(43.4)
Inflation plus 10%	233.4	NA	225.3	81.6	10.1

* *During the inception year, these indices were available at month-end only; therefore, the S&P 500 Index value at 3/31/87 and the EAFE Index value at 10/31/98 were used to calculate performance since inception. Additional performance information for each Fund can be found on pages 18, 28 and 36.*

In mid-December, we posted on the Longleaf website a somewhat lengthy summary of various presentations to our clients. The topics included:

- Drivers of the market collapse;
- Signs indicating a market bottom;
- The extreme opportunity for future returns; and
- Discussion of those holdings that had suffered the worst price declines.

Rather than re-writing those messages, we include a reprint as an Appendix on page 7.

Volatility may continue but the absolute and relative rebound in all three Funds since the S&P reached a low on November 20th has been encouraging. The magnitude of the rise in just under eleven weeks indicates how depressed prices were for many of our holdings. In addition, even after this bounce, the Funds remain severely discounted implying significant future returns.

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	Partners Fund	S&P 500 Index	Small-Cap Fund	Russell 2000 Index	International Fund	EAFE Index
Return 11/20/08 through 2/3/09	**25.7%**	12.0%	**21.0%**	18.0%	**21.6%**	6.0%

In addition to the topics covered in the Appendix, we have heard several other common questions and observations that are addressed below.

Don't the Longleaf Funds usually hold up better in a down market?
Though people often assume that value managers will have better results in down markets, none escaped the turmoil of 2008. With cash as the only place to hide, clients received little benefit from asset class diversification. While Longleaf did avoid the major Wall Street disasters of the year, no parts of the equity markets were unscathed. (In the Dow Jones World Index no industry group had positive returns.)

In most previous recessions Southeastern has declined with the market, but has meaningfully outperformed in the recovery, resulting in strong relative and absolute returns over the full cycle. We believe that the results following this decline will be more pronounced given how discounted the Funds are both relative to the market and on an absolute basis. While the S&P sells at an average P/E of just under 15, Longleaf's companies sell for under 7 times cash earnings. The Partners and Small-Cap Funds trade at a 40% or lower P/V, and the International Fund is below 50%, compared to the long-term averages for the three Funds in the mid to high-60%s.

Your 2007 year-end letter noted the uncertainty surrounding the burst of the housing bubble, tighter credit, oil and other commodity prices, and U.S. leadership. We thought the portfolios were better positioned to withstand the challenges.
We correctly anticipated an economic slowdown, but we missed the depth and breadth of this global recession. As we reviewed the Longleaf portfolios a year ago, we thought that a mild recession would do minimal or no damage given the competitive entrenchment and financial strength of most holdings. The complete evaporation of credit that halted consumer and corporate spending took us and most of the world by surprise and drove down our appraisals an average 15%. The price hits, however, were much more significant, falling between 40-50% on average and more than 70% in a few individual cases.

Throughout the year we followed our long-held discipline of trying to protect capital by buying businesses with competitive advantages, good management partners, and prices below 60% of appraisal. In 2008 many high quality investments went from 60-cent dollars to 30-cent dollars, even after lowering appraisals to account for the worse environment. We believe that prices will return to fair value at some point meaning that returns on our capital are deferred, not lost.

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How do you account for the macro environment in your appraisals, and how can you accurately appraise businesses when there's so much uncertainty surrounding earnings?
We make each investment decision by assessing business, people, and price and we do incorporate economic assumptions into our appraisals. For example, today we assume continued worldwide GDP declines throughout 2009. This assumption affects each holding differently — it has little impact on Disney's ESPN business but reduces revenues at the theme parks. Our appraisals also incorporate the business cycle — we don't view peak earnings or revenues as the base from which cash flow will grow. Unlike the market as a whole, most companies that we own are not coming off a period of peak margins. Part of today's uncertainty revolves around credit availability. In those companies where leverage is significant and/or near-term financing is required, we have not added to the positions or bought new ones until there is clarity on funding. In some cases we have sold positions where outside financing might be mandatory. In addition, many companies will have negative year-over-year comparisons in the next few quarters, and we have tried to minimize our downside by assessing the expected results against the current price.

Though it seems paradoxical, in an environment with as many extremes as today's, more uncertainty surrounds the next 12 months than the next 60. As long-term investors we have an advantage. Our appraisal inputs for the next year can be negative, and the businesses we own will still be worth much more over 5 years given their growth, competitive positions, financial flexibility, and capable management teams. Appraisals are approximate, never perfect. We must ask what assumptions the price incorporates. 40% P/Vs reflect a great deal of pessimism. Even if our valuations are too ambitious by 20%, we still own 50-cent dollars that should grow over the next five years — a much bigger margin of safety than the historic average.

Did you learn lessons in 2008 that have changed your process?
We discussed some of our appraisal assumptions above. We have analyzed the places we took meaningful appraisal mark downs to find ways to improve. While the team has always dissected our case against the Wall Street consensus, we instituted a more formal devil's advocate role for each name to make the process of thoroughly vetting the bear case on a stock more systematic. We are more rigorously stress testing the appraisals of even small pieces of businesses when those divisions have lower-than-average quality along with significant operating or financial leverage after watching divisions with little worth undermine the high quality, valuable pieces of several companies. We also have become more active in cases where our efforts can improve corporate governance, value creation, and/or recognition. The extreme discounts in today's prices heighten the impact that selective, intelligent, and successful activism can add.

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Have the 2008 results caused you to rethink your concentration?
We concentrate in our 18-20 most qualified investments. Owning more companies does not change the propensity to make a mistake. In fact, we think overdiversification increases the probability of error. In rare times when numerous qualifiers exist, this concentration discipline forces us to select the best opportunities. The incremental name on the list is either lower quality, has less capable management, or is not as discounted. Owning more names that are less qualified increases risk and lowers return over time, assuming that one views risk as permanent capital loss, not volatility.

To the extent that owning fewer names led to more downside volatility in 2008, the concentration should also be a source of outperformance in the future. The Funds' biggest weightings are among the most discounted stocks. As the largest owners of the Funds, lumpy returns are acceptable if the long-term results are satisfactory.

Have you found many new investments with the sharp price declines, and how did you decide when to add these?
In 2008, especially in the second half, our analysts looked at numerous new opportunities across all three Funds, and the "on-deck" list of qualifiers is as long as it has ever been. Each new name must first qualify on an absolute basis. While almost every stock fell during the year, many companies also experienced value declines. Even if a stock qualified on business, people, and price, we required a candidate to also have relatively little appraisal risk as indicated by operating or financial leverage.

After passing all filters, the name then had to qualify on a relative basis — was it one of the 20 best ideas? With few exceptions, particularly domestically, we already owned high quality businesses with strong competitive positions and capable partners. To incur the tax liabilities in some cases and transaction costs to trade one of these discounted holdings for marginal improvement did not make economic sense. In addition, buying a new name increases the risk of unknowns because we have not lived with the company or management team through various business cycles. For these reasons we insisted on a meaningful upgrade in order to swap a name. When the improvement was significant such as with Aon in the Partners Fund, First American in Small-Cap, and SK Telecom in International, we sold companies short of full value to buy much more discounted companies whose worth could build more rapidly.

We also sold names that were statistically cheap when we determined that values could stagnate or decline. As long-term owners the two most important elements to successful returns are: (1) a large margin of safety between price and value; and (2) how that value grows over time. Short-term and, we believe, ephemeral price declines such as those suffered by most of our holdings in the fourth quarter do not justify selling a stock. The risk of ongoing value deterioration, however, demands serious review.

Have significant outflows been a problem?
We have discussed the importance of having great investment partners for many years, and nothing makes this point more poignantly than having positive flows in such a trying year. In 2008 as headlines screamed "Redemptions" and "Forced Selling," Southeastern's net asset inflows from new and existing investors were over $1.6 billion. Southeastern clients and Longleaf shareholders benefited from our being buyers when prices were declining. The net inflows are a testament to how well our investment partners understand the approach originally penned by Ben Graham. As the largest owners of the Longleaf Funds and as your managers, we are extremely grateful and humbled to have such supportive, long-term, and patient fellow owners.

How can we receive timely updates from Southeastern?
We encourage all of our partners to subscribe to Longleaf Mail via the website, www.longleafpartners.com. This provides notice whenever new information is posted. In October we held an impromptu conference call for investors, and in December we posted the commentary that's shown in Appendix to provide our partners a bit more insight in troubling times. While we don't anticipate frequent mid-quarter communications, subscribing to the notification service will insure that you don't miss any.

Should we add to Longleaf or wait until the market turns?
We do not know when prices will become more efficient. Historically, a small percentage of trading days has represented a large proportion of returns. Because investors rarely foresee the big market moves, sitting on the sidelines can have meaningful opportunity cost. We recommend that our partners consider the following: (1) the implied return opportunity from these record-breaking low P/Vs is high, especially given the quality of the companies we own, their financial strength, and their management teams; (2) taxable investors also get the rare benefit of meaningful appreciation before the portfolios have a taxable gain; and (3) over the last year your partners at Southeastern have added the largest amount in history to the Longleaf Funds.

Historically, the length of our letters has been inversely proportional to returns. Unfortunately, this report is long. To summarize:

- As both your managers and the largest owners of the Longleaf Funds we deeply regret the results delivered in 2008.
- Learning from the year's challenges, we believe we have initiated improvements to our investment process.

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- In over three decades we have not seen quantitative and qualitative investment opportunities of this magnitude.
- Over the next five years we strongly believe that our holdings' corporate values will grow significantly, the large discounts from those values will close appreciably, and all three Longleaf Funds should deliver outsized returns, which, for taxable investors, will have the advantage of the Funds' current tax basis.
- The value of committed and informed partners cannot be overstated.

We thank you for your support, patience, and common views of investing. We look forward to seeing many of our partners at Longleaf's annual shareholder presentation on Thursday, May 7th in Memphis at 5:30 p.m. We will post location information on our website when it is available. We wish a happy and prosperous 2009 to all.

Sincerely,

O. Mason Hawkins, CFA
Chairman & CEO
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President
Southeastern Asset Management, Inc.

Longleaf Partners Funds
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TO OUR SHAREHOLDERS:

Markets were challenged in the third quarter around the world, and the Longleaf Funds were not immune to the selling. Over the last twelve months each Fund has fallen far short of our inflation plus 10% goal. The negative results also have hurt longer term absolute returns, although the relative numbers remain favorable. We expect to meet both bogies as the tremendous undervaluation in the portfolios begins to be recognized.

	Cumulative Returns through September 30, 2008				
	Inception	15 Year	10 Year	5 Year	1 Year
Partners Fund (4/8/87 IPO)	**947.3%**	**349.1%**	**102.6%**	**14.3%**	**(30.8)%**
S&P 500*	553.4	235.2	35.2	28.7	(22.0)
Inflation plus 10%	1326.6	507.3	238.1	87.5	15.0
Small-Cap Fund (2-21-89 IPO)	**587.5**	**429.4**	**145.0**	**43.1**	**(29.0)**
Russell 2000	476.6	227.6	112.0	48.0	(14.5)
Inflation plus 10%	1017.7	507.3	238.1	87.5	15.0
International Fund (10/26/98 IPO)	**176.6**	**NA**	**NA**	**37.4%**	**(26.5)**
EAFE Index*	47.8	NA	NA	58.8	(30.5)
Inflation plus 10%	238.1	NA	NA	87.5	15.0

** During the inception year, these indices were available at month-end only; therefore, the S&P 500 Index value at 3/31/87 and the EAFE Index value at 10/31/98 were used to calculate performance since inception. Additional performance information for each Fund can be found on pages 10, 18 and 24.*

Although we avoided the calamitous financial company bankruptcies and reorganizations that captured the headlines, many of the Funds' investments declined meaningfully. The Funds' energy holdings dropped as oil and gas prices sank. Our appraisals, which already assumed lower energy prices, remained intact. While we sidestepped the disastrous financial firms, we did not escape their fallout as some of Sun's largest customers are in the financial industry. Our adjusted Sun appraisal held up much better than the stock price given the company's net cash, portfolio of products, strong cash flow in the last year, and majority of non-financial customers. Dell's expectation that the economic slowdown would impact business caused the stock to plummet even though the company has gained market share and is cutting costs. Fears of a slower economy also hurt Cemex and Texas Industries as all residential and some commercial construction are impacted. We adjusted our appraisals for the lower demand, but each company still has substantial cash flow that should enable value growth. NipponKoa also declined meaningfully as the Japanese market fell almost 20%, driving down the underlying prices of the company's investment portfolio. Fortunately, unlike many

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financial firms whose losses from the quarter are permanent, the price declines suffered at Longleaf's insurance holdings represent unrealized losses we believe are temporary.

Bear markets are difficult to stomach, but for the long-term investor, they provide immense opportunity. Southeastern has endured seven bear markets in our 33 years. The margin of safety between price and value rarely demonstrates its merits fully during such dramatic market declines, and this time is no different. The benefits of owning deeply underpriced equities have become most evident in the aftermath of bear markets when Southeastern has generated particularly rewarding results. Given the breadth of this downturn, the concomitant economic weakness, and especially more recently the forced selling of equities, almost everything is being discarded. All major markets around the world were down meaningfully in the third quarter, and most were down over 20% for the year-to-date. Through October, the declines have been more dramatic and largely decoupled from business values.

We are confident that the Longleaf portfolios will deliver large returns coming out of the bear market because of the competitive and financial strength of our holdings, the extreme undervaluation of their shares, and the numerous and aggressive share repurchases at these discounted price levels.

- The Funds hold the highest quality businesses in Southeastern's history, including those held during previous bear markets. Most of our companies generate substantial free cash flow. The average cash earnings yield in the Longleaf portfolios is well over 10%, several times the level of 10-year Treasuries. In addition, our businesses are competitively entrenched, whether it's DirecTV's unique offerings, Olympus' 70% share in endoscopes, Yum!- Brands' dominance in China, Walgreen's real estate and market leadership, or FedEx's logistical network to name just a few.

- Most holdings are extremely well capitalized, enabling them to go on offense in an environment that is starved for liquidity. In many cases, including Sun, Dell, Liberty Media Entertainment, NipponKoa, Sompo, Fairfax, and ACS, balance sheets have net cash and securities. Few holdings are reliant on debt markets, much less bank loans.

- The P/V ratios in all three Funds have fallen below 50% as we write this letter, a level seen only once domestically in the last 15 years, very briefly in early 2000. The International Fund has been this cheap only at its origin in 1998 and again in early 2000. Each Fund owns only one business selling for more than 70% of our appraisal, and numerous companies trade for well below half of our estimation of their intrinsic worth. Through October, the P/Vs have become dramatically more attractive at all-time lows between the mid-30%s to low-40%s.

- In most cases our management partners have the bulk of their net worth tied to their stocks, and recently many, including Michael Dell, Joe Plumeri, and Li Ka-shing, have purchased large amounts personally (as we have in the Longleaf Funds). In addition, the large majority of the Funds' companies have the financial strength to make meaningful repurchases. The extreme price declines enable CEOs to turn a dollar of cash into two or more dollars of value, which not only increases value per share, but also makes Longleaf a larger percentage owner of those more valuable shares. We applaud our many corporate management partners who have been aggressively shrinking shares, and we are emphatically encouraging those who are not doing so to start. Said another way, it's painful in the short-term for Dell to have fallen below $15 from $21. Our long-term payoff, however, will be greater because the company is paying less than $15 in its material share repurchase program instead of paying $21.

While we believe our ultimate outcome is compelling, we do not know when we will be paid or if markets will get worse before they improve. Many signs point to being near a bottom — our historically low P/Vs, record high corporate bond yields versus Treasuries, the highest VIX level in history (the VIX indicates market fear based on volatility expectations), two straight years of negative returns for value stocks, the high free cash flow yields on our equities versus very low bond returns, bear/bull sentiment surveys, and the extreme outflows from equity funds in many cases to capture a 10 basis point yield in 7-day Treasuries (the equivalent of putting cash under a mattress.) On the other hand, the excesses in credit have not fully unraveled in commercial mortgages, credit card debt, private equity deals of the last two years, and the large number of hedge funds and others that sold credit default swaps in the same manner as AIG. Longleaf's portfolios are built on the merits of each individual investment factoring in the possibilities of various adversities.

Given this uncertain environment, many have asked how Southeastern is adjusting to the economic challenges and taking advantage of the fear. Knowing what our businesses are worth and the potential risks to those appraisals is critical. When the seas are roughest, a conservative appraisal is our anchor against fear. Our normal process incorporates defendable assumptions that we are further testing in this environment by:

- incorporating lower consumer spending and delayed corporate purchasing through 2009 into our growth and margin assumptions for those companies that will be impacted.

- reviewing with managements the specific alternatives and backstops available for the few companies that have any debt maturing over the next two years.
- meticulously identifying how companies will generate our value growth objective. For those whose cash flows and organic growth will not get them to 10% appraisal growth in the next year, we are asking how else management can achieve meaningful gains in value per share and whether better investments exist.
- discussing with all of our corporate management partners their unique opportunity to build value by substantial repurchases at these prices.

As we closely examine each company that we own as well as those on deck, we face numerous portfolio management decisions. To continually take advantage of the bear market we are:

- making qualitative upgrades even when it means selling a discounted business. You will see examples in the Funds' third quarter purchases and sales such as the exchange of Allied Irish Bank for Cheung Kong in the International Fund. Additional upgrades have continued through October in all three Funds.
- avoiding adding to names whose value growth is less certain.
- limiting purchases to those companies that will grow not only over the next five years, but should be able to post higher earnings in the next twelve months even assuming economic headwinds.
- minimizing exposure to businesses that are more susceptible to appraisal risk because of significant financial or operating leverage, especially when we have compelling alternatives without this risk.

Most clients do not see Southeastern's back office. We are as risk-averse in our operations as in our investing. The current climate magnifies the benefits of our conservative policies.

- We do not participate in a securities lending program in the Longleaf portfolios and have actively discouraged our separate account clients from doing so.
- Many years ago we chose to use only government securities for the Funds' cash management, eliminating any exposure to Freddie Mac and Fannie Mae or questionable commercial paper and negotiated CDs.
- In situations where using prime brokerage has been standard, we have worked to avoid the risk of exposure to prime brokerage counterparties.

- Over a year ago one of our research analysts did a full-blown appraisal of State Street, the Fund's custodian, reviewing the firm's financials and operations to determine whether the company presented any tangential risk to Longleaf shareholders.
- The Longleaf Board and Chief Compliance Officer review our policies regularly and carefully to assess and address potential risks in our operations.

We began making substantial personal investment additions to the Funds late in 2007, and have done so throughout this year including in the first few weeks of October. Like some of you we wish we had deferred our purchases, but the lower prices are at least beneficially accommodating our investees' many share repurchase programs. During this year many fund managers have become part of the liquidity crisis as withdrawals have forced huge sales. In contrast, the Partners Fund has had net inflows of $610mm, International has received $57mm, and the closed Small-Cap Fund has had outflows of only approximately 1%. In addition, we have had significant net money added to our separate accounts. These positive contributions have enabled us to be liquidity providers instead of forced sellers. The flows are a testament to the quality of our investment partners. As your managers and, more importantly, as the Funds' largest shareholder group, we cannot overemphasize how beneficial your long-term time horizon and investing aptitude have been. We thank you.

In May we had a shareholder due diligence visit from the team at Litman/Gregory which serves as a financial advisor for many clients, publishes mutual fund research for the advisor community, and runs the Masters Select mutual funds. We thought that you might find an outside review of Southeastern helpful. The following link will take you to their analysis, www.longleafpartners.com/pdfs/litmangreg0708.pdf.

On October 7 we hosted a conference call. The audio and transcript are available at www.longleafpartners.com/news/q308concall.cfm. If you were unaware of the call and would like to receive any future notices, please subscribe to Longleaf Mail. You can register at www.longleafpartners.com/news/subscribe.cfm. We appreciate the time that many of our partners took to participate in the call and apologize that we were unable to get to all of the over 300 email questions that we received. We hope that this report will address many of the unanswered questions.

For those considering booking a tax loss this year, please keep in mind Longleaf's short-term trading policy which prohibits trading in and out of the Funds within a six month window. This policy encourages long-term investing to benefit all shareholders. While managing taxes is important to a number of our partners, successful investing offers significantly higher rewards over time. Tax loss selling of mutual funds has fewer benefits than often assumed because of two primary factors. First, the benefit of taking a loss this year versus paying a gain in the future is equal only to the difference between the tax offset this year and the net present value of the higher gains to be paid in the future assuming that you will buy back shares at the current price. For example, if you bought shares at $30 and sell them at $23 to book the loss, the tax loss value is the 15% gains tax rate times the $7 loss, or $1.05/share. If you then repurchase the shares at $23 and sell them for $45 in the future, your capital gains will be $22 versus $15 had you not booked a loss previously. Assuming the same 15% tax rate, you would owe $3.30 versus $2.25 per share in taxes. Selling is worth only the difference between the $1.05 "benefit" today and the net present value of the $1.05 cost in higher taxes paid in the future. Critical to this math is the assumption that in the 30 days you must wait to repurchase the shares, a share price move does not swamp the value of any tax offset.

Second, this example assumes capital gains rates stay at 15%. Many in politics and the financial world are assuming rates rise. In fact, taken to an extreme, a case could be made for realizing all **gains** before the end of the year and saving losses since substantially higher tax rates will make them more beneficial to harvest. (We are not advocating this!) For more information regarding our approach to tax management within the Funds, please see www.longleafpartners.com/funds/distribution_overview.cfm.

We appreciate your patience, support, and partnership.

Sincerely,

O. Mason Hawkins, CFA
Chairman & CEO
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President
Southeastern Asset Management, Inc.

P.S. As referred to above, volatility has become more extreme since September 30, the official date of this report. Though prices have declined dramatically, the letter's message has not changed – opportunities for reward are more abundant. To view updated performance, please go to www.longleafpartners.com.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS:

The Partners and International Funds outperformed their respective benchmark indices in the second quarter, and both Partners and Small-Cap posted positive returns. Returns were volatile with a strong rally in April, slight gains in May, and material market declines across the globe in June. Each Fund remains in negative territory in 2008, far from our absolute goal of inflation plus 10%. Over the last decade or more, however, the three Funds have significantly outperformed the relevant benchmarks. As a result of lower stock prices, stable to growing values, and portfolio changes, the price-to-value ratio (P/V) of each Fund is below 60%, a level rarely seen in our firm's history and well below the historic average in the high-60%s.

	Cumulative Returns through June 30, 2008					
	Inception	15 Year	10 Year	5 Year	1 Year	2nd Quarter
Partners Fund						
(4/8/87 IPO)	**1169.7%**	**471.4%**	**100.6%**	**44.0%**	**(17.3)%**	**3.0%**
Inflation plus 10%	1294.9	510.5	239.6	89.1	15.1	4.4
S&P 500 Index*	613.1	275.3	32.9	44.1	(13.1)	(2.7)
Small-Cap Fund						
(2/21/89 IPO)	**679.8**	**514.4**	**140.7**	**69.6**	**(17.8)**	**0.3**
Inflation plus 10%	992.9	510.5	239.6	89.1	15.1	4.4
Russell 2000 Index.	483.1	260.3	71.2	63.2	(16.2)	0.6
International Fund						
(10/26/98 IPO)	**226.0**	**NA**	**NA**	**79.6**	**(12.6)**	**(1.6)**
Inflation plus 10%	230.6	NA	NA	89.1	15.1	4.4
EAFE Index*	86.1	NA	NA	116.2	(10.6)	(2.3)

** During the inception year, these indices were available at month-end only; therefore, the S&P 500 Index value at 3/31/87 and the EAFE Index value at 10/31/98 were used to calculate performance since inception. Additional performance information for each Fund can be found on pages 8,16 and 22.*

Periods of volatility such as we experienced over the last three quarters demonstrate the market's pricing inefficiency and illustrate the importance of knowing a company's intrinsic or private market value, which usually swings very little over a short-term period. For example, our appraisal of Dell rose in the second quarter based on the company's reported cash flow and share reduction. The stock price, however, fluctuated wildly, rising almost 34% from its low point of $18.24 in mid-April to its high of $24.45 in mid-June, and ending June at $21.88, 10% below the high but almost 10% above where the quarter began.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

Emotion-laden pricing provides opportunity for long-term investors who hinge decisions on business appraisals. At a time when many value managers whom we admire have faced forced liquidations to meet redemptions, Longleaf's investment partners have acted rationally, maintaining and in many cases adding to their investments. Net inflows have allowed us to take advantage of Mr. Market who has put numerous existing and qualifying new businesses across the world on sale at compelling prices. With cash flows and the proceeds from sold or scaled back names, we have bought more of our highest quality companies at lower prices.

The economic forces creating investor discomfort — record oil and commodity prices, ongoing credit crisis, housing bubble fallout, and global economic slowdown — have impacted the Funds. On the positive side Longleaf's three oil and gas holdings, Chesapeake, Pioneer Natural Resources, and Japan Petroleum have helped returns. Our appraisals assume oil and gas prices dramatically below current levels. In spite of the stocks' appreciation and our conservative assumptions, these companies trade well below their values, and Japex is among the most discounted names in the International Fund.

Conversely, high oil and commodity prices have permeated corporate and individual purchasing habits, squeezed margins, and slowed sales at a number of companies. In addition, economic headwinds have adversely impacted almost all financial companies. Many of the Funds' stocks have not been immune. The global economic slowdown and higher operating costs also have lowered average appraisal growth in the Funds to less than the annualized double-digit gains we desire. Most companies' values, however, have grown or held steady rather than declined because of business improvements, less economic sensitivity, and/or significant share repurchases.

Buyback activity has remained a bright spot. The pace of repurchases discussed in the First Quarter Report has continued, helping appraisals build in an economic environment where they otherwise might not. Not only have current buybacks increased value per share, but they have illustrated the quality of our management partners' capital allocation skills. The fact that so many holdings have excess capital to buy in shares in this challenging economy is a testament to the financial strength and competitive advantages of what we own.

When we believe that becoming more active can improve the value growth and /or value recognition at a holding, we will take action. Recently we have had several management interactions to address maximizing shareholder value. We had a Schedule 13D filed on Hilb Rogal prior to its being bought by Willis; we made public our belief that the TDS independent directors have represented independent shareholders' interests poorly; we encouraged the recent change in board members at both Dillard's and UBS; we filed a Schedule 13D at Pioneer to discuss value recognition alternatives with management as

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

well as outsiders; and we made public our intent to vote against the new CEO of NipponKoa. Being "activist" is not our intent, but we will take action to insure that our interests and those of our fellow shareholders are well represented.

We do not know how long economic uncertainty and shareholder fear will last. Bear markets do not die of old age. The mispricing, however, is providing the opportunity to own high quality companies with terrific five year outlooks that imply high long-term IRRs. We are aggressively adding personal capital to the Funds and encourage our partners to do the same. Given that bullish sentiment is at its lowest level in 14 years and that some are recommending exiting equities altogether, there is plenty of panic in the air. Historically, the best time to invest has been when owning stocks has felt the worst.

Throughout history a small number of successful investors have used periods of fear to build portfolio foundations for substantial long-term gain. John Marks Templeton was among the greatest. We pay tribute to Sir John who not only provided a role model for investing, but also was a trusted advisor and supportive investment partner. In Southeastern's formative years Sir John graciously shared his wisdom with us, offering sound advice for building an investment firm. Much of our success has been attributable to following his core beliefs including:

- treating shareholders as partners and communicating openly with them;
- being willing to go against popular or consensus thinking when supported by conservative appraisals;
- seeking opportunities worldwide rather than solely in the U.S.; and
- striving to buy stocks at "the point of maximum pessimism."

We will miss Sir John but will continue to embrace his investing principles. We share the optimism he portrayed in a quote printed by the *Wall Street Journal*. "Throughout history, people have focused too little on the opportunities that problems present in investing and in life in general. The 21st century offers great hope and glorious promise, perhaps a new golden age of opportunity."

Sincerely,

O. Mason Hawkins, CFA
Chairman & CEO
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President
Southeastern Asset Management, Inc.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS:

The three Longleaf Partners Funds posted negative results in the first quarter. These returns as well as the long-term numbers are shown in the table below.

	Cumulative Returns through March 31, 2008					
	Inception	15 Year	10 Year	5 Year	1 Year	1st Quarter
Partners Fund (4/8/87 IPO) . .	**1133.0%**	**460.0%**	**102.5%**	**63.2%**	**(13.2)%**	**(10.9)%**
Inflation plus 10%	1230.8	499.6	233.4	84.2	14.0	3.3
S&P 500*	633.1	287.7	41.1	71.0	(5.1)	(9.5)
Small-Cap Fund (2/21/89 IPO)	**677.6**	**534.8**	**142.8**	**113.9**	**(15.4)**	**(11.6)**
Inflation plus 10%	942.6	499.6	233.4	84.2	14.0	3.3
Russell 2000	479.7	266.1	62.3	100.3	(13.0)	(9.9)
International Fund (10/26/98 IPO)	**231.3**	**NA**	**NA**	**138.6**	**(3.4)**	**(11.5)**
Inflation plus 10%	215.4	NA	NA	84.2	14.0	3.3
EAFE Index*	90.4	NA	NA	163.7	(2.7)	(8.9)

** During the inception year, these indices were available at month-end only; therefore, the S&P 500 Index value at 3/31/87 and the EAFE Index value at 10/31/98 were used to calculate performance since inception. Additional performance information for each Fund can be found on pages 8, 16 and 24.*

The April 1 *Wall Street Journal* headline, "Stocks' Pain Touches All Regions of the Globe," was not an April Fools' Day prank, but a reminder that stocks' prices in the Funds deviated further from their intrinsic values. If your yardstick for progress over the last three months is Mr. Market's judgment of your holdings, you are likely disappointed. If, however, your scale measures intrinsic value growth of your Funds, the first quarter proved satisfying. The Funds made meaningful headway in spite of one unforced error in the Partners and International Funds – UBS. Excepting this appraisal markdown, each Fund's composite value built as most investees grew and retained considerable free cash flow; we bought more of these businesses at steeper discounts; and many companies repurchased a significant percentage of their shares, thereby boosting values per share.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

Periods of volatility are unpredictable, and rarely do we find such a multitude of portfolio choices at one time. Our investment discipline is dynamic and constantly reassesses each investment in its current state: its financial flexibility in a time of economic opportunity; management's operating and capital investment abilities; the prospects for value growth; and the discount to appraisal. We must weigh every company's merits against the other portfolio holdings as well as against those we do not own in an attempt to concentrate in the best qualifiers, thus maximizing the return potential while minimizing the risk. During the quarter we made several sales to fund more compelling purchases. In the cases of Cheung Kong, EnCana, Nestle, and First American, we replaced fully priced businesses with significantly discounted ones. With Sprint, Comcast, and Limited we traded smaller residual positions in undervalued, lesser quality companies for businesses at slightly greater discounts with much better value growth prospects. We also scaled back some overweighted names. With the cash proceeds we added to a number of positions and purchased two new international names.

Southeastern has a history of outstanding long-term investing even though we have posted down quarters roughly 25% of the time. Each down period has provided the mispricing that has aided our ability to deliver good future returns. Successful investors must endure the short-term vagaries of market declines to be positioned well for the long term and to minimize transactional costs and taxes where relevant. Really good investors also arm themselves with conservative appraisals and use periods of weakness to buy more of their qualifiers when the discounts to appraisal increase, i.e. when the margin of safety of value over price widens. As your manager, we purchased more of a number of high quality companies without knowing when Mr. Market would weigh these investments fairly based on their economics. As your partner and Longleaf's largest shareholder group, we added a substantial sum to the Longleaf Funds during the quarter. We know that value "outs" over time and that from price-to-value ratios below 60%, as they were in all three Funds at March 31, significant future returns can be anticipated. The performance spring has been compressed, and we expect to report good numbers as it uncoils.

Capital migrates to underpriced businesses, and we believe the migration will especially focus on companies denominated in U.S. dollars. America is on the bargain counter for international consumers, vacationers, and business buyers. You can be assured that overseas capital pools, their investment bankers and/or their investment managers are looking at most if not all of Longleaf's holdings. We do not know how or when we will be paid. We do know that the probabilities are good that via merger, acquisition, liquidation, going private, or

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

through the conventional economic arbitrage of the market, most of the Funds' equities will rise to our appraisals within a reasonable time horizon.

Not knowing when we will be paid is tenable for Longleaf owners because our corporate values are compounding meaningfully, and a large majority of portfolio companies are aggressively repurchasing their underpriced shares. These buybacks increase per share values as well as our percentage ownership in these good businesses. In the Partners Fund, for example, fifteen of the twenty two investees are buying in shares. The math of discounted repurchases is compelling. If a company's shares are worth \$40 today, if the stock sells for \$20, and if management retires 15% of the shares outstanding, the new intrinsic value instantly rises to \$43½. In the Funds' investments with similarly attractive numbers, we are not only supporting our corporate management partners for their wise capital allocation decision to repurchase, but also urging them to be as aggressive as financial prudence warrants. In those cases where our partners have the financial flexibility but are not repurchasing discounted shares, we are asking them to explain why they are not. As a result of both organic value growth and significant repurchases, and in spite of a weak global economy, the composite values of the Funds are growing nicely. Thus, we firmly believe that our eventual market returns are being accentuated, albeit deferred.

Many of you have increased your stakes in the Longleaf Funds since November and a number have recently joined us as new shareholders in the Partners and International Funds. Your investments in the Funds have complemented our own additions and enabled us to lower the P/Vs and improve the quality of the Funds' portfolios. Opportunities of this magnitude come rarely and we encourage you to add to your Fund investments. We thank you for your confidence and the net inflows. Many fund companies have neither.

Sincerely,

O. Mason Hawkins, CFA
Chairman & CEO
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President
Southeastern Asset Management, Inc.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS:

The three Longleaf Partners Funds posted vastly different results in 2007. While each Fund ended the first half strongly, only Longleaf International sustained the pace with a 15.3% gain for the year, materially above its absolute and relative benchmarks. Small-Cap's return was better than the Russell 2000's, but far from the absolute goal of inflation plus 10%. The Partners Fund fell short on both measures. The numbers below show the long-term and recent cumulative results for each Fund.

	Cumulative Returns through December 31, 2007					
	Inception	15 Year	10 Year	5 Year	1 Year	4th Quarter
Partners Fund						
(4/8/87 IPO)	**1283.6%**	**580.1%**	**158.1%**	**81.2%**	**(0.4)%**	**(8.6)%**
Inflation plus 10% ...	1177.6	496.9	229.8	84.5	14.1	2.9
S&P 500*	709.6	346.8	77.6	82.9	5.5	(3.3)
Small-Cap Fund						
(2/21/89 IPO) ...	**779.7**	**666.8**	**208.8**	**130.0**	**2.8**	**(9.1)**
Inflation plus 10% ...	901.0	496.9	229.8	84.5	14.1	2.9
Russell 2000	543.4	323.6	98.2	112.3	(1.6)	(4.6)
International Fund						
(10/26/98 IPO) ..	**274.2**	**NA**	**NA**	**137.6**	**15.3**	**(0.6)**
Inflation plus 10% ...	202.8	NA	NA	84.5	14.1	2.9
EAFE Index*	109.0	NA	NA	165.7	11.2	(1.8)

* During the inception year, these indices were available at month-end only; therefore, the S&P 500 Index value at 3/31/87 and the EAFE Index value at 10/31/98 were used to calculate performance since inception. *Additional performance information for each Fund can be found on pages 8, 16, and 24.*

The fourth quarter volatility gave long-term investors terrific opportunities to pursue. In the short-term, prices suffered, particularly in the two domestic funds. While negative performance is frustrating, falling prices are not necessarily worrisome for the investor who knows that he will be a net buyer of common stocks over the next five years. As patient, long-term investors we know that as long as appraisals remain intact, returns should be delayed, not lost. And if investees repurchase their shares for below net asset value at times like this, those future delayed returns are actually magnified. In fact, the prescription for declining stocks often is to buy more. Most of the fourth quarter losses in the Funds were attributable to companies whose values held steady or even rose. A few businesses did have company-specific challenges in the quarter that negatively impacted our appraisals; however, their stocks fell much more steeply than their values.

Our partners who focus on portfolio returns over the next decade will appreciate the tremendous opportunity that lower prices created during the recent quarter. Across the three Funds we bought six new names and added to eleven existing holdings. These purchases were funded by a combination of cash inflows, sales of three stocks that reached appraisal, and scale-backs of holdings that were overweighted and/or were selling at close to 90% of our appraisal of intrinsic worth. Southeastern's trading desk was busy.

Due in part to the fourth quarter activity as well as to stable or higher values and lower prices, all three Funds present a compelling opportunity today. The qualitative characteristics of the holdings include some of the most competitively entrenched franchises we have ever owned, as well as some of the most capable management teams. The quantitative measure of price-to-value ratios also implies significant future returns. The Partners and Small-Cap Funds are selling below their long-term P/V averages, and since year-end, at P/Vs not seen since early 2003. The International Fund is near its long-term P/V average, and well below where it began 2007.

Most of the market's volatility has been driven by macro concerns across the globe rather than by equities being overvalued. Some wonder how we can be buying companies enthusiastically when so much uncertainty exists.

- The U.S. housing bubble has burst and the breadth of the repercussions for both consumers and financial institutions is unknown.
- Tighter credit has restricted capital for corporations and individuals.
- Instability among the world's largest oil producers as well as emerging market growth projections have moved oil prices to record highs, and far above prices justified by the marginal cost of production.
- Growth in China has fueled soaring prices for natural resources and pushed up transportation costs.

- The upcoming U.S. presidential election could bring significant policy changes including higher taxes even as other countries lower their marginal rates.

How long will these issues remain, and more importantly, are they properly reflected in stock prices? Stability will return at some point, although we have no idea of the timing. The uncertainty of what the next six months will look like has Wall Street in knots. While we may appear stupid in the short run, our long-term time horizon and that of our partners gives us the luxury to act based on how businesses will look several years from now, not based on whether fear will grip markets next quarter.

In the businesses we are buying, we believe short-term fears are more than reflected in the stock prices. We are not losing sleep at night as owners because:

- We have used conservative appraisals with higher discount rates than current interest rates warrant and prudent assumptions regarding growth given the slowing U.S. economy.

- We purchased businesses at steep discounts, with large margins of safety of value over price. Even if our conservative appraisals prove too high, our capital should be protected.

- We hold some of the best value builders we have ever owned, and have rarely had the opportunity to partner at such cheap prices with companies that can grow so fast.

- The stable of corporate management partners across the Funds is of the highest caliber. They understand the importance of capital allocation to future value growth and are taking advantage of their financial strength and cheap stocks by aggressively repurchasing their shares. Even if organic growth from these businesses falls below our conservative estimates, these companies should increase their intrinsic worth.

All three Funds have the ability to use cash inflows productively. Your partners at Southeastern have been aggressively adding to their stakes in recent weeks, and we have temporarily re-opened the Partners Fund to enable us to exploit the opportunities while they exist. Although Small-Cap will remain closed to limit its size, inflows would also benefit existing shareholders. Longleaf International owners share the opportunity to use new cash to exploit its overseas buy list. Not only do all three Funds currently have qualifying companies available, our on-deck list of additional names that are only slightly away from being buys is as long as it has been in the last five years.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

This environment is not dissimilar to that of the fall of 2002, and as most of you remember, the aftermath in 2003 was particularly rewarding. While returns of that magnitude are unpredictable, the concluding paragraph of our shareholder letter in September of 2002 rings true today.

> The stock prices of some of our businesses have suffered along with worldwide market declines. The appraisals of the companies we own have held steady or grown. We are, therefore, unhappy about our recent performance, but delighted by the compounding foundation that we have built. We encourage you to follow our lead by adding to your stakes in all three Funds. Mr. Market is giving us an opportunity that will surely end as unpredictably as it began. The question is not whether we are too early, but whether our appraisals are "approximately right." We are confident that they are.

Please mark your calendars for Longleaf's annual shareholder presentation. It will be Tuesday, May 13th in Memphis at 5:30 p.m. We will post additional meeting information on our website.

Happy New Year and best wishes to you and your families for a successful 2008.

Sincerely,

O. Mason Hawkins, CFA
Chairman & CEO
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President
Southeastern Asset Management, Inc.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS:

Below are the recent and long-term results for the three Longleaf Funds. Third quarter returns demonstrate how little attention we give indices in managing the portfolios. The performance spread to the negative or positive between each Fund and its benchmark was between 310 and 510 basis points. The much more important numbers are the results achieved over multiple years rather than three months. Since their inceptions each Fund has made substantial absolute returns and far outpaced the benchmark indices.

	Cumulative Returns at September 30, 2007				
	Inception	5 Year	1 Year	Year-to-date	3rd Quarter
Partners Fund (4/8/87 IPO)	**1413.0%**	**110.7%**	**17.4%**	**8.9%**	**(1.5)%**
Inflation plus 10%	1141.0	83.2	12.8	10.2	2.7
S&P 500 Index*	737.4	105.1	16.4	9.1	2.0
Small-Cap Fund (2-21-89 IPO)	**867.7**	**174.1**	**23.6**	**13.1**	**2.0**
Inflation plus 10%	872.3	83.2	12.8	10.2	2.7
Russell 2000 Index	574.2	136.1	12.3	3.2	(3.1)
International Fund (10/26/98 IPO)	**276.4**	**153.1**	**25.0**	**16.0**	**0.9**
Inflation plus 10%	194.1	83.2	12.8	10.2	2.7
EAFE Index*	112.7	187.9	24.9	13.2	2.2

* *During the inception year, these indices were available at month-end only; therefore, the S&P 500 Index value at 3/31/87 and the EAFE Index value at 10/31/98 were used to calculate performance since inception. Additional performance information for each Fund can be found on pages 6, 14 and 20.*

As our partners know, we are business analysts focused on identifying investments with large margins of safety in companies that can grow their intrinsic values. Macro observations and opinions do not influence our capital allocation decision-making for the Longleaf Funds. However, the unwinding of excesses and the concomitant market dislocations which occur often produce compelling investments. In the Semi-Annual Report we reviewed certain possibilities that might increase our opportunity set. In mid-July we wrote:

> Private equity risks have grown. Today's environment reminds us of the truism, "If it can't get better, it won't."
>
> • Historically low interest rates have benefited borrowers.
>
> • Global economic activity has been consistently strong.

> - Lenders have been ravenous to make loans.
> - Growing appetites for securitization (e.g. CDOs and CLOs) have added to the borrowing binge.
>
> Recession, rising interest rates, tightened credit standards, terrorism, and trade wars could each or all destroy the outcome of recent [private equity] deals because of the full prices being paid and the extreme leverage being employed.

Less than ten days later subprime mortgages began to unravel, credit spreads widened, and liquidity dried up. New private equity deals have come to a screeching halt, and previously negotiated ones are being cancelled or changing their terms.

While corrections were warranted, we took no particular pleasure in the outcome. We did, however, welcome the stock market fluctuations that ensued. We described our readiness for volatility in the July letter.

> The Longleaf Funds derive strength from being a liquidity provider, and our discipline and flexibility give us an advantage, especially in extreme environments… We are well prepared. First, all three Funds currently have approximately two or three positions of cash available, and a few names are trading close enough to appraisal to sell if a significantly more attractive alternative emerges.

Prior to the market turmoil we sold two fully priced, very profitable investments, Vivendi in the Partners and International Funds, and Pepsi Americas in Small-Cap. In spite of the brevity of the market's retreat, Southeastern's analysts and trading desk were highly productive in late July and August. The proceeds from the earlier sales complemented cash reserves and allowed us to take great advantage of specific opportunities. We bought six new names across the three Funds and added to several existing holdings. For Funds with average annual turnover of usually less than 20%, half a dozen new purchases in the space of six weeks compliments our research team's efforts. We also built a meaningfully expanded "on-deck" list of companies that were close to qualifying but slightly out of reach. The U.S. Federal Reserve's decision to lower rates by fifty basis points calmed the markets, preventing a number of stocks from reaching the discount we require.

The work we did accomplish in the third quarter - selling two fully priced common stocks, acquiring new investments, and adding to others - further strengthened the foundation of all three portfolios. We already owned what we described in July as "companies that are strongly financed, competitively entrenched, and managed by capable corporate partners." In addition to the qualitative strength of our holdings, the quantitative measure of price-to-value ratio (P/V) in each Fund has become more attractive since the end of the second quarter. The Funds' investment characteristics today are among the best we have owned in Longleaf's twenty years of operations.

If the market's stabilization and recent strength proves ephemeral, we may ask existing and new shareholders for capital to exploit our on-deck list. Thank you for your long-term support and for sharing our willingness to act with conviction when opportunities emerge.

On October 22, 2007 *Foundation & Endowment Money Management* and *Alternative Investment News* selected Southeastern Asset Management as "Equity Manager of the Year" at the Nonprofit Awards for Excellence dinner presented by Institutional Investor Awards and Information Management Network. Southeastern could not have received this distinction without the loyalty and support of our clients and Longleaf shareholders, particularly those in the nonprofit world. We are humbled by and deeply appreciative of the confidence that our investment partners have placed in our firm. You can find more information regarding the award on the Longleaf website.

Sincerely,

Mason

O. Mason Hawkins, CFA
Chairman & CEO
Southeastern Asset Management, Inc.

Staley

G. Staley Cates, CFA
President
Southeastern Asset Management, Inc.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

July 18, 2007

TO OUR SHAREHOLDERS:

We are pleased to report another strong quarter for the Longleaf Funds. Over the last three months the Partners Fund and International Fund significantly outperformed their benchmark indices and surpassed our annual goal of inflation plus 10%. As shown below, over the life of the Funds, over the last 12 months, and year-to-date, each Longleaf Fund has delivered substantial absolute returns while outpacing their relevant indices.

	Cumulative Total Returns at June 30, 2007			
	Inception	1 Year	Year-to-Date	2nd Quarter
Partners Fund *(4/8/87 IPO)*	**1,435.3%**	**23.3%**	**10.5%**	**8.1%**
Inflation plus 10%	1,115.0	12.7	7.5	3.8
S&P 500 Index	701.9	20.6	7.0	6.3
Small-Cap Fund *(2/21/89 IPO)*	**848.4**	**31.3**	**10.8**	**3.2**
Inflation plus 10%	850.7	12.7	7.5	3.8
Russell 2000 Index	595.7	16.4	6.5	4.4
International Fund *(10/26/98 IPO)*	**273.2**	**29.8**	**15.0**	**8.8**
Inflation plus 10%	187.8	12.7	7.5	3.8
EAFE Index*	108.2	27.0	10.7	6.4

* *In 1998, the EAFE was available at month-end only; therefore, the EAFE value at 10/31/98 was used to calculate performance since inception. Additional performance information for each Fund can be found on pages 8, 16, and 22.*

Strong performance in markets around the world over the last 18+ months has left few businesses that meet our qualitative and quantitative criteria. In the second quarter we purchased two new holdings, one in Small-Cap and one in International. We sold two International Fund positions, Renault and NTT DoCoMo. In spite of solid value growth across most portfolio companies, the double-digit price appreciation has increased the price-to-value ratio (P/V) of each Fund in 2007.

Much of the investing world's attention has turned to private equity activity given the metrics, magnitude, and pace of deals. On numerous occasions we have been asked two questions about this phenomenon.

> Question 1: Is the explosion in private equity transactions making it harder to find undervalued investments for the Longleaf Funds? Indeed, given the increasing multiples being paid for deals, many public companies are trading at or near fair value in anticipation of more buyouts at full prices.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

Question 2: Should investors reallocate, reducing public equity exposure and raising private equity assets? No. Due to the structural differences between the Longleaf Funds and most private equity funds, the multiples being paid, and the leverage being employed, we believe that today's private equity deals carry significant risk with lower long-term return opportunity than Longleaf. Below is a comparison highlighting the benefits of owning Longleaf Partners Fund versus the average private equity buyout fund.

Benefits of Longleaf®	Longleaf Partners Fund Characteristics	Characteristics of Private Equity Buyout Funds
Higher long-term returns without leverage	5 year return through 12/31/06 = 10.8% 10 year return through 12/31/06 = 12.8%	5 year return through 12/31/06 = 10.5% 10 year return through 12/31/06 = 8.5%
Lower risk appetite	Large margin of safety of price paid versus value. No debt at the Fund level.	Recent prices paid reflect full values. Highly leveraged.
Adequately diversified	18-20 investments.	Can be only 3-4 holdings.
Instant liquidity for shareholders	Daily valuation and access to capital.	Infrequent valuation; capital tied up for as much as 10 years.
Investor interests aligned with managers	Manager and affiliates are largest shareholder group, and Funds are sole equity vehicle.	General partners typically invest 3-6% of the equity in a deal, diluted by extensive leverage.
Fees are significantly lower	Total expense ratio is 0.89%. No performance fees.	Fees are typically 2% of assets plus 20% of performance, plus significant transaction fees to GP, lawyers, bankers and accountants.
Can monetize investments with broader choices and more flexible time period	Without time constraints can trade shares in stock market, sell to private equity or strategic buyer, recapitalize, or sell to investee companies.	Must act within life of fund to IPO, sell to a private or strategic buyer, or recapitalize.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

Benefits of Longleaf®	Longleaf Partners Fund Characteristics	Characteristics of Private Equity Buyout Funds
Invest only on our terms	If good businesses with good managements are not selling for less than 60% of value, we patiently wait.	Incentive to invest capital regardless of price because of limited fund life and fee structure.
Financial flexibility and borrowing power of portfolio companies	Financial strength allows companies to seize opportunities and endure difficulties.	Extreme leverage leaves little room for error or opportunity.

Average annual total returns for Longleaf Partners Fund for the one, five and ten year periods ended 6/30/07 are 23.30%, 13.38%, and 12.34%. Fund returns include reinvested dividends and distributions, but do not reflect the deduction of taxes. Current performance may be lower or higher than the performance quoted. Past performance does not guarantee future results, fund prices fluctuate, and the value of an investment at redemption may be worth more or less than the purchase price. Please call 1-800-445-9469 or visit www.longleafpartners.com for current performance information, or a copy of the Prospectus, which should be read carefully before investing to learn about the investment objectives, risks, charges and expenses of the Longleaf Partners Funds. Private Equity Buyout Fund performance is sourced from Thomson Financial Venture Economics and includes U.S. small, medium, large and mega private equity buyout funds' returns through 12/31/06. Other Private Equity Buyout Fund characteristics are based on Southeastern's industry knowledge and are intended to illustrate fundamental differences in approach between Southeastern and a private equity investment strategy. Not all private equity funds will have these characteristics, including those with performance reflected in the returns quoted.

Private equity risks have grown. Today's environment reminds us of the truism, "If it can't get better, it won't."

- Historically low interest rates have benefited borrowers.
- Global economic activity has been consistently strong.
- Lenders have been ravenous to make loans.
- Growing appetites for securitization (e.g. CDOs and CLOs) have added to the borrowing binge.

Recession, rising interest rates, tightened credit standards, terrorism, and trade wars could each or all destroy the outcome of recent deals because of the full prices being paid and the extreme leverage being employed. Remember, private equity is today's euphemism for leveraged buyout (LBO). Over the last ten years global LBO volume has exploded, going from $17 billion in 1996 to $680 billion in 2006, and is on track to be higher in 2007. Increased capital flow and rapacious incentives have pushed private equity firms to chase deals that most would not have considered historically. Buying a great business franchise during depressed times at 6-7X operating cash flow with a modicum of debt makes sense. Purchasing a mediocre company in good times at 14X operating cash flow using massive leverage defies Ben Graham's definition of an investment — one that promises safety of principal and an adequate return. Parsimony and investment profits are highly correlated. The cheaper the price paid for an investment, the higher the return and the lower the risk, regardless of the vehicle used (i.e. mutual fund or private equity fund.) Paying full prices with full leverage jeopardizes all capital commitments.

Given the frenzied number of deals being done at high multiples with maximum leverage, some will not work out. The Longleaf Funds derive strength from being a liquidity provider, and our discipline and flexibility give us an advantage, particularly in extreme environments. When LBOs start to unravel, Longleaf intends to be ready to provide capital to pressured equity offerings and/or for distressed debt purchases as we did in the case of Level 3. We are well prepared. First, all three Funds currently have approximately two or three positions of cash available, and a few names are trading close enough to appraisal to sell if a significantly more attractive alternative emerges. Second, the employees of Southeastern are the largest shareholder group in the Funds and will personally be adding cash. Third, we have loyal, sophisticated shareholder partners who overwhelmingly respond when we indicate that additional cash would benefit the Funds' owners. Fourth, the companies we own can be expected to use their strong balance sheets to provide liquidity to others and/or to buy in their own shares at attractive discounts. Fifth, if the first four measures do not exhaust the opportunity set, we can reopen the Partners and Small-Cap Funds to generate more buying power in the case of U.S. businesses.

Currently optimism is dominating markets. We are finding little to do in the U.S., and only slightly more overseas. We know, however, that eventually the fear and greed pendulum will swing the other way. In the meantime, we are happy to own companies that are strongly financed, competitively entrenched, and managed by capable corporate partners. Values are growing and many companies are buying in their discounted shares aggressively, adding to intrinsic worth. The long-term prospects for real, absolute returns of 10% are good.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

We thought shareholders might enjoy the enclosed article that appeared on Kiplinger.com in May. It provides a good summary of Southeastern's approach in managing Longleaf Partners Funds.

Sincerely,

Mason

O. Mason Hawkins, CFA
Chairman & CEO
Southeastern Asset Management, Inc.

Staley

G. Staley Cates, CFA
President
Southeastern Asset Management, Inc.

P.S. This report reflects the first six months of 2007. Subsequent to writing this Shareholder Letter and the Management Discussion of each Fund on July 18^{th}, the stock market has become more volatile and credit markets have tightened. As this report goes to the printer in early August, our "on-deck" list of names that qualify as investment opportunities has increased in each Fund. The price-to-value ratios have become slightly more attractive. Volatility is the friend of investors who know what their companies are worth. We hope to have much more to report by the end of the third quarter.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS:

We are pleased to report the results of the first quarter in which all three Longleaf Funds outpaced their respective indices, and Small-Cap and International also significantly outperformed our inflation plus 10% absolute annual return goal. More importantly, the long-term results since each of the three Funds opened are at or above both the absolute and relative benchmarks as shown in the cumulative returns below. The Small-Cap Fund's 24.4% one year performance was highlighted in the *Wall Street Journal*'s "Winner's Circle" as being among the top three U.S. diversified stock funds, larger than $50 million and at least three years old.[1]

	Cumulative Total Returns			
	Inception	10 Year	1 Year	1st Quarter
Partners Fund	**1320.5%**	**232.7%**	**12.7%**	**2.2%**
Inflation plus 10%	1071.4	225.5	12.8	3.7
S&P 500 Index	654.8	119.7	11.8	0.6
Small-Cap Fund	**818.8**	**289.3**	**24.4**	**7.4**
Inflation plus 10%	816.0	225.5	12.8	3.7
Russell 2000 Index	566.3	164.9	5.9	2.0
International Fund	**243.0**	**NA**	**17.3**	**5.7**
Inflation plus 10%	177.3	NA	12.8	3.7
EAFE Index	95.6*	NA	20.2	4.1

* *In 1998, the EAFE was available at month-end only; therefore, the EAFE value at 10/31/98 was used to calculate performance since inception. Additional performance information for each Fund can be found on pages 8, 14, and 20.*

During the quarter we purchased two new qualifying ideas in the Small-Cap Fund and one in International. We were hopeful that the worldwide market declines in late February might linger and signal increasing volatility. The so-called "correction" was brief and somewhat slight, however, and yielded relatively little opportunity. Positive performance combined with few 60-cent dollar additions resulted in the price-to-value ratio of each Fund rising slightly during the quarter. The Partners Fund and International Fund have one new position's worth of cash. While Small-Cap's cash level is higher, several buy orders are waiting for prices to cooperate. An important characteristic of the three Funds is that most portfolio holdings embody growing, competitively entrenched businesses led by high quality management teams who are building value by operating these companies well and allocating capital in a wise manner. While few names sell at a 40% discount to appraisal, the superior caliber of the Funds' underlying businesses and management partners provides comfort that intrinsic values should build nicely for years to come.

In February, after seventeen years of dedicated service at Southeastern, C.T. Fitzpatrick decided to retire and move to Birmingham, AL to spend more time with his family and help manage their personal affairs. Many of you recall C.T. from his early days of being a generalist on the research team and working with clients. He then served as the lead manager on Longleaf Partners Realty Fund, which we liquidated in 2001. Since that time, C.T.'s primary role has been building and servicing client relationships. We are grateful to C.T. for the contribution he made to both our clients' and our firm's success.

Longleaf's returns over the next thirty years have nothing to do with the returns of the past and everything to do with having an investment team of dedicated, bright minds capable of appraising businesses, assessing managements and adhering to the disciplines that have served Southeastern's clients and Longleaf's shareholders well for over three decades. To help ensure the sustainability of Southeastern's and Longleaf's successful history, we have spent much of the last several years building a third generation of investment analysts. The first step in this process actually began a decade ago when we hired Jason Dunn as a college intern. Though he is among our most senior analysts in tenure, his youth makes him a leader of this third generation.

To a person, our younger analytical partners are honorable, intelligent, passionate, team players who are in this business for all of the right reasons. Also, and most important from an investment standpoint, they are independent thinkers willing to make major investment commitments when their cases are adequately supported by the necessary qualitative and quantitative factors. Each possesses proven investment acumen.

At the Annual Shareholder Presentation in Memphis on May 14th we will introduce each of these important associates. We hope that many shareholders will attend to meet those who will help shape Longleaf's future. For those who cannot attend, here are the highlights.

Jason Dunn, CFA, joined Southeastern in 1997 as a college intern. He graduated from Rhodes College in 1999. Jason's contributions have been material to the Funds' success and have included names such as ADP, Amdocs, Gulf Canada and Anderson Exploration. He currently covers some of the Funds' major existing holdings and is an important new idea generator.

Ross Glotzbach, CFA, joined Southeastern in 2004. He previously worked as a corporate finance analyst at Stephens in Little Rock after interning in investment banking at Merrill Lynch. He graduated from Princeton University in 2003. We have never had a researcher make as much of an immediate impact as Ross has. Not only is he responsible for a couple of new names we have bought, but he also covers some existing holdings and has generated ideas that are currently ''on deck.''

Lowry Howell, CFA, joined Southeastern at the outset of 2006. Lowry had been an analyst and principal at Flippin, Bruce & Porter in Lynchburg, VA from 2000-2005, and for the five previous years was an analyst in Memphis. He graduated from Rhodes College in 1995 and received a Masters in Accounting from Rhodes in 1996. In his first year at Southeastern, Lowry was our most productive analyst in terms of identifying big-cap ''on deck'' names. He has exceptional contrarian instincts including, prior to joining Southeastern, being one of the few analysts to recommend General Motors under $20. He has been very helpful in following that name as well as in generating new ones.

Ken Siazon joined Southeastern in mid-2006 and lives in Asia. He previously was an investment banker at Lehman Brothers from 1997-2006 and at J. P. Morgan from 1994-1997. Ken graduated from the University of Virginia in 1989 and received his Masters in Business Administration from Harvard in 1994. Upon his arrival at Southeastern, he successfully presented Cheung Kong to our investment committee, an investment that we are excited about in the International Fund. Ken works closely with Andrew McDermott following our Asian-based holdings and seeking new qualifying investments. In Ken's previous job at Lehman in Asia he interacted with many management teams, thus adding a valuable background for our research in the region.

Scott Cobb joined Southeastern in October of 2006 and is based in our London office. Over the previous decade he managed a pool of family and friends' money before forming a hedge fund to invest his personal assets. Scott graduated from the University of Memphis in 1997 and received a Masters in Theological Studies from Covenant Theological Seminary in 1999. Since Scott ran his own successful hedge fund before joining Southeastern, we were lucky to get him. He viewed the benefits of being part of our research team and having access to corporate managements as worth giving up portfolio management autonomy. Because we mandate that all employees limit equity ownership to only the Longleaf Funds, the conversion of Scott's hedge fund holdings into Longleaf means that we have an accomplished researcher with ''skin in the game'' on day one. Scott is responsible for one of our newest international investments, EnCana.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

Josh Shores joined Southeastern in April of 2007 after working for an investment firm in North Carolina. He graduated from the University of North Carolina in 2002. Interestingly, we knew about Josh before ever actually meeting him. Last summer he had written a piece that we circulated internally because it was so well done about Chesapeake Energy, a current Partners Fund holding. Only later did we discover that Scott had worked with Josh in North Carolina and could complete the picture of him as a potential hire. Josh is based in Memphis, but is focused primarily on international ideas.

Today we have the strongest collection of investment talent since Southeastern's founding. We are convinced that this energized and committed team will deliver above average long-term returns.

Sincerely,

O. Mason Hawkins, CFA
Chairman & CEO
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President
Southeastern Asset Management, Inc.

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[1] *The Small-Cap Fund's one year performance for the period ended March 31, 2007 was number one out of 1,430 U.S. diversified stock funds categorized by Morningstar, Inc. as small cap funds larger than $50 million and at least three years old.*

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS:

As your investment partners and managers we are pleased to report the results of 2006. For the fourth quarter, the year and the last decade all three Longleaf Funds have met or surpassed our absolute annual goal of inflation plus 10%. Each Fund has also materially outperformed its respective benchmark index over the long term, and the Partners Fund and Small-Cap Fund exceeded their indices over the last three and twelve months.

Returns are presented below:

	10 Year	2006	4th Quarter
Partners Fund	**12.8%**	**21.6%**	**7.8%**
S&P 500 Index............	8.4	15.8	6.7
Small-Cap Fund	**14.5**	**22.3**	**9.3**
Russell 2000 Index.........	9.4	18.4	8.9
International Fund	**15.5***	**17.1**	**7.8**
EAFE Index	8.0*	26.3	10.4
Inflation plus 10%	12.4	12.5	2.0

* *Return since inception 10/26/98. In 1998, the EAFE was available at month-end only; therefore, the EAFE value at 10/31/98 was used to calculate performance since inception. Inflation plus 10% for the period since inception was 12.7%. Additional performance information can be found on pages 7, 15 and 24.*

Patience and discipline have been required over the last three years as developed markets around the world have encountered little volatility, and equities have not been particularly cheap. We struggled in 2004 and into 2005 to identify investments that met our criteria. We opted to hold low-returning U.S. Treasury Bills rather than force the Funds' liquidity into investments that did not meet our qualifications. Fortunately, by the end of 2005, we had invested most of the cash reserves into compelling long-term equity stakes.

In 2006 our patience and commitments began to pay off. Many of the companies that had been the most discounted over the last few years were among the strongest performers during the last twelve months, including Comcast, DirecTV, NewsCorp, Disney, Shaw, General Motors, Fairfax and Level 3. In addition, some of the businesses we purchased more recently in 2005 and 2006 have already contributed to the year's high returns.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

Over the last twelve months we sold businesses in each Fund when prices approached our appraisals. In addition, we scaled back several large positions to meet I.R.S. diversification requirements and to pay for more attractive names. Each Fund's cash has risen recently. Given the robust worldwide stock returns and certain extremes in markets today, having some deployable liquidity is welcome. During 2006 only four (Thailand, Japan, Pakistan and South Korea) of 39 major country stock indices did not rise more than 10%. In addition, returns across the globe came from a broad base of industries. In the U.S. margin debt is at its highest level in six years, close to that of March 2000. The volatility index, VIX, is near the record low set thirteen years ago. Bond risk premiums are compressed. Economic and geo-political disruptions are above-average possibilities across the globe, and could lead to larger, interconnected dislocations. As long-term investors, we would welcome more trepidation and mispricing.

We have no view on what markets will do, but this environment presents a challenge as we enter 2007. There are few available bargains as we look for new opportunities to strengthen the foundation for compounding over the next five years. The domestic "on deck" list of potential investments is relatively small, but we are buying several new international companies. The price-to-value ratios (P/Vs) in all three Funds are slightly above their long-term averages. Given the recent strong performance, higher P/Vs are not surprising. The P/Vs will improve as we find new underpriced securities, sell fully valued ones, and as the intrinsic worths of many holdings grow at double-digit rates.

The enclosed Morningstar article announced that your managers were selected as "Domestic Equity Fund Managers of the Year." We are honored to be chosen, especially in a year when fewer than 20% of U.S. diversified stock funds beat the S&P. The Morningstar recognition is particularly gratifying because it is not solely based on last year's results — in our twenty years of operating the Funds there have been years when returns were higher than in 2006. Morningstar's selection considered results over long periods as well as shareholder stewardship. We believe those attributes to be substantially more meaningful than a twelve month return.

Morningstar's comprehensive approach serves as a reminder that all returns are not created equally. Our long-term success has emanated from several core principles:

- Buy businesses with expected value growth.
- Partner with honorable, capable management.
- Pay a significant discount for stocks, lowering the risk of loss and capturing the opportunity to make substantial returns over time.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

- Invest with a minimum five year horizon, deferring taxes and minimizing transaction costs.
- Concentrate in your best ideas, reducing the number of decisions required.
- Maintain financial flexibility.
- Charge reasonable fees.

This approach provides superior after-tax, risk-adjusted results and contrasts with the significant movement of assets toward much more speculative strategies. Today's willingness to take on tremendous risk and to chase yield is unprecedented. Many alternative vehicles:

- Use huge amounts of leverage.
- Place bets on macro expectations in somewhat unpredictable and potentially volatile areas.
- Forego any margin of safety to follow prices higher.
- Frenetically trade with a 30 day time horizon, creating large transaction costs and big tax liabilities.
- Force multiple decisions within a day's trading period.
- Charge high fixed fees and take large bites out of investors' profits as well.

Most of our liquid net worth is invested in Longleaf Partners Funds, not as a marketing strategy, but because we believe the Funds offer the best way to compound capital at high returns with low risk. We are grateful to have investment partners of like mind.

Please mark your calendars for Longleaf's annual shareholder presentation. It will be Monday, May 14 in Memphis at 5:30 in the afternoon. We are finalizing the location and will post it on our web site. We hope that many of you will join us to celebrate the results of 2006 and receive an update on 2007.

Happy New Year and thank you for your longstanding support.

Sincerely,

O. Mason Hawkins, CFA	G. Staley Cates, CFA
Chairman & CEO	President
Southeastern Asset Management, Inc.	Southeastern Asset Management, Inc.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS:

All three Longleaf Funds met our absolute return goal during the third quarter, appreciating between 3.5% and 8.4%. The Partners and Small-Cap Funds are ahead of both inflation plus 10% and their benchmark indices for the year-to-date. Recent and longer term results appear below:

	10 Year	5 Year	Year-to-Date	3rd Quarter
Partners Fund	**12.7%**	**12.3%**	**12.8%**	**3.5%**
S&P 500 Index	8.6	7.0	8.5	5.7
International Fund	**14.9***	**10.6**	**8.6**	**4.7**
EAFE Index	6.9*	14.3	14.5	3.9
Small-Cap Fund	**14.4**	**15.9**	**12.0**	**8.4**
Russell 2000 Index	9.1	13.8	8.7	0.4
Inflation plus 10%	12.6	12.6	10.0	2.7

**Return since inception 10/26/98. In 1998, the EAFE was available at month-end only; therefore, the EAFE value at 10/31/98 was used to calculate performance since inception. Inflation Plus 10% for the period since inception was 12.7%. Additional performance information for each Fund can be found on pages 6, 14 and 22.*

As we reflect on the quarter, the amount of activity in all three portfolios was larger and more exciting than usual. Several companies owned by the Funds sold at significant discounts to their appraised values, and we added to the Funds' stakes in many of those names. In addition, each Fund acquired at least one new holding during the quarter as additional companies met our qualitative and quantitative criteria. Because the Funds had relatively little cash, we liquidated or scaled back holdings with higher price-to-value ratios (P/V) to make way for those with lower P/Vs. This positioning of the portfolios lowered the downside risk in each Fund and increased the return opportunity. The transactions also helped the Funds' overall P/V ratios remain stable over the last three months even as the Funds delivered strong performance.

The portfolio improvement was possible also because of the support of Longleaf's long-term shareholders. Many investment partners added to their stakes in the Funds during the quarter, supplementing our efforts to capture investment opportunity.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

Our satisfaction with the portfolio changes extends beyond P/V ratios. The transactions that we made increased the Funds' exposure to management teams in whom we have a high degree of confidence. Stock buybacks are escalating across U.S. markets. The breadth and magnitude of share repurchases among holdings of all three Longleaf portfolios are noteworthy. These repurchases, occurring at large discounts to intrinsic values, are accelerating the already meaningful value growth that the businesses we own are experiencing from ongoing operations.

We found additional names of interest, and the on-deck list of companies that are close to meeting our criteria grew during the quarter. Market volatility early in the quarter helped our search. More recently, however, the rebound in many markets has made execution more challenging. With P/Vs still attractive, cash levels low, management teams focused on building value, businesses that are competitively entrenched, and an expanding on-deck list, we remain quite optimistic about the foundation in place for the next five-plus years of compounding in each of the Longleaf Funds.

Sincerely,

Mason

O. Mason Hawkins, CFA
Chairman & CEO
Southeastern Asset Management, Inc.

Staley

G. Staley Cates, CFA
President
Southeastern Asset Management, Inc.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS:

In a quarter that re-introduced the concept of volatility, few areas were immune. Most U.S. funds lost ground, with small cap and growth funds suffering the largest losses over the three months as reported by Lipper Inc. Overseas markets in local currency terms also declined. In the midst of falling world-wide stock prices during May and June, the three Longleaf Funds gave back some of the gains made in the first quarter. Only the Partners Fund remained ahead of either its benchmark or more importantly, the absolute annual goal of inflation plus 10%. The long-term and recent returns of the Funds are summarized below.

	10 Year	Year-to-Date	2nd Quarter
Partners Fund	**12.6%**	**9.0%**	**(1.3)%**
S&P 500 Index	8.3	2.7	(1.5)
International Fund	**14.7***	**3.7**	**(1.7)**
EAFE Index	6.6*	10.2	0.7
Small-Cap Fund	**14.1**	**3.3**	**(2.2)**
Russell 2000 Index	9.1	8.2	(5.0)
Inflation plus 10%	12.6	7.3	3.8

** Return since inception 10/26/98. In 1998, the EAFE was available at month-end only; therefore, the EAFE value at 10/31/98 was used to calculate performance since inception. Inflation Plus 10% for the period since inception was 12.8%.*

We have often said that volatility is our friend, and the second quarter was no different. While short-term performance suffered a bit, the long-term opportunity for all three Funds improved. How so? First, prices declined, but values did not. No recalibration occurred in the eventual "weighing machine" that Ben Graham described. Second, in many cases our appraisals grew, increasing the expected outcome for those companies. Third, given stable or higher values, stock declines allowed us to buy more of some holdings at fire-sale prices, reducing our average cost and raising the expected eventual long-term gain. Fourth, we were able to purchase a new investment in each Fund due to "on deck" companies reaching our required discount. Fifth, the "on deck" list of businesses that both meet our qualitative criteria and are almost cheap enough for purchase is longer and better than it has been in some time for each Fund. Finally, as a result of the investments made, cash levels are the lowest in three years. The return prospects from our purchases are much better than those from cash. The price-to-value ratio (P/V) of each Fund improved due to the factors listed above. The lower P/Vs mean a larger margin of safety in the portfolios, which translates into less risk of capital loss and more return opportunity. For the first time since 2003 all three Funds trade below 70% of appraised value.

The improved positioning of the Longleaf portfolios begs the question of re-opening the Funds. Small-Cap will not re-open due to size constraints. Given the size of the Partners Fund combined with the comparable U.S. institutional account mandates that Southeastern manages, opportunities for improving the portfolio would need to be much more dramatic to consider re-opening. The International Fund, however, could make meaningful P/V headway that benefits existing shareholders by putting incremental cash inflows into 60-cent or cheaper dollars that are now available. Given the high quality and undervaluation of the International Fund's holdings and the magnitude of stock ownership by management teams, the opportunity to buy more of these franchises is compelling. In addition, new cash will position the Fund to take advantage of an attractive on-deck list in the case of future volatility. Effective July 10, 2006, Longleaf Partners International Fund opened to new shareholders.

Additional information on holdings and the performance drivers for each Fund follows in the Management Discussion sections. We are hopeful that the second half of 2006 will bring more of what we found in the second quarter — increased volatility, high quality investments available at significant discounts, and a growing list of ways to further improve the long-term return prospects in the Funds' portfolios.

Sincerely,

O. Mason Hawkins, CFA
Chairman & CEO
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President
Southeastern Asset Management, Inc.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS:

We are pleased to provide the results of the first quarter of 2006. All three Longleaf Funds compounded at an annualized rate much higher than our absolute goal of inflation plus 10%. The Partners Fund also outpaced its benchmark index, the S&P 500, by a significant margin. The table below shows the year-to-date and longer term returns of each Fund.

	Year-to-Date	Five Year	Ten Year
Partners Fund	**10.4%**	**10.9%**	**13.1%**
S&P 500 Index	4.2	4.0	9.0
International Fund	**5.5**	**9.4**	**15.5***
EAFE Index	9.4	9.6	6.8*
Small-Cap Fund	**5.6**	**14.3**	**15.0**
Russell 2000 Index	13.9	12.6	10.2
Inflation Plus 10%	3.6	12.6	12.5

** Return since inception 10/26/98. In 1998, the EAFE was available at month-end only; therefore, the EAFE value at 10/31/98 was used to calculate performance since inception. Inflation Plus 10% for the period since inception was 12.7%.*

A broad-based group of holdings created the successful quarter, and the performance details follow in the Management Discussion section of each Fund. Cash levels rose across the three Funds as we scaled back several overweighted positions, and exited a long-time Partners Fund holding, Waste Management, as well as Deltic Timber in the Small-Cap Fund. The proceeds remain in cash because we have not found an opportunity that qualifies. We purchased Dell in the International Fund during the quarter, but neither Partners nor Small-Cap have new holdings thus far in 2006.

Although we never know when the price of a company will begin to reflect value, the recent good performance was not altogether unexpected given where we began the year. Price-to-value ratios (P/V) were near or below long-term averages, the Funds were much more fully invested, and value growth expected from our holdings was higher than normal given the quality of the businesses we owned and the management teams running them. While the P/Vs have risen a bit with the recent performance, they are still attractive, and the other factors that made us optimistic are still in place. We believe the opportunity remains to compound at inflation plus 10% rates over the next five years.

Sincerely,

O. Mason Hawkins, CFA
Chairman & CEO
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President
Southeastern Asset Management, Inc.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS:

We welcome 2006 with a great deal more optimism than we had a year ago. Although 2005 returns, which are shown below, did not meet all annual absolute and relative performance objectives, each of the three Longleaf Funds' five year results continued to meaningfully outperform their respective benchmark indices. The improvements made to the Longleaf portfolios over the last twelve months were significant. Across the three Funds we added a net of seven new positions (net = new positions purchased minus positions sold) compared to net eliminations in both 2003 and 2004. We are excited and a bit relieved finally to have established a full foundation for future compounding. We believe this base should enable the Funds to meet our long-term absolute bogey of inflation plus 10%.

	2005	Five Years
Partners Fund	**3.6%**	**8.6%**
S&P 500 Index	4.9	0.5
International Fund	**12.9**	**10.2**
EAFE Index	13.5	4.6
Small-Cap Fund	**10.8**	**13.2**
Russell 2000 Index	4.6	8.2
Inflation Plus 10%	13.4	12.5

Longleaf's Annual Report a year ago discussed four challenges we faced as we entered 2005.

(1) Price-to-value ratios (P/Vs) were above their historic averages in all three Funds.
(2) Value growth at the companies we owned had been strong and was unlikely to continue at the same high rates.
(3) Cash levels were high.
(4) The "on-deck" list (companies that qualify for investment qualitatively and are close to our discounted price requirement) contained few names.

Beginning in the summer and continuing through year-end, we bought new positions both in the U.S. and abroad. These investments came our way thanks to a combination of out-of-favor industries, strong earnings met by stagnant stock prices, and disappointments at specific companies. The new positions together

Longleaf Partners Funds
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with good results at most existing holdings helped address the above four challenges. The results are:

(1) The price-to-value ratios in the Partners and Small-Cap Funds have improved significantly, and the Partners Fund P/V is below the long-term average. This improvement came as a result of growing appraisals at existing holdings, new investments made at steeply discounted prices, and in the Partners Fund, minimal stock price advances in the overall portfolio. The International Fund's P/V stayed approximately the same. Although the value growth and new investment dynamics were similar to what we saw in the U.S., foreign stock prices appreciated more.

(2) We underestimated 2005 results for many companies we owned. Value growth in the International Fund continued at a similar rate to 2004; the Small-Cap Fund's value growth was slightly higher than the previous year; the Partners Fund experienced mid-teens value growth, more than twice the level we saw in 2004. The management teams at many holdings proved us too conservative in our appraisals. This is the type of analytical surprise that we welcome.

(3) Cash levels have come down significantly, particularly in the two domestic Funds, which started the year approaching 30% cash and hold less than 8% each today.

(4) While the ''on-deck'' list is not immense as we enter 2006, the research activity at Southeastern is much busier than a year ago. More new ideas are being ordered and analyzed, and more qualifiers are reaching the table for serious consideration. For the first time in over three years the Partners Fund faces the possibility of having more names that we would like to own than cash to buy them.

In the second half of 2005 the patience and price discipline that we maintained over several frustrating years began to pay off as we had the necessary liquidity to purchase a number of highly qualified long-term investments. We expect that the progress we made will more than compensate for the cash we held. We enter 2006 with a great deal of confidence in each Fund's portfolio. Although short-term stock prices are unpredictable, the foundation for longer-term performance is the best it has been in over three years. Not only are P/Vs reasonably attractive, but your capital and ours is working for us in high quality businesses with growing values. We also have capable management partners running our holdings and buying in shares at rapid rates. With the significant capital being returned to us through aggressive repurchase programs and dividends, in many cases we are receiving growing cash coupons that are larger than the yield on 10-year Treasury Bonds. This dynamic occurs rarely and is almost always a positive sign.

As both your managers and co-investors (we are among the largest owners of the Longleaf Partners Funds), we are confident that today's portfolios can compound capital at above average rates over the next five years.

By now most of you have read the web site or seen the Prospectus sticker that discusses the departure of John Buford, one of our portfolio managers and analysts, from Southeastern. For those who have not seen either communication, we reprint the notice below.

> After 16 successful years at Southeastern and prayerful consideration, John has chosen to enter the ministry. In 2006 he will begin a three year graduate study program at Memphis Theological Seminary. Upon completion of his degree John intends to pursue his commitment to various charitable endeavors in the Memphis community. We are grateful, not only for his contribution to Southeastern, but also for his efforts to help many others.
>
> Southeastern Asset Management's research team is the strongest and deepest in our 30 year history. While John will be missed, his exit at the end of the year will provide further opportunity for our younger associates who have already demonstrated their investment acumen. These analysts have played a significant role in the new investments we have made in 2005.

We hope that many of you will join us for the Funds' shareholder presentation in Memphis. We have scheduled this event for 5:30 p.m., Tuesday, May 2 at the Bridges Center where we met last year at 477 N. Fifth Street. We look forward to reporting to our partners in person.

Sincerely,

Mason

O. Mason Hawkins, CFA
Chairman & CEO
Southeastern Asset Management, Inc.

Staley

G. Staley Cates, CFA
President
Southeastern Asset Management, Inc.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS:

The Longleaf Partners Funds made meaningful headway during the third quarter as we found a number of new qualifying investments. Although the returns over the last three months and for the year-to-date do not yet reflect the improved positioning of the portfolios, we believe that we have made significant progress in establishing the building blocks for the next five to ten years of performance.

The Funds produced the following results:

	Year-to-Date	Third Quarter
Partners Fund	**2.8**%	**3.9**%
S&P 500 Index	2.8	3.6
International Fund	**9.7**	**8.1**
EAFE Index	9.1	10.4
Small-Cap Fund	**6.1**	**1.5**
Russell 2000 Index	3.4	4.7
Inflation plus 10%	12.0	4.7

For the first time in two-and-a-half years all three Funds have cash below 10%. Considering that in the last eighteen months each Fund reached almost 30% liquidity levels, this cash decline is dramatic. We bought five new companies across the three Funds during the quarter, and since the start of 2005, the total is ten. As a result of these new holdings, some fully priced sales, and growing values at most of our existing investments, the price-to-value ratios in the two domestic Funds have improved, and the International Fund has remained about the same while posting an almost 10% performance gain. Along with the new investments, the "on-deck" list of qualifying companies close to our required discount is as lengthy as it has been in recent memory, particularly in U.S. names. Because foreign markets have been much stronger than domestic markets in 2005, we are finding fewer significantly discounted stocks overseas, although several are in the queue of almost qualifying.

Most recently our research has led us to the type of companies we love to own but rarely have the opportunity to buy — high quality businesses with dominant market shares and entrenched brand names. These stocks are often large cap and very liquid. Their ability to generate free cash is tremendous and their value growth potential is clearly within our double-digit objective. No single cause accounts for the opportunity we are seeing today. The fact that many small and mid-sized companies have had a strong price run partially fueled by the excess capacity of private equity and buy-out funds has probably helped divert attention from some of the powerhouse names that are not perceived as takeover candidates. Whatever the cause, we are thrilled by the opportunity.

We are elated not only by the quality of our new investments, but also by the management teams we have gained as partners. Their operating records speak to their capabilities, and they have demonstrated their understanding of the importance of intelligent capital allocation in building shareholder value. These companies also feature significant insider ownership at the top.

The International Fund is the only one of the three Funds approaching our annual absolute return goal of inflation plus 10%. We are somewhat reluctant to hope for a price rally in the near future. Many of the management teams across all three Funds realize the wide discrepancy between their stock prices and corporate values and are actively repurchasing shares. The more shares that management buys at prices significantly discounted from intrinsic worth, the faster corporate value builds. As long as our corporate partners are aggressively buying back their shares, we are happy to have prices remain flat because the long-term payoff will be even greater. In addition to share repurchases, strong operating results at many companies we own are driving our appraisals north. This combination of material organic value growth and meaningful share repurchases should yield above average returns over the long run.

Given the progress we have made in replacing low-returning cash reserves with deeply discounted quality businesses, we are more optimistic about our portfolios than we have been in over two years. The quality names we own in each Fund, particularly with those added this year, are reminiscent of the "perma-holdings" description we coined in late 2002 — superior quality companies capable of earning above average cash returns on capital that will build corporate values at attractive rates for a long time.

Some have asked whether our diminished cash and increased on-deck list will allow the Funds to reopen. As long ago stated, the Small-Cap Fund will most likely never reopen. It is also unlikely that the Partners Fund will reopen given Southeastern's concentrated style and big-cap U.S. assets under management. The International Fund will reopen when the opportunity universe exceeds cash reserves and the prospects for finding additional investments appear good. We are at least several new holdings away.

We thank you for your patience over the last two years as we have held more cash than any of us would have liked. That liquidity enabled us recently to purchase

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

some compelling companies which should produce long-term results that far outweigh the minimal returns on cash. Each Fund has the capacity to own one or two more names or to buy more of existing investments. We will remain vigilant for both opportunities.

Sincerely,

O. Mason Hawkins, CFA
Chairman & CEO
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President
Southeastern Asset Management, Inc.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS:

"I will prepare myself and the opportunity will come." — Abraham Lincoln

For the last two years we have been preparing – keeping our appraisals current, meeting with managements, creating wish lists, analyzing different types of investments, and generally looking in every place imaginable to find a 60-cent dollar. The opportunities have been few and far between. Recent returns do not necessarily reflect either the progress made at most of our holdings or the improved opportunity embedded in the Funds since the start of 2005 and the outset of the second quarter.

The recent performance of the Funds was as follows:

	Year-to-Date	Second Quarter
Partners Fund	**(1.1)%**	**0.0%**
S&P 500 Index	(0.8)	1.4
International Fund	**1.5**	**(0.8)**
EAFE Index	(1.2)	(1.0)
Small-Cap Fund	**4.6**	**2.3**
Russell 2000 Index	(1.3)	4.3
Inflation plus 10%	7.2	3.1

In the second quarter we saw a bit more volatility, particularly in the U.S. This gave us the opportunity to purchase one new name in the Partners Fund and several new holdings in the Small-Cap Fund. In the International Fund we added to a few existing positions that were selling at significant discounts. With no major sales in the portfolios, the cash levels of all three Funds declined. Adding investments at steeply discounted prices combined with the accruing values of existing holdings helped lower the price-to-value ratio in all three Funds.

While we are more fully invested in stocks with less expensive portfolios, each Fund needs at least two new investments to complete the foundation for future compounding. We and our shareholders must maintain the same patience we have exercised for two years. Very little appears underpriced today. The U.S. market is most challenging. The S&P 500 sells at 18X the next year's expected earnings. This P/E ratio is meaningfully above the long-term historic average, although extremely low bond yields justify a somewhat higher P/E. The 18X seems more ominous given that it incorporates historically high profit margins, low interest rates, and this business cycle's peak earnings. Such market pricing does not yield many companies selling for half of corporate worth and leaves little

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

room for improvement in optimistic market assumptions. While foreign markets appear a bit more discounted than the U.S., in the second quarter many major international markets appreciated, moving stock prices further away from our required discount. Record low volatility worldwide has made finding new investments difficult across the globe.

These observations do not imply that we anticipate dramatic market corrections here or abroad. However, if a correction does occur, we are prepared to take advantage of the investment opportunities.

Historically, Southeastern has worked hard to prepare Longleaf's quarterly reports as quickly as possible, often releasing them a couple of weeks following quarter end. After careful consideration, we have elected to release Longleaf's quarterly reports in coordination with the required release of Southeastern's holdings on Form 13F, generally 45 days after the end of each quarter. This timing will prevent disclosing our trading activities to competitors until it is mandatory. Longleaf shareholders will benefit from the longer period of anonymity to execute our trading strategies. Thank you for your understanding.

Please find enclosed with this Semi-Annual Report an excerpt from Dr. David Swensen's terrific book *Unconventional Success: A Fundamental Approach to Personal Investment*, which was published in the July 2005 edition of *Institutional Investor*. David highlights the Longleaf Partners Funds' governing principles and commitments that our partners have valued since the Funds' inception. As many of you may know, David Swensen is the renowned and sagacious leader who has taken Yale University's Endowment to the top of the investment performance charts for the past twenty years. We thank him for his kind words and professional support. We also wish David and his Yale team every success in their future investing endeavors.

We appreciate your ongoing patience. We wish all of our partners a wonderful summer with family and friends.

Sincerely,

O. Mason Hawkins, CFA
Chairman & CEO
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President
Southeastern Asset Management, Inc.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS:

Most market indices declined during the first quarter, including the three Fund benchmarks. Each Longleaf Fund outperformed its respective benchmark, with Partners declining 1.1%, Small-Cap adding 2.2%, and International gaining 2.3%. All three Funds fell short of our absolute return annual goal of inflation plus 10%. Three months, however, bears little meaning when our horizon is generally five years or more.

Despite being a yawner in terms of performance, the quarter closed with good news on two fronts. First, intrinsic values at most of our holdings continued to grow at acceptable rates. Because stock prices did not keep pace with those growing appraisals, our price-to-value ratios improved. Second, despite putting little cash to work during the quarter, we ended with new ideas for all three Funds. There is no guarantee that we will successfully execute the purchase of these new ideas, but if we do, cash balances should drop noticeably in the next few months.

We have faced a challenging buying environment for almost two years. As cash levels have risen, we have discussed four ways to make progress:

- increased volatility,
- overall market corrections,
- individual anomalies within specific industries or companies, and
- intrinsic value growth outpacing prices fast enough to create the requisite discount.

Recently the latter two dynamics have increased investment opportunities. Continued strong results at a number of companies across the world have pushed values north. Earnings growth remains solid, albeit at a slower pace than 2004. In some cases where corporate earnings have risen, stock prices have been flat or declined. The combination of these two factors has caused companies that were slightly undervalued only a short time ago to move closer to our desired price level of 60% of value. We have uncovered more ideas in international markets, but U.S. opportunities also have improved. As a result, our "on-deck" list of companies that qualify qualitatively and that are close to our required discount finally is moving in the right direction.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

We have also looked ''outside of the box'' for ideas. Numerous ways exist to benefit from price-to-value discrepancies beyond traditional long-only investments. Because the Longleaf Funds allow the flexibility to own non-traditional investments, we have considered ways to capitalize on our skill at appraising businesses to earn equity-like returns without additional risk. We announced our participation in a private placement of Level 3 convertible bonds during the first quarter. We continue to assess other unique opportunities.

We remain committed to our discipline of acting only when we have identified a good business with capable management combined with a substantial margin of safety of value over price. If we cannot find these criteria, we patiently wait. We would rather protect our clients' and our own capital by holding low-returning cash than force the money into an investment that offers a possibility of permanent capital loss. We appreciate the patience and support that our investment partners have shown over this prolonged period of limited new investments. Until the list of qualifying investments grows, all three Funds remain closed to new investors. We hope that our recent progress continues so that we can strengthen the foundation for our next five years of compounding.

Sincerely,

Mason

O. Mason Hawkins, CFA
Chairman & CEO
Southeastern Asset Management, Inc.

Staley

G. Staley Cates, CFA
President
Southeastern Asset Management, Inc.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

January 10, 2005

TO OUR SHAREHOLDERS:

While all three Funds posted solid positive performance in 2004, only the Small-Cap Fund exceeded inflation plus 10%, and none of the Funds outperformed their benchmarks. Most of the gains came in the fourth quarter. The positive numbers over the last twelve months added to our long-term compounding record which in the last five years has dwarfed the indices.

	5 Years	1 Year
Partners Fund	**12.0%**	**7.1%**
S&P 500 Index	(2.3)	10.9
International Fund	**12.6**	**10.2**
EAFE Index	(1.1)	20.3
Small-Cap Fund	**13.6**	**14.8**
Russell 2000 Index	6.6	18.3
Inflation Plus 10%	12.5	13.3

We were not entirely disappointed with the recent twelve month results given the hurdles we faced at the beginning of the year. We had posted our best-ever overall performance in 2003 with the Partners Fund up 34.8%, the International Fund up 41.5%, and the Small-Cap up 43.9%. At the outset of 2004 the price-to-value ratios (P/Vs) of the equities in the portfolios were near their all-time highs, we held significant cash reserves awaiting qualifying stocks, and our on-deck list of potential opportunities was most limited.

We made progress during the last twelve months as most of the values of Longleaf's holdings rose faster than their common stock prices due to the combination of increased revenues, improved margins and some share repurchases. We also found a small number of new investment opportunities. These factors contributed to a year in which:

- we compounded capital at reasonable rates of between 7% and 15%;
- the return opportunity improved in our domestic stocks as the price-to-value ratios finished the year lower, and remained the same for our international investments; and
- the risk of capital loss in the portfolios was minimized (P/Vs were static or lower and cash levels remained high.)

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

The biggest frustration for us as your managers and the largest Longleaf shareholder group was our inability to find additional qualifying investments that would establish the basis for the next five to ten years of compounding. As more holdings reached their values and resulted in sales, the cash levels of the Funds increased. We closed both the Partners and International Funds to stop new inflows. Although we purchased a few foreign ideas in the fourth quarter, most of our potential purchases moved away from our required entry price as markets around the world rose quickly over the last two months of the year. The lack of volatility in the U.S. and in most overseas markets that we follow created a tremendous challenge to finding under-priced securities throughout the year. The S&P and the Dow Jones Industrial Average did not have a single day of 2% variance versus thirty occasions where the averages moved more than 2% in 2003. Britain's FTSE 100 Index had two days of 2% variance in 2004 versus twenty days in 2003, and Japan's TOPIX index had nine days of 2% variance in 2004 versus twenty-six days in 2003.

Looking Inward

Our lack of productivity that began in 2003 and continued through the summer of 2004 drove us to what some would consider an extreme — a two day retreat for the owners of Southeastern. We focused on how to perpetuate and strengthen our research efforts to deliver above-average long-term results for Longleaf shareholders.

One day's discussion revolved around the quality and durability of our security analysis. Could the lack of new names over the last year mean either that our appraisals were too conservative or that we had too few people looking? To help answer the question we identified the best businesses we would love to own around the globe from a qualitative perspective, divided those among the research team, and did fresh appraisals. Our list came to around 200 names, and interestingly, we found that they were trading on average at approximately 100% of value. This exercise led to several conclusions. First, our appraisals are probably not overly conservative. Had the average P/V of this wide sample been 120% in a stock market that is broadly efficient and generally trades near fair value, our discount rates and other assumptions would have been called into question. Second, we determined that the lack of new ideas was driven by a true lack of high quality, low priced businesses versus a lack of eyeballs looking or the inability of those eyeballs to focus.

In addition we decided to continue our effort to hire a few junior analysts. The goal is to develop a third generation of long-term team members who will contribute research ideas over time and who will bring new perspectives and challenges to our thirty-plus years of experience. We are on schedule with this endeavor.

Another topic we discussed was Southeastern's size and ability to manage larger pools of capital. Our current challenge is unrelated to size — if we had one-tenth the assets under management, the lack of qualifying investments would still exist. Just as there are times when almost any amount of assets is too much, there are opportunistic points where we could successfully invest many times our current assets. In 2003, for example, Southeastern managed the largest asset base in its history up to that point and delivered some of the highest returns. These observations notwithstanding, we know that size can anchor performance, and the larger we are, the more challenging execution can become. Over a year ago we stopped accepting new separately managed domestic accounts when the buy list became so small that taking on additional capital did not make sense. We closed the Partners Fund and International Fund in 2004 for the same reason. The domestic side of our business, which represents approximately $24 billion of the $31+ billion we manage, will remain closed for the foreseeable future. Our firm's growth will come primarily from future compounding and, when it benefits shareholders, from additional international assets. Existing clients can add to their domestic accounts, but we will further limit inflows if they greatly outpace outflows or if inflows would otherwise negatively impact shareholders.

Outlook

Sentiment, particularly in the U.S., is extremely bullish.

- Bulls outnumber bears 61% to 20% according to *Investors Intelligence*.
- Consumer confidence is high.
- Interest rate spreads between junk bonds and Treasuries are at historically low levels.
- Stock price volatility is the quietest we have experienced. The Chicago Board Options Exchange volatility index (VIX), which measures expected volatility, ended the year at its lowest level since 1996.
- Optimism among newsletters following U.S. stocks is at the highest level since 1987.
- IPO activity in 2004 was more than double the level in any of the previous three years.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

Fundamentally U.S. stocks appear precariously perched.

- Corporate America has never been more profitable when earnings are measured as a percent of GDP, sales, and capital.

- Interest rates remain at historically low absolute levels, with the 10-year Treasury at 4.25%.

- The market sells for a P/E of over 18 times based on consensus forecasted 2005 S&P earnings after adjusting for nonrecurring items and options expensing.

- Insider selling is at its highest since 2000.

Given these factors, the most we should reasonably expect from U.S. equities is that profitability levels be maintained and interest rates continue at low levels, putting no downward pressure on P/E multiples. In that best case scenario an indexer would receive the current dividend yield of 2% plus 4-5% of modest earnings growth in line with GDP, for a total return of 6-7%.

We think the returns abroad could exceed those in the U.S. because many markets are better positioned for growth. European stocks, however, seem to be trading closer to fair value and none appear on our on-deck list. Asia offers somewhat more attractive opportunities given earnings levels and GDP growth expectations. Our Japanese holdings are the most undervalued stocks we own, and our international on-deck list contains mostly Japanese names as well as a few other Asian companies we are watching.

These are broad observations that do not necessarily say anything about the Longleaf Partners Funds. The Funds face four challenges. First, although lower than or the same as twelve months ago, the P/Vs remain above their long-term averages. Second, it's unlikely that value growth will continue at the rate achieved in 2004. Third, all three Funds have higher-than-average cash with the International Fund at almost 15% and both Partners and Small-Cap approaching 30%. Fourth, our list of on-deck securities that are close to meeting our criteria for purchase remains negligible.

To expand this list and enable the Funds to replace the minimal cash returns with investments that will serve as the foundation for achieving annualized returns of inflation plus 10%, either:

- Southeastern must become more productive finding anomalies in today's environment,

- stock price volatility must return, or
- markets must have a meaningful correction.

We remain diligent in our research effort and steadfast in our commitment to deploying capital only when a large margin of safety exists between price and value. We are confident that our patience and discipline will be rewarded.

Recent Longleaf Recognition
Fund Action, a publication of *Institutional Investor*, has selected Mason as the winner of its 2004 Lifetime Achievement Award. This tribute recognizes that the "Longleaf Funds have created a model on how to run a fund company in shareholders' best interests." The article announcing the award listed several attributes of the Funds:

- "they do what they say they'll do,"
- "they weather market cycles from start to finish,"
- management "requires Longleaf employees, who want to participate in the equity markets, to do so only through Longleaf funds," and
- management "has consistently capped growing funds when opportunities in the markets are scarce and shareholder money flush."

The award not only recognizes that Longleaf "has always aligned the interests of management with investors," but the article also highlights that the Funds have earned "double-digit long-term performance at the same time," noting the tremendous outperformance of the Funds against the indices over the last five years.

Changes in the format of this Annual Report
This annual report contains several additions. In each Fund's section we have replaced the old "Five Largest Holdings" list with a "Table of Portfolio Holdings" that shows all investments by position size. This new table conforms with the SEC's requirement for a second breakdown of the funds, showing the portfolio by security type (common stocks, bonds, cash, etc.) We enhanced the new table by listing specific holdings within each security type.

Located after the financial statements you will find an "Expense Example." The SEC designed this exhibit to enable shareholders to quantify their own expenses and compare expenses across different funds. As you review expense information we think the important point to remember is that as the largest Fund owners your managers and independent trustees pay the same expenses as all shareholders and our incentives are to keep expenses as low as possible. In addition, all performance calculations are net of fees.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

Shareholder Meeting
We look forward to updating many of you in person at the annual meeting on Wednesday, May 4, 2005. We are changing venues this year to give our partners a chance to see a new and exciting building that has recently been added to the Memphis landscape. The meeting will be at 5:30 p.m. at the Bridges Center on 477 North Fifth Street at the corner of Auction Street. Because of its location in the downtown area, those who come from other cities to attend should have many convenient choices of hotels and restaurants during your stay.

We wish each of our partners a safe, happy and healthy 2005, and hope to see you in May.

Sincerely,

O. Mason Hawkins, CFA
Chairman & CEO
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President
Southeastern Asset Management, Inc.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS:

Our third quarter status largely resembles where we were at the end of June: most stocks sell for over 60% of our appraisal; most values at our holdings continue to build nicely; prices don't reflect that value growth; and we have over 20% cash in each of the three Longleaf Funds. As we have previously indicated, to become fully invested in equities we must either find anomalies in today's markets, stock price volatility must increase, and/or we will need a traditional bear market. We did identify a few new opportunities in the last 90 days, primarily overseas. U.S. stock price volatility, however, remained nonexistent. In 2003 the S&P 500 and the Dow Jones Industrial Average rose or declined more than 2% on 30 occasions combined. So far in 2004 there has not been a single day that the market changed more than 2%. The probability of such equity market tranquility is about as likely, on the other end of the spectrum, as four major hurricanes hitting Florida in one season. You can be sure that stocks will misbehave again. When they do, we will be ready to establish the foundation for another decade of good compounding.

Price-to-value ratios — recognize the limits

Because our investees' values have grown, the price-to-value ratios in all three Funds have declined over the last three months. P/V represents a single data point about the Funds, and should not be construed as something more. We fear that some of our partners have begun to rely on a single number in determining whether the Funds are attractive, and we caution our shareholders not to give this calculation undue weight. P/V alone tells nothing about:

- The quality of the businesses we own or the managements that run them;
- The cash held in the portfolio and when that cash will be invested;
- The range or distribution of individual P/V's that comprise the average; and
- The sources of and changes in the P/V.

When **all** of the above information is considered, the P/V ratio is a useful tool to gauge the attractiveness of the Fund's potential opportunity. It does not, however, tell when that opportunity will be realized, nor does it guarantee that any particular company's price will ever reach its value. We remind our shareholders who want to find a single silver bullet of information that investments are rarely that simple. With all the above considered, the Funds today are trading near their long-term P/V averages and are somewhat more attractive than three months ago.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

Efficient Market Theory revisited

With little investment news to report, we are not above using others' good work. To give a bit of background, in 1984 Warren Buffett gave a speech at Columbia University called "The Superinvestors of Graham-and-Doddsville" which appears in the appendix of the fourth edition of The Intelligent Investor by Ben Graham. In it Buffett challenges the "Efficient Market Theory" (EMT) to which most of academia has subscribed for many years. Buffett describes EMT as the argument that "stock prices reflect everything that is known about a company's prospects and about the state of the economy. There are no undervalued stocks... because there are smart security analysts who utilize all available information to ensure unfailingly appropriate prices. Investors who seem to beat the market year after year are just lucky." Buffett argues against EMT based on the records of nine investors who follow Graham's teachings, looking for market inefficiency — when the price of a stock does not fully reflect that business' value. Because these investors had long-term market-beating results and all followed Graham's approach, Buffett concludes that these are not random, lucky occurrences, but proof that value investing can uncover opportunities that lower risk and increase return beyond the market's results. Buffett's presentation has been in print for a number of years and we recommend that you read (or re-read) it. We find it most interesting that although his work is over twenty years old, with the last two decades further proving the merits of his argument, EMT remains the predominant view of academics and many other market pundits.

Recently Louis Lowenstein, the Rifkind Professor Emeritus of Finance & Law at Columbia University, re-examined EMT in light of the huge market swings from 1999 – 2003. His paper entitled "Searching for Rational Investors in a Perfect Storm" will hopefully be reprinted in its entirety in *Outstanding Investor Digest* and will appear in part in *Barron's* third quarter report. Professor Lowenstein has been generous to allow us to summarize his work for our clients.

Lowenstein states that "the speculative excesses of the '90s threw harsh light on efficient market theory, which for decades has been a cornerstone of economic theory and scholarship." He observes that "if the NASDAQ Composite Index... was right at 1200 in April 1997, it surely wasn't right at 5000 in March 2000, and then right again at 1100 two years later." Lowenstein wonders whether any investors acted rationally during the "perfect storm" five-year market starting in 1999, and if so, whether they had enough commonality to suggest their success was not random. His conclusion is that the market does not always efficiently price businesses, and that rational, patient, disciplined investors can consistently beat the averages.

He used a group of ten "true-blue value funds," including Longleaf Partners Fund, to test EMT. He found that all ten outperformed the market over the five years examined, and that collectively the five year average annual return of the funds was 11.3% greater than the S&P 500, "the financial equivalent of back-to-back no-hitters." The magnitude of the excess return and consistency of the numbers call EMT into question. Behind the numbers lay interesting similarities. All ten funds avoided the bubble burst of what *Fortune Magazine's* August 2000 issue deemed "10 Stocks to Last the Decade," the 1990's version of the 1972 "Nifty Fifty." These stocks, described as "a buy-and-forget portfolio," fell on average 80% from July 2000 – December 2002. Not only did Lowenstein's ten funds avoid the disasters, they also used the bifurcated market to purchase "old economy" stocks. "For managers focusing on companies, not markets, [1999 through early 2000] was a time of great opportunity."

Lowenstein discusses several other shared characteristics which contradicted widespread investment beliefs. First, the funds held far fewer stocks on average than the typical fund, and seven in the group owned less than 35 stocks at the end of 2003. Concentration is "contrary to the advice of financial economists, investment advisers, and stock market writers," but those who subscribe to Graham's value approach "seem convinced that safety lies in careful selection, not random diversification." When a manager bases his investments on analysis of a company and its worth rather than a guess about macroeconomic events or investor psychology, the manager feels much more confident owning a select few.

Second, the ten funds also held their stocks for long periods — producing an average turnover rate of just 20% in 2003 versus 121% for the average domestic equity fund. Lowenstein points out that "the difference between taking momentary fliers and selecting long-term buys is the difference, truly, between speculation and investing… Implicit in [the fund managers'] longer holding periods is the fact that value funds define risk as business risk — profit margins might shrink, the flow of new products might dry up — not the market fluctuation risk which still consumes so much scholarly attention."

The third and final observation Lowenstein has about the commonality of these ten managers is that they owned a meaningful stake in their funds. "By investing their personal dollars, they inevitably manage the fund with the acute interest in profit *and* the extreme aversion to loss that only someone with skin in the game will experience." This approach contrasts greatly with a discussion Lowenstein recounts between himself and a senior manager of a family of funds who said "he was not trying to achieve particularly good results, just not to look bad, just to stay with the crowd."

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

To summarize, many widely accepted investment assumptions lead to the conclusion that indexing is the best choice for investors. Lowenstein counters that "this is wishful thinking, dangerous stuff that has seduced the public to have a lazy confidence that one need not bother with the arduous task of patient, thoughtful selection — and has encouraged fund managers to cater to those impulses." Observing patterns during the recent five year "boom-crash-rebound" cycle indicates that the market is not particularly efficient. Lowenstein challenges the EMT beliefs of many of his fellow academicians by presenting a group of investors who have beaten the market over the long run by meaningful amounts and in a systematic way.

- They subscribe to Ben Graham's value approach;
- They limit their investments to a small number about which they have high conviction;
- They buy with the intent of holding for a multi-year period; and
- They invest alongside their clients.

We very much appreciate Professor Lowenstein's generosity in allowing us to paraphrase his article. We have probably not done his writing justice, but hope that our investment partners find the summarized points instructive.

Morningstar's fiduciary grade for Longleaf

During the quarter Morningstar completed its review of all three Longleaf Funds. The firm rated five categories to calculate an overall fiduciary grade. Longleaf received the following ratings:

Fund	Overall Grade	Regulatory Issues	Board Quality	Manager Incentives	Fees	Corporate Culture
Partners	A	Excellent	Excellent	Excellent	Excellent	Excellent
International	B	Excellent	Excellent	Excellent	Very Poor	Excellent
Small-Cap . .	A	Excellent	Excellent	Excellent	Excellent	Excellent

As your manager and your investment partner we are extremely proud that fourteen out of fifteen areas received "Excellent," the highest rating. The International Fund's fee was higher than the average for international funds which lowered the overall grade from "A" to "B." The International Fund's expense ratio has declined since the Fund opened in 1998, and will continue to fall as the management fee breakpoint takes effect at $2.5 billion in assets. In addition, the Fund's long-term return, **net of fees,** is among the best in the international category.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

To read more detail about the grades we received, contact Morningstar directly, or watch Longleaf's web site where we hope to make copies of the reports available in the next month.

Capital gain distribution information

October 31 is the Funds' excise tax year end, and realized capital gains from the prior twelve months must be distributed. This year the anticipated record date will be November 10, and the distribution will occur the following day. Current estimates, which most likely will change by the end of October, have the Partners Fund paying about 2% of NAV in long-term gains, the International Fund making no distribution, and the Small-Cap Fund paying about 9% of NAV in long-term gains. None of the Funds are projected to pay short-term capital gains. For updates on these numbers, check www.longleafpartners.com.

Sincerely,

O. Mason Hawkins, CFA
Chairman & CEO
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President
Southeastern Asset Management, Inc.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS:

During the second quarter two of the three Longleaf Partners Funds exceeded their benchmark indices. Year-to-date all three Funds are in positive territory.

	Second Quarter	Year-to-Date
Partners Fund	**1.9%**	**3.1%**
S&P 500 Index	1.7	3.4
International Fund	**(0.2)**	**6.3**
EAFE Index	0.2	4.6
Small-Cap Fund	**3.6**	**5.2**
Russell 2000 Index	0.5	6.8

Impressive value growth

Over the last six months the corporate value growth in the three Longleaf portfolios has outpaced the movement in the businesses' respective stock prices. Most of the companies we own are building intrinsic worth at double-digit annualized rates. Rising revenues, particularly at those companies with high fixed cost structures, have helped drive value growth as high as a 20% annualized rate at some holdings.

Growing intrinsic values have improved our return opportunities. Many of our corporate values have risen faster than their corresponding share prices in the first half of 2004, and therefore price-to-value ratios have declined. As a result, not only have all three Funds delivered positive returns over the last six months, but our expected future returns have also increased.

All three Funds are closed to new investors

The market has recognized the improved economics at some investees, and we have sold businesses as they have approached our appraisals. We continue to struggle finding new investments that qualify, and cash in the three Funds ranges between 25-30%. Because of rising cash reserves and nothing on the front burner to buy, Longleaf Partners Fund closed to new investors effective July 16, 2004. All three Funds are now closed, and while the Small-Cap Fund will never reopen, the Partners Fund and International Fund will remain closed until having new cash inflows will once again benefit existing shareholders.

Over time we will find incremental names to invest the cash. A market correction could help our efforts. At 19X forward earnings on the S&P 500 the U.S. market appears fully priced, although not materially overpriced. We will continue to work hard to find anomalies. We hope for more volatility than the negligible amount we have seen in recent quarters. Volatility can offer as much opportunity to buy mispriced companies in certain industries as an overall bear market provides. The rapid value growth discussed above is not limited to the holdings of Longleaf. We could get the opportunity to buy a company whose value has built significantly while its price has remained flat.

New Chairman elected

The SEC recently voted 3 to 2 to require that the chairman of a mutual fund be independent from the advisor. Those who attended the Longleaf shareholder presentation in May or who listened on the web site know that the Trustees previously addressed this issue. Prior to the SEC's decision, Mason offered to resign as Chairman to allow an independent director to fill the role so that there could be no question of conflict of interest. The Trustees determined that the change would be form over substance at Longleaf since Mason had represented shareholders' interests well, and since independent Trustees already controlled the board with 75% of the votes. With the SEC's decision the Board moved quickly to implement the required change and on June 30th unanimously elected Perry Steger as Chairman of the Longleaf Partners Funds.

Perry has been a significant shareholder of Longleaf for many years and a Trustee for the last three. He not only has a strong personal incentive to act in shareholder interests, but has demonstrated a keen understanding of Southeastern's investment approach. As the youngest Trustee at 42, Perry will give shareholders continuity for many years. As Longleaf's largest shareholder group, we are confident that Perry will make an excellent independent Chairman.

Chief Compliance Officer is in place

The SEC also recently required that by October 5th all mutual funds name a Chief Compliance Officer who reports to the Trustees. After looking at a number of qualified candidates, Southeastern hired John ("Jake") McFadden with the independent Trustees' unanimous approval. Jake is an attorney with years of experience in securities regulatory matters and investment advisory requirements. As mandated by the SEC, Jake will monitor the policies and procedures that Southeastern has in place for the Funds to insure that rules are followed, shareholders are treated fairly, and Trustees are kept informed. While we are confident in Southeastern's current set of systems and controls, we look forward to Jake's input and the value he will add. Ongoing improvements and enhancements are welcome. Perhaps the most important thing for our partners to know about Jake is that he and his family have been long-time, significant Longleaf owners. His interests are properly in sync with yours.

The owner-operator partnership model aligns interests

As regulatory scrutiny grows, the merits of Southeastern's owner-operator partnership model are ever more obvious. Many of the issues that the SEC is reviewing emerged because managers had different and sometimes opposing interests from their shareholders. Since Southeastern's Code of Ethics requires employees to use the Longleaf Partners Funds for common stock investments, we are the largest ownership group across the Funds and our incentives are aligned with all Fund investors. When we make mistakes, they are not the result of a conflict of interest. We have tremendous incentive to find better ways both to operate and invest. We welcome any suggestions you may have.

We wish you all a safe and happy summer.

Sincerely,

O. Mason Hawkins, CFA	G. Staley Cates, CFA
Chairman & CEO	President
Southeastern Asset Management, Inc.	Southeastern Asset Management, Inc.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS:

We closed the first quarter of 2004 with all three Longleaf Partners Funds in positive territory. The International Fund was the only Fund, however, that performed above both its benchmark index and our annual bogey of inflation plus 10%. After three straight quarters of substantial compounding it is not surprising to see returns take a breather.

The good news, which is not necessarily apparent, is that we made significant fundamental price-to-value progress domestically in the last three months. We sold fully priced investments and our remaining holdings grew their intrinsic values more than their security prices appreciated. Thus, the price-to-value ratios of the Partners and Small-Cap Funds declined from recent historic highs. The reduced P/V's mean an increase in the margin of safety in the portfolios, as does the higher cash level in all three Funds.

In the 2003 second quarter letter we discussed the difficulty we were having finding qualified and undervalued equities. We have now completed the fourth consecutive quarter where combined sales have exceeded purchases. Most ideas that look statistically cheap suffer from quality problems that we are not willing to overlook. As a result, the cash levels in the three Funds range from 24% to 30%. Sir John Templeton highlighted the current challenge in the April issue of *SmartMoney* when he said, "I believe there are fewer opportunities than I've ever seen in 91 years."

Holding cash is not our goal as your managers or as the largest collective owner of the Funds. We know that we will not achieve inflation plus 10% holding Treasury Bills that yield 1%. Why then are we willing to let cash build? First let us clarify what we are **not** doing.

- We are not making an asset allocation decision. We are committed long-term business owners. We abhor conventional lending. We want to own companies, but only on our terms and conditions.
- We are not making a bet against the market. We have no idea what markets will do and we would not speculate with your capital or ours by betting on a market correction.

Very simply, we have not found qualifying investments and we are unwilling to force it. Longleaf's cash is a residual outcome of 1) selling stocks that reach our appraisals and 2) not finding any materially undervalued securities of good companies with excellent managements. Our situation is similar to what Warren Buffett described in his recent 2003 Berkshire Hathaway Annual Report. "Our capital is underutilized now, but that will happen periodically. It's a painful condition to be in — but not as painful as doing something stupid. (I speak from experience.)"

The cash that the Longleaf Funds currently hold will earn dismally low returns in today's low-interest environment. The liquidity will, however, enable us to lay the foundation for the next decade of successful compounding when we find qualifying investments. We do not know how or when opportunity will emerge. Having cash available to buy a meaningful stake when we find a 100+% return opportunity with low risk more than compensates for the measly 1% yield we make on the temporary cash. Seth Klarman, who runs the exceptionally successful Baupost Funds, addressed holding cash in his year-end letter:

> Perhaps some of you will soon be asking why you are paying us a management fee to hold so much cash. Let us preempt you by saying that you are not. You are paying us to decide when to hold onto cash and when to invest it... Cash... offers positive albeit very limited yield, complete safety of principal, and full and instant liquidity... The investment [should be] made not because cash is bad, but because the investment is good. Exiting cash for any other reason involves dangerous thinking and greatly heightened risk.

Why does conventional wisdom (which is rarely wise) dictate that equity managers always remain fully invested in stocks even when doing so puts capital at great risk?

- Many managers are not substantial investors in their own funds. Capital loss does not mean that they lose.
- Many managers are paid based on returns relative to an index, not absolute, positive results. In a rising market cash drags performance, so the manager stays invested. Although shareholders have a greater risk of loss, the manager receives a higher bonus. When the market begins to falter, if the fund doesn't decline more than the index, the manager's remuneration is unaffected even if the fund's deterioration is large.
- Not only is compensation most often tied to relative results, the same metrics dictate job security. As long as a manager meets the index, he is not "underperforming" even if he loses half his clients' capital.
- Many managers focus on short-term results because they are measured quarterly, not on a long time horizon. Holding cash for a week has a big impact if the pertinent period is only ninety days. While patience is a

virtue for long-term business buyers, for managers with a short horizon, patience is anathema.

- Clients often want to see activity as proof that a manager is earning his fee. Some clients might wonder why they pay a manager to sit still. We are fortunate because most of our Longleaf shareholders understand that many times doing nothing is the appropriate investment choice.

Your managers at Longleaf will operate as we have since you hired us. We will wait patiently for terrific opportunities. We are unwilling to commit resources to marginally attractive investments because the risks are higher and the prospective returns are lower. We believe that our patience and discipline today will pay off handsomely over the next five years. We trust you concur.

We also hope that we will see many of you at our annual shareholder presentation scheduled for Wednesday, May 12 at 5:30 at the Memphis Botanic Garden. If you need further information, please visit our web site at *www.longleafpartners.com*, or call us. We look forward to being with you.

Sincerely,

Mason

Staley

O. Mason Hawkins, CFA
Chairman & CEO
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President
Southeastern Asset Management, Inc.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS:

The returns for all three Longleaf Partners Funds far surpassed our goal of inflation plus 10% in 2003. The Small-Cap Fund's return exceeded its previous best year by 1321 basis points, and the International Fund outperformed its best year by 1559 basis points. The Partners Fund posted its best year since 1991, and the third highest return in the Fund's sixteen year history. Below is a recap of how the Funds and the relevant indices performed in the quarter, the year, the last three years, and over the last market cycle of five years.

	Quarter	2003	Three Years	Five Years
Partners Fund	**12.3%**	**34.8%**	**10.9%**	**10.9%**
S&P 500 Index	12.1	28.6	(4.1)	(0.6)
International Fund	**10.7**	**41.5**	**9.3**	**15.4**
EAFE Index	17.1	38.6	(2.9)	(0.1)
Small-Cap Fund	**14.6**	**43.9**	**13.5**	**11.4**
Russell 2000 Index	14.5	47.3	6.3	7.1
Inflation plus 10%	2.0	11.9	11.9	12.4

Last year's terrific results in the Longleaf Funds were accompanied by improving fundamentals among our holdings. After several years of slow corporate value growth, in 2003 we saw most intrinsic values begin to build nicely as revenues grew and profitability picked up. While we are pleased with this progress, most stock prices reflect the good news. The investing struggle we described in our last two quarterly letters has intensified – little-to-no margin of safety exists in the prices of those businesses that meet our qualitative criteria.

We will continue to use discipline and patience as we look for new opportunities. Cash in each of the Funds is high and rising as the trading desk has several sell orders to execute. Price-to-value ratios are at or near their all time highs in each Fund. Our long-term partners know that we have faced this struggle before and that waiting for qualifying investments is the right prescription to insure that we preserve capital as well as make an adequate return. Because of steadily rising cash inflows combined with the factors described above, the Board of Trustees has decided to close the International Fund effective February 6, 2004. Current investors in the International Fund will be able to add to their investments. A more detailed discussion of the decision appears in the International Fund section beginning on page 12.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

We do not have any macro predictions or outlook for 2004. We are hopeful that value growth at our investees can lower current price-to-value relationships. We are confident that at some point good businesses will once again be mispriced. We are well positioned to take advantage of new investment opportunities.

We wish all of our partners a Happy New Year and hope to see many of you at the Shareholder Meeting in Memphis on May 12, 2004, at 5:30 p.m. at the Memphis Botanic Garden.

Sincerely,

O. Mason Hawkins, CFA
Chairman & CEO
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President
Southeastern Asset Management, Inc.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS:

We ended September with a quarter of solid compounding in all three Funds. Longleaf Partners Fund rose 4.0%, Small-Cap was up 4.5%, and International added 11.0% over the last three months. The Funds' year-to-date returns are: Partners 20.1%, Small-Cap 25.6%, and International 27.9%. In nine months, each Fund has approached or exceeded double our annual inflation plus 10% goal. If we could close the doors on the year, we would be pleased with 2003's results.

The corollary to this good news is that we are having great difficulty finding new investments to replace those that we have sold. We therefore have higher cash positions in each Fund and price-to-value ratios have increased. Rising cash balances are not our goal, although in the short-run we are not concerned about having liquidity to take advantage of investments when they become available. Opportunities will emerge in one of four ways:

1) We become more productive in our research.
2) Individual companies face disappointments or short-term problems.
3) Volatility increases within specific industries.
4) The market has a meaningful overall decline.

We do not know which of these will provide solutions. We will be patient yet vigilant for the next quantified and qualified opportunity. Good commitment possibilities will "show up."

While our research is based solely on each company's merits, observations about the current environment help explain why few businesses meet our price criteria today.

- Bulls outnumber bears by a historically high margin.
- Margin debt and concomitant speculation have risen steeply.
- Day traders are making a comeback.
- Corporate insider purchases are at their lowest level in nine years, while selling is huge.
- The NASDAQ is materially over-priced, in our opinion.

These observations are not a prediction about what the broad market will do, but they do provide some context for our current research struggle.

Mutual Fund Tumult

Often the third quarter has been tumultuous for investors. Although the stock market escaped turmoil over the last three months, the mutual fund industry faced its own tumult. Reports of improper trading have cast a suspicious eye toward the industry. It seems an appropriate time to reiterate the governing principles of the Longleaf Partners Funds.

- We will treat your investment in Longleaf as if it were our own.
- We will remain significant investors with you in Longleaf.
- We will invest for the long term, while striving to maximize returns and to minimize business, financial, purchasing power, regulatory, and market risks.
- We will choose our equity investments based on their discounts from our appraisals of their corporate intrinsic values, their financial strength, their management, their competitive position, and our assessment of their future earnings potential.
- We will concentrate our assets in our best ideas.
- We will not impose loads, holding periods, exit fees, or 12b-1 charges on our investment partners.
- We will consider closing the Funds to new investors if closing would benefit existing shareholders.
- We will discourage short-term speculators and market timers from joining us, the long-term investors in Longleaf.
- We will continue our efforts to enhance shareholder services.
- We will communicate with our investment partners as candidly as possible.

Many partners have asked about Longleaf's practices related to late trading, market timing, and fair value pricing. Each of these is a distinct topic although recent press coverage has blurred them. Below is a brief discussion of Longleaf's approach to each item.

Late trading: The SEC's "forward pricing rule" requires any mutual fund buy or sell order placed after the close of the market to receive the **next day's** price. Not only is this rule the law, but our trading agreements authorizing third parties to accept orders on behalf of the Funds mandate compliance with it. While we are unable to see time stamps on individual trades placed at third party firms, Longleaf is not aware of, nor has it knowingly allowed, "late trading" in violation of the forward pricing rule. In addition, Longleaf does not allow either "as of" trades which are orders accepted for a date other than the current trade date, or "firm exits" which cancel trades previously placed.

Market timing: While market timing is not illegal, it is highly undesirable since it can disrupt portfolio management and dilute the results of long-term Fund owners. Our governing principles printed above, as well as on page 24 of the Prospectus, specifically state our aversion to timing. The magnitude of timing trades at Longleaf has been small. But consistent with our governing principles, we spend meaningful time policing timers. We watch incoming trades for suspicious activity and reject a new purchase if we believe it is a timer. For those we cannot identify or stop, we monitor redemptions to identify timers and prohibit them from future purchases. In addition, we instruct third party firms that trade and clear Longleaf's Funds to police timing and prohibit investors that they have identified as timers. Timers are accustomed to being detected and have wily ways to evade fund policing. While we are unable to prevent every timer from investing in Longleaf, we have never authorized timing and we are diligent in our efforts to eliminate this activity in our Funds. We continue to evaluate whether short–term trading redemption fees would be an effective tool to prevent timing and are especially interested in whether the SEC will raise its limit on these fees above 2%.

Fair value pricing: This term generally refers to the practice of adjusting prices of foreign holdings to reflect events that happen after a foreign market closes but before the U.S. market closes. For example, if major bad news about one of our Japanese holdings is released after Japan's market closes (2:00 am U.S. EST), rather than price the International Fund using the last trading price of that security, we can adjust the stock's price downward to account for the news' impact on that company. Without fair value pricing, timers may try to arbitrage the difference between the actual Japanese closing price and a significant event's anticipated impact on the next day's price.

Southeastern handles all Fund pricing in-house and does not outsource this all-important function to others. We review each security in the portfolio daily and have procedures that determine whether to implement fair value pricing. The Fund's Board of Trustees on several occasions has approved a price adjustment based on significant news about a particular holding. Fair value pricing is an art, not an exact science, since no one can accurately predict where a stock will open or close. In addition, because our portfolios are concentrated, they rarely directly correlate with macro events or overall U.S. or foreign market moves.

News Accolades

The controversy surrounding the mutual fund industry highlights the benefits of investing with owner-operators. We are proud that our record of acting in shareholder interests has been cited in the midst of mutual fund turmoil.

- *The Wall Street Journal* on September 5th listed five "Indications of Integrity" for funds.
  - Small-stock funds are closed to new investors before they become too bloated,
  - No parade of "flavor of the month" funds,

- Fund managers and executives are themselves big investors in their funds,
- Reasonable expense charges, and
- Frank talk about portfolio-management strategies, errors and market conditions.

While we believe all of these characteristics apply to the Longleaf Partners Funds, the article specifically mentioned Longleaf as "one outfit that stresses that its personnel invest side-by-side with investors."

- *USA Today* on September 12th did a similar article with a checklist to "help spot investor-friendly choices." The attributes were:
  - Curbs on timers,
  - Fair value pricing,
  - Low fees,
  - Closed funds, and
  - Good disclosure.

  The article singled out Longleaf Funds because they "provide useful information in their shareholder reports."

- *Money Magazine's* October issue had its own list of "the signs that greed is not Job One at a fund company."
  - Minimal Hype,
  - Low Expenses,
  - Redemption Fees,
  - Fair Value Pricing,
  - Closing Doors, and
  - Insider Ownership, for which Longleaf was specifically cited.

Fee Reduction

Your manager has initiated a fee break in Longleaf Partners International Fund. As the Fund completes its fifth full year, we have enough history to understand the economics of operating in the overseas arena, specifically as it relates to our bases in London and Tokyo. We believe it is fair that we share some of the economies of scale with our partners. The management fee of the International Fund will decline from 1.5% to 1.25% for assets that exceed $2.5 billion.

Gains Information

With the good performance and sales of some holdings, taxable investors may be curious about what to expect in capital gains distributions. (Income distributions occur at the end of December.) We currently have net capital losses in each of the three Funds. At this time, it appears as though the Small-Cap and International Funds will not have a capital gain distribution. To the extent we have any major sales in the Partners Fund between September 30 and October 31, the amount of a distribution, if any, should be minimal and the record date for receiving the distribution would be November 6, payable November 7.

We appreciate the support and loyalty of our partners. We look forward to continuing our investment relationship for many years to come.

Sincerely,

O. Mason Hawkins, CFA
Chairman & CEO
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President
Southeastern Asset Management, Inc.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS:

We are very pleased to report that each of the Longleaf Funds exceeded our annual absolute return goal of inflation plus ten percent in just a three month period of time. Each Fund also outperformed its respective benchmark in both the quarter and for the year-to-date.

Performance for period ending 6/30/03

	Quarter	YTD
Partners Fund	**16.7%**	**15.5%**
S&P 500	15.4	11.8
International Fund	**30.7**	**15.3**
EAFE	19.3	9.5
Small-Cap	**26.5**	**20.2**
RUSSELL 2000	23.4	17.9
Inflation plus 10%	2.2	6.6

Returns of this magnitude are not normal. In fact, the second quarter was the best quarter ever posted by both the International and Small-Cap Funds. We caution you not to increase your expectations based on these numbers. Our goal remains inflation plus ten percent.

Longleaf's four previous quarterly reports each described an important aspect of our investment discipline.

- Appraisals serve as the anchor to our investment decisions.
- A company is expected to qualify for investment both quantitatively by selling substantially below its intrinsic value, and qualitatively by having an above-average business and management team.
- Temporary price declines allow us to increase positions at a lower cost.
- Investor fear and panic create the opportunity to own higher quality businesses with growing values at lower prices.

These principles helped guide us through the bear market. The inverse of these last two points came into play in the last three months of rising prices.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

The appraised values of most of our holdings held steady or grew in the quarter while stock prices appreciated dramatically. The price-to-value ratio of each Fund, therefore, increased substantially over the last three months. All three Funds sell for slightly above their historic averages. As is common when P/V's exceed the long-term norm, we are having some difficulty finding new investments that qualify both quantitatively and qualitatively, with price being the primary obstacle.

Because we have scaled back some of our investments as their prices have risen, and we have sold a few businesses that reached appraisal, cash levels are higher. Our liquidity will allow us to take advantage of future opportunities that we find. Rather than risk our capital or our partners' by paying too high of a price, we prefer to wait for a qualifying company with a wide margin of safety, even considering the low rate we earn on our cash in the interim.

We thank our partners for their confidence in Longleaf as prices diverged greatly from values through the last year of the bear market, and we gladly report that your patience was rewarded over the last three months. We hope that each of you has an enjoyable summer.

Sincerely,

O. Mason Hawkins, CFA
Chairman & CEO
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President
Southeastern Asset Management, Inc.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS:

We are displeased to report quarterly results that were below our objective of inflation plus 10%. In spite of disappointing performance over the last three months, all three Longleaf Funds have produced important absolute and relative returns during the three-plus year bear market which continued through March 31, 2003.

Bear Market Cumulative Returns*
3/10/00 – 3/31/03

Partners Fund	**40.8%**
S&P 500	(36.5)%
International Fund	**7.7%**
EAFE	(47.5)%
Small-Cap Fund	**20.8%**
Russell 2000	(37.0)%

* March 10, 2000 is the generally recognized starting point for the recent bear market.

These results have contributed to an Overall Morningstar Rating™ of 5 stars, its highest, for Longleaf Partners Fund and Longleaf International, reflecting top 10% performance in the mid-cap value and foreign stock categories, while Longleaf Small-Cap earned 4 stars in the universe of small value funds. In addition, Lipper ranks Longleaf Partners Fund number one of 46 multicap value funds for the last 15 years.[1]

The portfolios are well positioned

Long-term Longleaf investors know that neither the short-term absolute performance frustration nor the relative performance victories matter as much as two critical metrics: the prices of our businesses in relation to their intrinsic values, and how quickly those intrinsic values are building. Current price-to-value ratios in all three Funds suggest significant opportunity ahead. The P/V averages are not only below historic norms, but more importantly, we own the highest quality companies that we have ever assembled. Although bear markets are never enjoyable, a rational investor armed with corporate appraisals uses prevailing fear

(1) See footnote on page 7.

not only to put cash to work intelligently, but also to upgrade portfolio quality. Over the last three months we believe we have done both, leading to the second critical metric: growth in value.

Because the companies that we own have competitive advantages and produce free cash flow, even in this anemic economy they are increasing intrinsic values at well above what we would consider to be a normal discount rate. This value growth, which has nothing to do with a stock's short-term price movement, is why we sleep well after reporting negative 90-day results. Paraphrasing Warren Buffett, "Time is the friend of the great business." If we bought only cheap assets without regard to quality, we would often find ourselves clinging to the hope that some "catalyst" would realize the valuation difference before our capital rotted. Even though business value in the Funds' portfolios is building at an acceptable pace through the retention of free cash flow, the current bear market in many cases is obscuring this progress. Thus, we believe the recognition of intrinsic worth and our quotational returns are being postponed, not foregone.

In 2001 the terrorist attacks and economic downturn impaired some of our investees' corporate values. We discussed the lack of value growth in that year's Annual Report and warned that while our 12-month returns were sparkling, we probably faced a headwind for future performance because our P/V's were temporarily high. This situation has now reversed. With growing values and lower stock prices, now is a good time to commit additional capital to the Longleaf Partners Funds. If corporate worth is not the anchor for your investment decisions, then frustration with our short-term results may continue since we cannot predict when prices will reach appraisals. Over the next quarter or year we have little insight into what general equity returns or Longleaf's performance will look like. Over a five year horizon, we can state our conviction that underpriced stocks with growing business values are much more likely to gain fair recognition.

Our investees echo our confidence. They have the best information to make objective appraisals and are acting on the large discrepancies between price and value with meaningful share repurchases. We have not seen this magnitude of buybacks since we reviewed repurchase levels at our 2000 Annual Shareholder Presentation. Those share repurchase programs presaged strong absolute returns for Longleaf over the next two years in the teeth of a significant bear market.

Choosing good corporate partners

Assessing management is one of the cornerstones of our three investment criteria – good business, good people, and good price. Our ability to identify

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

capable managers warrants review in the wake of our disastrous Small-Cap investment in Fleming. As we reflect on our management research process, we consider the following:

(1) The qualitative assessment of management is by far the hardest thing we do. Quantifying and appraising cash flows, analyzing competitive advantages, and dissecting financials are a basic part of our research, but they are not as hard as properly sizing up corporate management partners. We scrutinize a person's business history as well as his or her personal actions and we interview many people who have had dealings with the person. Human track records are not always perfect predictors of their future performance.

(2) We are going to make mistakes on people – the relevant issues are the number and severity. Even with Longleaf's concentrated discipline our three Funds own 54 companies. This is 54 CEOs, 54 CFOs, and more than 54 operating heads whom we try to know very well. Out of these many judgments we ask ourselves constantly if our mistakes are measured by the handful or the dozens. Fortunately over Southeastern's 28 year history it has been the former. In addition, the majority of our bad calls on people have been manageable mistakes that were erased by great businesses and/or bull markets. A few have been worst-case stories like Fleming where a company is run into the wall. We admit both types of mistakes and try to improve our process by lessons learned. We move on without firing ourselves because our investment successes materially outweigh the occasional losses. We and our other shareholders will be unhappy about an error, but errors combined with successes determine our ultimate evaluation – our long-term absolute returns.

(3) We are very pleased with most of our current management partners. We cannot overemphasize that our enthusiasm is without regard to current stock prices. Several examples illustrate the complete disconnect between our partners' progress and the stock market's assessment of them.

    Our worst single performing region for stocks was Japan and our largest single holding there is NipponKoa Fire and Marine. NipponKoa's CEO, Ken Matsuzawa, is making outstanding tangible progress in capital allocation and governance (having already demonstrated his underwriting skills). The *Barron's* article enclosed with this report elaborates. Because financially desperate life insurance companies and banks are dumping shares, the stock price does not reflect the fundamental progress. With a five year time horizon, not only is the unwinding of the banks' crossholdings not a concern, it is a huge opportunity for management to grow value per share more rapidly through share repurchases. Why do we not wait to purchase the company until the unwinding finishes? Because, the bigger risk is missing the $.40 dollar and its potential large payoff. Stock prices can be most ephemeral and almost never reach appraised values in steady patterns or straight lines.

Our worst performer this quarter in both the International and Partners Funds was Vivendi. Jean René Fourtou has disposed of assets much faster than anyone anticipated, and also purchased a controlling interest in Cegetel at a compelling minority interest price. In an unusual situation for Europe, Vivendi's top management is compensated almost entirely in stock and thus their financial futures are tied closely to ours. Fourtou has gone a step further by buying significant amounts of the stock personally. Yet the market hates this situation in large part because of the Cegetel purchase. Instead of signaling an intent to be an entertainment company and reducing debt immediately by selling assets at distressed prices, management has acted opportunistically and prudently but without regard for a grand strategy desired by analysts and journalists. We will take value creation over style every time, especially if the only tradeoff is having to exercise patience.

Our holding most despised by Wall Street is Level 3, a meaningful position in both Partners and Small-Cap through our ownership of the bonds and converts. This stock is, according to a Bloomberg computation based on sell-side recommendations, the most disdained solvent company with a market cap over $100 million. There are no Wall Street proponents because the stock has dropped from $120 to $3, there is telecom overcapacity, and competitors have been purging their debt through bankruptcy reorganizations (although the removal of debt does not improve the gross margins nor the pre-interest operating margins of these inferior competitors). If one steps back to assess the fundamental advantages of Level 3 combined with the multi-decade track record of Walter Scott and Jim Crowe as well as their most recent capital allocation decision to buy Genuity, objectively there is no way to give the management team anything other than high marks.

Publicly laying out examples like these exposes us to potential criticism if our corporate leaders at these three companies fail to execute. We accept that possibility because we believe it is important to communicate openly with our owners. Although assessing people is an imperfect exercise that humbles us on occasion, we feel strongly about its importance. As much as avoiding incapable partners helps protect capital and avoid criticism, successfully investing with the right partners makes the difference between adequate and superior results.

Annual Shareholder Presentation

We hope that many of you will join us for our Annual Shareholder Presentation on Monday, May 5th at 5:30 p.m. at the Memphis Botanic Garden. Information is on our web site about the location and hotel options. We always enjoy the opportunity to see so many of our partners and to answer your questions in person.

A note of special interest, especially to those who invest through Schwab

Charles Schwab will no longer allow its customers to purchase shares of Longleaf because the Funds will not pay Schwab fees that we view as duplicative and excessive. Longleaf does not pay any firm to distribute the Funds or to provide sub-accounting work for their customers. Investors who own Longleaf via Schwab already pay that firm a transaction fee for services they receive from Schwab.

Specifically, Schwab has demanded that **in addition to** the fees its customers pay, Longleaf pay $20 per account held there. Longleaf's trustees have decided that paying fees is **not** in the best interest of Fund shareholders because:

(1) The fees would effectively cause our direct shareholders who hold 80% of the Funds' assets to subsidize Schwab shareholders who hold 20%. If Schwab is not covering its costs, it's only appropriate to ask those who desire Schwab's services to pay.

(2) Since our transfer agent agreement is asset based, not based on number of accounts or transactions, Longleaf shareholders already pay transfer agent fees for assets held at Schwab. A per account fee to Schwab would result in the Funds paying transfer agent costs twice on assets held at Schwab.

(3) The Funds' total transfer agent expense would increase by 50%.

(4) The amount of the fee is excessive. Longleaf pays PFPC about 3 basis points for the Funds' transfer agent work. The proposed $20 fee per Schwab account equates to twice that much — 6 basis points on the assets held at Schwab.

(5) Schwab is already collecting substantial mutual fund related fees from two sources. First, Schwab receives 25-40 basis points from any "One Source" funds that a customer owns. Second, for "Non-One Source" funds Schwab

charges its customer a transaction fee ("TF") to cover the services Schwab provides that customer. Schwab is now trying to add a third revenue stream by demanding $20 per account from every "TF" fund such as Longleaf in addition to what Schwab's customer pays, essentially seeking payment twice for the same services.

(6) Schwab's decision to charge Longleaf is not related to any significant additional services or increased value that Schwab is delivering to our shareholders.

How will Longleaf shareholders be affected?

- Sometime around June 1, 2003 Schwab will no longer allow purchases of Longleaf except for a select group of financial advisors whom Schwab chooses as exceptions.
- The Funds' transfer agent fees will **not** go up.

What are the options for Schwab customers who want to continue to purchase Longleaf shares?

(1) Keep your current account at Schwab and open a direct account with Longleaf when you want to increase your stake. Our direct account minimum is $10,000.

(2) Transfer your Longleaf shares from Schwab into a direct account at Longleaf where you can add shares as desired **without paying the fees you are currently paying at Schwab. This is the option your managers have always used as the largest shareholder group across the Longleaf Funds.** As long as you transfer shares and do not sell and then reinvest, this is not a taxable transaction. Call 800-445-9469 for the forms to move your account from Schwab to Longleaf.

(3) If you have multiple investments and want to retain the convenience of one account statement, you can transfer your investments to other clearing firms which continue to offer Longleaf at no increased cost. TD Waterhouse and Fidelity are two of the larger firms that offer similar services, and there are a number of other companies that allow investors to buy Longleaf.

We apologize for the long explanation, but we want to keep our partners informed of changes that affect them. As more details become available, we will post updates on Longleaf's web site. If you have questions, please call us at 800-445-9469.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

A few more thoughts
We appreciated receiving so many ideas on the web site regarding suggestions for the quarterly report. We have tried to address some items in both this shareholder letter and the discussion of each Fund. We must balance some specific inquiries with our desire to protect shareholder interests. Because of the proprietary nature of our research and because of real-time changes going on at some holdings, we are guarded in the depth of discussion we are willing to have on individual companies. For most questions that we did not cover in the flow of this report, we have included an Appendix in the back. Please take the time to review what is on shareholders' minds. We found it a useful exercise.

Any investment comment regarding the Iraqi conflict borders on the disrespectful since our observations are so trivial compared to what is at stake. Our thoughts and prayers go out to our military, their families, our national leadership, and all involved civilians.

Sincerely,

O. Mason Hawkins, CFA
Chairman & CEO
Southeastern Asset
Management, Inc.

G. Staley Cates, CFA
President
Southeastern Asset
Management, Inc.

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(1) For each fund with at least a three year history, Morningstar calculates a Morningstar Rating™ metric each month by subtracting the return on a 90-day U.S. Treasury Bill from the fund's load adjusted return for the same period, and then adjusting this excess return for risk. The top 10% of funds in each broad asset class receive 5 stars, the next 22.5% receive four stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its three, five, and ten year (if applicable) Morningstar Rating metrics. The Partners Fund was rated against the following numbers of U.S. domiciled mid-cap value funds over the following time periods: 167 funds in the last three years, 125 funds in the last five years, and 44 funds in the last ten years. With respect to these domestic mid-cap value funds the Partners Fund received a rating of 5 stars, 4 stars, and 5 stars for the three, five, and ten year periods, respectively. The Small Cap Fund was rated against the following numbers of U.S. domiciled small value funds over the following time periods: 178 funds in the last three years, 122 funds in the last five years, and 30 funds in the last ten years. With respect to these domestic small value funds the Small Cap Fund received a rating of 3 stars, 4 stars, and 5 stars for the three, five, and ten year periods, respectively. The

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS:

The best thing we can report about Longleaf's 2002 results is that they are over. After producing positive returns in the first two years of the three-year bear market, Longleaf felt the impact of the overriding, double-digit market declines. In spite of a strong fourth quarter, all three Funds posted negative numbers in 2002. These declines brought our average results for the three Funds during this bear market below our goal of inflation plus 10%. For the third time in history the market fell three consecutive years. As one of the largest shareholder groups, we take some solace in the fact that the Longleaf Funds preserved capital in the bear market.

Bear Market Cumulative Returns*
3/10/00 – 12/31/02

Partners Fund	**42.3%**
S&P 500	(34.5)
International Fund	**22.1**
EAFE	(42.8)
Small-Cap Fund	**27.2**
Russell 2000	(34.1)

* *March 10, 2000 is the generally recognized starting point for the recent bear market.*

There was some good news in 2002. First, each Fund received meaningful new cash inflows throughout the year. Second, we captured the opportunity to build our stakes in many existing holdings at lower prices, primarily during July and October. Third, we were able to buy a few outstanding new companies in each Fund. Fourth, almost all of our businesses maintained or grew their values during the year. Fifth, both Longleaf Funds that have been open for over a decade, Partners and Small-Cap, were among the top 50 funds for the last 10 years of performance as reported by *The Wall Street Journal* and *USA Today*.

Quantitative and Qualitative Strength

Superior investments must qualify both quantitatively and qualitatively. Low price-to-value ratios indicate the quantitative strength of the Funds. In previous letters we have explained the importance of demanding a large margin of safety between price and intrinsic value before investing. We have also elaborated on the three methods we use to do appraisals — discounted free cash flow, liquidation value, and comparable transactions.

A great deal of appraisal risk exists in a business that is quantitatively cheap but operates in an overly competitive environment or has management who acts against shareholder interests. Qualitative attributes, therefore, are imperative to ensuring a successful outcome over time. Part of our qualitative assessment involves deciding if the people running a company are trustworthy and competent. We examine management's track record for both operating the business and allocating capital. We talk to board members, competitors, suppliers, and former employees. We also interview top management before making an investment decision. We scrutinize the proxy to see if management's incentives are aligned with shareholder objectives. The better qualified our corporate partners are, the more likely that we will get exemplary behavior and performance.

The other part of qualitative analysis involves the competitiveness of the business. An inferior company with the best CEO in America, even purchased cheaply, is unlikely to outperform for any period of time. Michael Porter, in his book Competitive Strategy, provides a good framework for assessing a business' advantages.

- Barriers to entry: What are they (scale, brands, high switching costs, limited distribution channel, etc.), and how strong are they?

- Rivalry among competitors: How intense is the interplay between companies? Does the industry have slow growth, high fixed cost structures, low switching costs for customers, high barriers to exiting the business, or similarly matched competitors?

- Substitute products: Are there other types of products that could address the customers' needs? For example, if airlines raise prices for business travelers, will they use another mode of transportation or substitute teleconferences?

- Strength of buyers: Do the customers have more power than the company? Does the product represent a significant portion of the customer's cost, a single customer comprise a large percent of the business, or switching involve low costs?

- Strength of suppliers: Who has more bargaining power as determined by the importance of the relationship to each player in size, product, and switchability?

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

Even the strongest business with the most qualified leadership team must meet our price discipline. A wide margin of safety between price and value combined with a well-managed, competitively entrenched company that can strengthen its advantages and resist threats from others, greatly improves the probability of high returns.

Rarely does a dominant business with top caliber management sell at a substantial discount. The worldwide market fear displayed in the second half of 2002 gave us the opportunity to add to our portfolios several terrific businesses that we view as "perma-holdings" — superior quality companies capable of earning increasing returns on capital and growing their corporate values at above average rates.

Outlook

Many people ask about our outlook for 2003. Unfortunately our crystal ball does not forecast market moves, interest rates, wars, or other macro events. No crystal ball is required, however, to evaluate the opportunity imbedded in our portfolios today. As we enter 2003 the combined quantitative and qualitative strength of each Fund makes us highly confident that we will be able to protect capital and earn an adequate return over the next several years.

- The Funds have low levels of cash;
- The price-to-value ratios (61% and below) are low both absolutely and relative to historic averages;
- We own a large number of "perma-holdings";
- Most of our corporate partners have strong incentives to build and gain recognition of corporate worth.

We appreciate the patience, support, and commitment of our investment partners, especially over the last year. Your steadfastness and additional investments enabled us to create the strong foundation that will benefit all of us going forward.

We hope many of you will be able to join us on Monday, May 5th at 5:30 p.m. for our annual shareholder presentation meeting held in Memphis.

Sincerely,

O. Mason Hawkins, CFA
Chairman & CEO

G. Staley Cates, CFA
President

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

October 6, 2002

TO OUR SHAREHOLDERS:

Your managers were terribly disappointed in the three Longleaf Partners Funds' third quarter results. The stock market experienced its worst quarter in 15 years, and more than 90% of the stocks in the S&P 500 fell. As in the second quarter, the share prices of many of our holdings declined, although most of their corresponding corporate values grew. Outperforming each Fund's benchmark, making *Forbes*' Honor Roll again, and having Longleaf featured in *Barron's* provided little consolation for shareholders during a period when our portfolios dropped double digits. Some mutual fund sponsors might be satisfied with negative performance if it exceeds the indices and peer funds. As Longleaf's largest shareholder group, we assure you we are not happy unless returns are positive and materially surpass inflation.

On a more encouraging note, we believe our stocks should deliver better than average long-term returns from their current levels. Each Fund's price-to-value ratio (P/V) is historically compelling and our appraisals of our businesses are building. At the end of March, we were having difficulty finding qualifying and undervalued investments, Longleaf's P/V's were much higher, and Partners, International, and Small-Cap held cash reserves of 20%, 31%, and 8%, respectively. Today, all three Funds are fully invested in companies that are worth significantly more than we paid and that will grow their values.

Broad Market Context

The global equity environment has changed markedly in the last six months. At the end of March we discussed what the market's overvaluation might mean for future returns by reviewing two distinctly different prior periods in the U.S., 1966-1982, and 1982-2002. We wrote in our first quarter letter that:

- "Most equities around the globe are overpriced."
- "Common stocks as measured by the S&P 500 continue to present a valuation challenge for prudent investors."
- "Stocks have almost never been as unattractive relative to bonds."
- "History tells us that today's market environment will likely challenge investors."

Since 3/31/02, overseas equities markets as measured by EAFE have fallen 22% and the S&P 500 has declined 29%, while the 10-year Treasury's yield to maturity has dropped from 5.4% to 3.6%. U.S. stocks, therefore, have become 62% more attractive relative to bonds. Furthermore, a 3.6% 10-year Treasury yield is not competitive with the S&P 500's current earnings yield of 5.5% (assuming the quarter-end close of 815 and $45 of earnings after downward adjustments for non-recurring items, underfunded pensions, and option grants).

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

The return on ownership significantly exceeds the return on lending for the first time in many quarters, and equity earnings ‘‘coupons’’ are ultimately taxed at long-term capital gains rates and grow, while bond coupons are taxed at ordinary rates and are fixed.

These numbers do not necessarily signal the end of the bear market, but the deck is now stacked in favor of long-term equity investors.

Portfolio Impact

Many times during an investment lifetime we must endure temporary declines in the quotational value of our portfolios to build more substantial and lower cost positions. The past six months have been such an occasion. Broad market fear rather than business disappointments at particular holdings drove our poor short-term performance. We took advantage of lower prices by adding to several existing investments as they became more undervalued and by buying a few outstanding new companies. As 50-cent dollars replaced extremely low-return cash reserves, we dramatically improved our long-term opportunity.

Our supportive investment partners enhanced our buying power. In spite of headlines about historically high mutual fund redemptions, each Longleaf Fund had significant net inflows in the quarter. Your managers opportunistically participated – we increased our ownership meaningfully across the three Funds.

What if…

Fear is gripping investors. As in all bear markets, we face many unknowns – war, changes in political leadership, more corporate scandals, renewed terrorist activity, double-dip recession, housing bubble. The possibilities are numerous. Any of these occurrences could cause short-term equity prices to decline further.

How can we be comfortable being fully invested when economic and political uncertainties abound? Neither we nor anyone knows when or at what level the market bottom will occur. We sleep well at night, however, knowing our capital is protected from unpredictable and uncontrollable events because our appraisals are sound, we own businesses with growing values, and we have paid no more than 60% of our estimates of corporate worth.

Our comfort is reinforced because our evaluations are conservatively derived.

- Even in today’s low interest environment, we normally use 10-12% interest factors to discount a company’s free cash flow stream, and not lower than 9% for the most stable and strongest business.

- We generally assume no higher than GDP growth for the terminal value of a business’ free cash flow.

Longleaf Partners Funds
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- We check our appraisal against a long history of comparable business transactions to prevent calculating a value higher than third parties have been willing to pay.
- We prefer businesses that will grow their values at least 12% per year.

We have referenced Ben Graham's parable of Mr. Market in previous letters. Warren Buffett's one-sentence summary from the Berkshire Hathaway 1987 Annual Report said it best. "If you aren't certain that you understand and can value your business far better than Mr. Market, you don't belong in the game."

Distribution Update
The Funds will distribute capital gains in mid-November and dividend income at the end of December. While we do not foresee any meaningful gains for this calendar year, we must distribute gains related to sales made in November and December of 2001. For both the Partners and Small-Cap Funds, the amount is less than 1% of today's NAV, and is almost all long-term. The International Fund gains are approximately 3% of its NAV, and just over half of the gains are long-term.

Summary
The stock prices of some of our businesses have suffered along with worldwide market declines. The appraisals of the companies we own have held steady or grown. We are, therefore, unhappy about our recent performance, but delighted by the compounding foundation that we have built. We encourage you to follow our lead by adding to your stakes in all three Funds. Mr. Market is giving us an opportunity that will surely end as unpredictably as it began. The question is not whether we are too early, but whether our appraisals are "approximately right." We are confident that they are.

Sincerely,

Mason

O. Mason Hawkins, CFA
Chairman & CEO

Staley

G. Staley Cates, CFA
President

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS:

All three Longleaf Partners Funds declined in the second quarter as did the relevant indices:

Partners Fund	(8.2)%	versus	S&P 500	(13.4)%
International Fund	(5.3)%	versus	EAFE	(2.1)%
Small-Cap Fund	(4.5)%	versus	Russell 2000	(8.4)%

Although we performed better than most of Longleaf's peers over the last three months, our absolute returns were unacceptable. In the March shareholder letter we said, "History tells us that today's market environment will likely challenge investors." Challenge might be an understatement for the quarter.

Recent returns notwithstanding, the market's decline offers encouraging news. Swings in market sentiment from greed to fear create opportunities. After a barrage of disclosures that have diminished shareholder confidence, owners of common stocks are beginning to panic. Quality businesses are getting mispriced and qualifying investments are increasing.

Since 1990 we have seen several dramatic changes in the emotions of investors. Prior to the Persian Gulf War a number of business franchises were offered at meaningful discounts. Based on their undervaluations we bought stakes in companies that created the foundation for our ensuing above average returns.

As angst subsided after Desert Storm, overconfidence escalated throughout the decade. In our January 1999 letter to institutional clients we noted that investors had just completed the longest uninterrupted period of compounding in the twentieth century. The S&P 500 delivered eight consecutive years of positive returns, averaging 20.8% annually — almost double its long-term performance. We observed:

> There are **no** precedents for equities performing this well for this long. There is **no** period when the S&P 500 sold for today's valuations. For the owner of this group of 500 companies there is also **no** margin of safety of value over price. What would the sagacious Ben Graham say today given the fact he could not justify equity valuations in the 1960's?

To our amazement this unprecedented period of speculation lasted another fifteen months. At its extreme this bubble caused technology and dot.com businesses to sell at unimaginable levels while "old economy" companies with revenues, profits, and dominant brands were tossed aside. The avarice associated

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

with the "new economy" enabled Longleaf to buy a number of great non-tech businesses at steep discounts. While the bubble's end was painful for those who let emotions dictate their investment decisions, the positions Longleaf built determined the next two years of successful compounding.

After the last three years of S&P 500 declines we are now finding the most interesting list of investment possibilities since the first quarter of 2000. We hope that our list will expand. Although down from an excessive P/E of 27 times, the market as a whole is not yet undervalued. While the aftermath of the terrorist attacks in September of 2001 provided some irrational pricing, the downturn was brief, and more importantly, was accompanied by lower values at many businesses. Today's anxiety is welcome because although prices are declining, our appraisals are rising at most of the companies we own and at those we are considering. The rare combination of lower prices and growing values is something we cherish.

To make successful equity investments, we must:

- have sufficient information to properly evaluate a business and its management;
- use the information intelligently and constructively to properly appraise the company; and
- act on the facts of the analysis with conviction when the requisite discount from appraisal exists.

These guidelines have helped us take advantage of the pricing inefficiencies that negative public sentiment has created. We have established several significant positions at what we hope will prove to be the points of maximum pessimism. All three Funds have stronger portfolios with undervalued holdings and significantly lower cash levels. The price-to-value ratio of each Fund is much more attractive.

We wish all of our partners a wonderful summer.

Sincerely,

O. Mason Hawkins, CFA
Chairman & CEO

G. Staley Cates, CFA
President

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR PARTNERS:

We are pleased to report that all three Longleaf Funds continued to do well in the first quarter, outperforming our baseline annual objective of inflation plus 10% as well as each Fund's respective index. All three Funds continued to earn the highest overall Morningstar rating of 5 Stars*. That is the good news.

The bad news is that most equities around the globe are overpriced. In spite of speculators' lament and the NASDAQ's dramatic decline from its historic peak on March 10, 2000, common stock prices as measured by the S&P 500 continue to present a valuation challenge for prudent investors. The U.S. market is expensive even assuming that the nascent economic recovery proceeds unabated and that S&P 500 earnings in 2002 reach levels expected by consensus forecasters. At the quarter's close the market was trading at approximately double its long-term average earnings multiple. Buyers of stocks seem exclusively focused on the rebounding of earnings as opposed to what a probable level of earnings is worth. Furthermore, the ten-year Treasury's recent 20% plus rise in yield appears to have been ignored completely. Stocks have almost never been as unattractive relative to bonds.

The information that follows is similar to a presentation Warren Buffett gave in Omaha a couple of years ago. Our friends at Laffer Associates have generously provided the graphics for the S&P 500's nominal and real price history. The data adds meaningful perspective for today's investors and clearly delineates two distinctly different periods for U.S. common stocks. The first began in 1966 when equities were overpriced and lasted sixteen years. The second started in 1982 when stocks were underpriced. Although the data presented uses the U.S. market as a measure, the points generally apply overseas as well.

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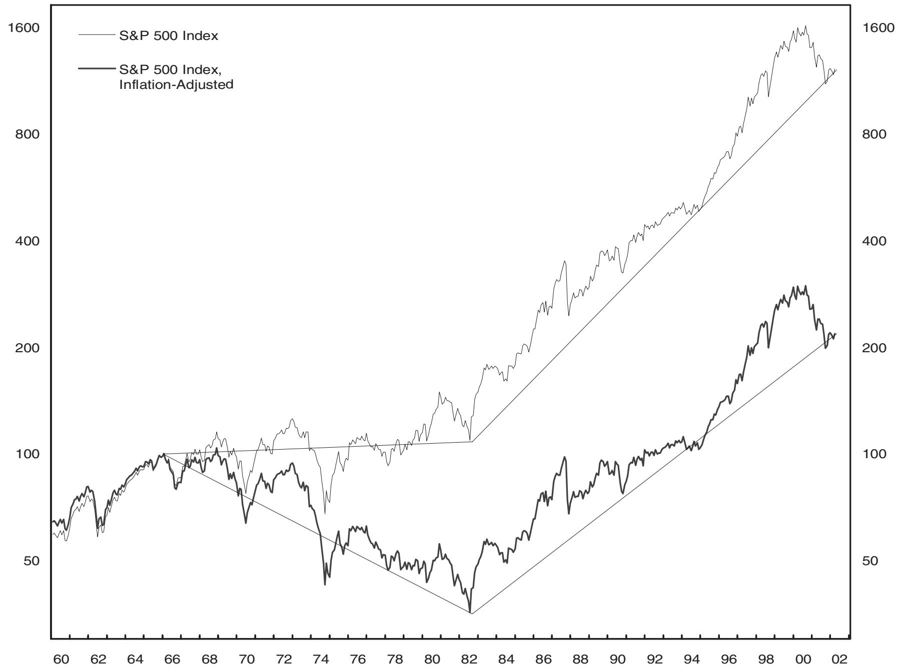
* See footnote on page 4.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

Valuation Matters: Two Distinct Periods

S&P 500: Nominal vs. Real Price Appreciation*

through 3/29/02, semi-log, Jan-66=100



* Consumer price index used to deflate S&P 500 Index. CPI data for Mar-02 are a Laffer Associates estimate.

S&P 500 Average Annual Compound Rates of Return

	Jan-66 to Jul-82	Jul-82 to Mar-02
Nominal	0.5%	13.1%
Real	-6.1%	9.7%

S&P 500 EPS Growth

Average Annual Compound Rates of Growth*

Jan-66 to Jul-82	Jul-82 to Mar-02
6.0%	5.8%

* Earnings at beginning and ending of each period are the 3-yr average earnings below.

S&P 500 Valuation Metrics

	Jan-66	Jul-82	Mar-02
Closing price	93	107	1,147
3-yr avg EPS	5.36	14.01	42.66*
P/E	17.3	7.6	26.9
Earnings yield	5.8%	13.1%	3.7%
10-yr Treasury yield	4.7%	13.7%	5.4%

* Uses 2000, 2001 estimate, and 2002 estimate.

Source: Laffer Associates, S&P, Bloomberg.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

The data shows a number of important points.

- Common stocks can deliver extremely disappointing long-term returns. For the sixteen years from January of 1966 through July of 1982 the market declined 6.1% annually after adjusting for inflation. A $100,000,000 portfolio indexed to the S&P 500 would have dropped to $35,400,000 in purchasing power.
- Earnings growth does not guarantee good stock performance. In the 1966 to 1982 time period of horrendous returns, earnings grew slightly faster (at 6.0% per year) than they grew from 1982 to 2002 (at 5.8% per year) when the market produced its best-ever results.
- Beginning valuation levels and changes in inflation rates largely determined the market's results over these two periods. In 1966 valuations started above average at a 17.3 P/E and declined to a below-average 7.6 P/E as inflation accelerated. In the last twenty years, undervalued equities greatly benefited as valuation levels exploded when inflation waned.
- Inflation today is close to its 1966 level as reflected in the similar ten-year Treasury yields.
- Equity valuations are much higher today than they were in January of 1966. The current 27 P/E is double the long-term average multiple, even when we divide today's price by the three-year average for the S&P 500's current earnings **without** downward adjustments for nonrecurring items, pension expenses, and option grants. Compared to bonds, the S&P 500's 3.7% earnings yield, which is the reciprocal of the P/E, is 170 basis points below the ten-year Treasury's 5.4% yield-to-maturity.

These observations do not indicate that we are embracing macroeconomic analysis as part of our investment process. Today's environment does help explain why the cash levels in our portfolios are rising. Several businesses have approached our appraisals and are being sold. Concurrently, Southeastern's analysts are having little success finding qualifying underpriced investments. Historically when our portfolios' cash levels have risen, we have found qualifiers in a reasonable time. Opportunities emerge in three ways – one-off individual corporate anomalies, increased market volatility, or an overall market decline. Regardless, patience is required.

We cannot accurately predict for the next ten years whether productivity will adequately increase, inflation will remain low, or whether the Federal Reserve will maintain our currency's integrity with the successful hard money policies that

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

Paul Volcker and Alan Greenspan have practiced. We do control, however, what we pay for businesses, and thankfully we are not required to pay the prices of the S&P or any other index. As long as we adhere to our price discipline of paying no more than 60% of appraisal for good businesses with qualified corporate managers, our ability to compound should not be impaired, even if the market's valuation headwinds oppose us.

A real return of 10% may not seem a lofty goal for those counting on the returns of the last two decades. Indeed, Southeastern's equity composite for tax-free institutional clients has compounded at over 20% for the last twenty years, and has exceeded the S&P 500 by 500 basis points. Given today's market valuation levels and quiescent inflation, however, our partners would be well served to adjust their budgetary and actuarial planning with lower return expectations. Those investment officers measured only by relative results may happily outperform the S&P or other relevant indices, but could easily be unable to meet their financial obligations because of low or negative absolute performance. We believe that achieving Longleaf's goal of a real, double digit return will not only beat most markets, but will rank highly among most equity investments over the next decade. Someone who achieved inflation plus 10% annually over the 1966 to 1982 period would have surpassed the S&P by 1600 basis points per year!

History tells us that today's market environment will likely challenge investors. Our diligent efforts to find undervalued businesses echo this sentiment, and our cash reserves are increasing. The best defense and offense remain adhering to our strict quantitative and qualitative selection disciplines. We look forward to our mutual success.

Sincerely,

Mason   Staley

O. Mason Hawkins, CFA
Chairman & CEO

G. Staley Cates, CFA
President

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* For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating™ metric each month by subtracting the return on a 90-day U.S. Treasury Bill from the fund's load-adjusted return for the same period, and then adjusting this excess return for risk. The top 10% of funds in each broad asset class receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its three, five- and ten-year

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR PARTNERS:

We are pleased to report the 2001 results of the Longleaf Partners Funds. As the table below shows:

- All three funds protected capital over the last twelve months and produced positive returns;
- Each fund beat its respective benchmark by a meaningful amount, and Longleaf Partners International Fund was the best performing international fund out of a universe of over 800 international funds tracked by Lipper;
- All three funds earned an Overall Morningstar Rating of 5 stars, its highest, for the periods ended December 31, 2001;*
- Two of the three funds approached our absolute goal of inflation plus 10%.

	2001 Return
Partners Fund	**10.3%**
S&P 500	(11.9)%
International Fund	**10.5%**
EAFE	(22.6)%
Small-Cap Fund	**5.5%**
Russell 2000	2.5%
Inflation plus 10%	11.6%

The progress of our stocks' prices, however, was much better than the performance of our businesses. For the first time in a decade the aggregate appraised intrinsic value of our holdings declined. The recession, combined with the dramatic impact of the September 11th attacks, reduced free cash flow at a number of the companies we own. As a result of rising stocks and flat or lower corporate values, the price-to-value ratios of the three funds are much higher than they were a year ago and are slightly above the portfolios' historic averages. While the funds currently offer attractive return opportunity, in 2002 we anticipate improvement driven by three components: 1) sales of fully priced holdings, 2) purchases of businesses selling at 60% or less of our appraisal, and 3) value growth at the companies we own.

Each fund has several positions that are selling at 90% or more of our appraisal. We will sell these companies if recent price momentum moves these stocks to fair value. Selling a fully priced business will reduce the average price-to-value ratio of the remaining portfolio and provide additional liquidity to make purchases of more undervalued stocks.

New holdings selling for 60% or less of appraisal will increase the discount of the overall portfolio. Identifying those businesses that qualify for investment is currently our greatest challenge. In contrast to Longleaf's last two years of successful compounding, the *Wall Street Journal's* year-end mutual fund edition reported, "Investors Grapple With Second Year of Losses." With recent negative or low returns in multiple asset classes, some might assume that undervaluation is rampant. It is not.

The last two years of negative market returns resulted both from grossly excessive optimism being partially corrected and from falling corporate worth. From a macro view, average prices are still materially above conservative appraisals. The S&P 500's earnings are projected to recover in 2002. Operating earnings for the Index, including recurring "one-time" charges, should rebound to the $40 to $45 per share level and should be worth 800 to 900 using a P/E of 20 (the implied multiple given today's 5% ten-year U.S. Treasury Bond yield). As we go to press the S&P 500 trades at 1122.

Macro assessments play no part in our decision making, but the above numbers help explain why we have recently sold more than we have bought, why each fund has over 10% cash, and why our analysts are frustrated by the lack of qualifying buying opportunities. With our low turnover we need only three to four new and successful investments per year in each fund to deliver strong long-term results. We are hopeful that patience, hard work, and renewed market volatility will enable us to find the requisite investments in 2002.

Portfolio changes can provide greater return opportunity, but having the businesses we own grow their values is critical to long-term compounding. After marking down a number of our appraisals during 2001, our current estimates of corporate worth are conservative and generally anticipate cash flow returning to 1999 levels sometime in late 2002 or 2003. If the economy improves more quickly or our management partners allocate capital exceptionally well, value growth could be higher than projected.

The importance of value growth highlights the fallacy that "value" and "growth" are mutually exclusive. At Longleaf we seek both a substantial discount to appraisal **and** double-digit value growth for a company to qualify as an investment. Without rising corporate worth, time works against our return and analytical efforts have less room for error. When corporate value grows, stock

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prices are pulled higher even if the discount to appraised worth remains large. Taxable investors receive the additional benefit of deferring tax liabilities.

The Partners Fund's most recent new purchase, Disney, illustrates both value and growth. For the first time in decades the stock's price fell to 60% of our appraisal due to the combination of the 9/11 attacks and a huge sale by one of the company's largest investors. While slower travel and advertising lowered Disney's worth after 9/11, the stock price fell much further. More importantly, the company maintains its ability to grow its value through the reinvestment of what will be an increasing free cash flow coupon. Management has a history of investing retained earnings at double-digit returns. The likelihood of this value growth is strong because of the competitive position of the businesses' dominant and irreplaceable brands. In many ways we hope that the stock takes a while to recover fully so that we can own Disney long enough to reap the benefit of its additional value growth.

We enter 2002 not only excited about the investments we own, but also about the positioning of Southeastern Asset Management as a firm. Our London office has been open for six months and Jim Thompson's work finding new investment opportunities and meeting with managements across Europe has already produced valuable results. The liquidation of Longleaf Partners Realty Fund has been successfully completed, and the opportunities and flexibility we gained for our capital by moving from an increasingly restrictive sector fund into three broader funds should be rewarding. The three remaining Longleaf Funds enable us to pursue any equity opportunity around the globe, and our research talent and time will be more concentrated since we need fewer new qualifying investments to be successful.

We also thought it useful to mention recent changes in laws governing IRA accounts. Specifically, maximum contribution limits for 2002 have risen from $2,000 to $3,000 ($3,500 for persons 50 or older). Although contributions may not be deductible, fund distributions compound tax-free. Our transfer agent can answer questions about the requirements. We encourage those of you with IRA accounts at Longleaf to take advantage of the additional tax-free benefits.

We also want to direct your attention to a piece of proposed legislation that could positively impact a large number of our investment partners. One suggested part of last year's economic stimulus package would allow shareholders of mutual funds to defer taxes on a portion of reinvested capital gains distributions until they sell their mutual fund shares. We encourage you to contact your congressional representatives to support inclusion of this important initiative in current

Longleaf Partners Funds
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legislation. For more information please go to the mutual fund industry association's web site, *www.ici.org*, and look under "Issues in Mutual Fund Legislation" – "Tax and Retirement" topics.

We invite all of our partners to attend our annual shareholder presentation in Memphis. We will meet this year on Wednesday, May 8th at 5:30 at the Memphis Botanic Garden. We are always honored by the number of people who attend and the distance many travel. It will be a pleasure to see those of you who can be there.

Sincerely,

O. Mason Hawkins, CFA
Chairman & CEO

G. Staley Cates, CFA
President

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* For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating™ metric each month by subtracting the return on a 90-day U.S. Treasury Bill from the fund's load-adjusted return for the same period, and then adjusting this excess return for risk. The top 10% of funds in each broad asset class receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its three, five- and ten-year (if applicable) Morningstar Rating metrics. The Partners and Small-Cap Funds were rated against the following numbers of U.S.-domiciled domestic equity funds over the following time periods: 4,811 funds in the last three years, 3,160 funds in the last five years, and 895 funds in the last ten years. With respect to these domestic equity funds, the Partners Fund received a Morningstar Rating of 4 stars, 5 stars and 5 stars for the three-, five-, and ten-year periods, respectively. With respect to the same domestic equity funds, the Small-Cap Fund received a Morningstar Rating of 4 stars, 4 stars and 5 stars for the three-, five-, and ten-year periods, respectively. The International Fund was rated against 1,349 U.S.-domiciled international equity funds for the three years following the International Fund's inception and received a Morningstar Rating of 5 stars for the three-year period. ©2002 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS:

The impact of the ghastly events of September 11th is huge and certainly not given justice in the quarterly report of a mutual fund. As the world around us changed dramatically and probably forever in many respects, the approach and discipline at Southeastern remained constant.

Companies are worth the free cash flow they generate or the liquidation value of their net assets. Business values may change with an altered economic environment; stock prices fluctuate on real economic news, and on emotional responses to events. We cannot accurately call a market bottom or predict what will happen in the world. We can analyze what companies are worth, the quality of those businesses, and the capability of their management teams. We purchase a stock only when a large margin of safety exists between price and value and we believe that corporate value will grow. September 11th did not change our commitment to Ben Graham's definition of an investment — safety of principal and an adequate return.

Short-Term Impact

Third quarter results were abysmal in all four funds, although three of the four outperformed their respective benchmarks. At the end of August we were enjoying outstanding performance bolstered largely by several economically sensitive holdings that rallied with optimism over coming out of or avoiding recession. The declines following September 11th especially hurt the stocks of those same businesses and brought our year-to-date numbers below our inflation plus 10% goal. The following chart summarizes recent results.

	Third Quarter	Year-to-date
Longleaf Partners Fund	**(13.6)%**	**(4.2)%**
S&P 500	(14.7)%	(20.5)%
Longleaf International Fund	**(7.7)%**	**6.8%**
EAFE	(14.3)%	(27.6)%
Longleaf Realty Fund	**(11.4)%**	**2.4%**
Wilshire Real Estate Securities Index	(4.6)%	4.7%
Longleaf Small-Cap Fund	**(9.3)%**	**(0.6)%**
Russell 2000	(20.8)%	(15.4)%

We spent our research time in the week after September 11th reviewing our portfolios name by name to determine which appraisals should be lower, which values were unaffected, and which businesses might be better off from the immediate impact as well as a likely recession. Our hotel properties suffered the

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

largest value declines across the portfolios. Specifically, we reduced our appraisals on Marriott International, Hilton, Host Marriott, Wyndham, and Brierley, which owns Thistle Hotels. A number of other holdings lost a bit of value due to assumptions about lower volumes. Overall, however, stock prices fell much further than our appraisals, and the portfolios have a larger margin of safety in them than prior to the attacks.

All four funds entered September with over 10% cash. This liquidity, combined with rational shareholder partners whose assets have remained stable, enabled us to take advantage of the market fear. We added to some of our best ideas, which had become even more discounted, and we purchased several new, high quality companies that we have wanted to own for a long time at the right price. The Funds are more fully invested and the price-to-value ratios in each have declined below historic averages, implying better than average future returns.

Long-Term Impact

While the economy was already barely crawling, the terrorist attacks sent us into the worst economic environment since at least 1990, and perhaps since 1974. The next twelve to twenty-four months may (or may not) be dismal for the economy and for the stock market, but the longer-term looks somewhat enticing. Uncertainty has provided us rare investment opportunities and there may be more to come. With bearish sentiment outweighing bullish sentiment for the first time in over three years, and with margin debt being liquidated, we stand ready as long-term investors to take advantage of the prevalent fear.

We base our guarded optimism partially on our price-to-value ratios and the quality of qualifying businesses. We also see a better world ahead. The heinous attacks cost us a great deal in lives and dollars, and the war to fight terrorists will likely increase these costs. However, with the commanding and deliberate leadership of George W. Bush and his team, we have the foundation for a stronger world and better business environment long term.

- Our country is more united than we have been in many years.
- Our world is more united than ever in history.
- We have a good chance of stopping terrorism as a coalition with almost every country on the globe, including long-term allies and former adversaries.
- Our administration is rising to action against a threat that has long haunted and hurt our citizens.
- Our country's strengths have been enhanced and its weaknesses lessened, and our citizens have a better appreciation for both.

- Bringing China and Jordan into the World Trade Organization, improving our relationship with Russia, and pushing for a peaceful front in the Middle East will strengthen the world economy over time.
- A more favorable tax policy may be on the way.
- Forced cooperation now can create the basis for a more secure, freer, and improved world environment for conducting business later.

Longleaf Partners Realty Fund will close and liquidate

After careful deliberation as the largest Fund shareholders, the trustees and managers of Longleaf Partners Realty Fund are closing and liquidating the Fund because in our view, the structure of a real estate sector mutual fund no longer provides shareholders the best vehicle for compounding capital in real estate investments. Several forces have converged to limit the success of the real estate mutual fund format:

- the universe of publicly traded real estate companies is shrinking, not expanding;
- the number of undervalued and qualifying investments within the shrinking public real estate market is also declining;
- given the shrinking universe of qualifying realty companies, IRS diversification requirements make it difficult to concentrate capital in our best real estate ideas;
- in July of 2002, a new SEC rule will increase the amount of a mutual fund's assets that must be invested in real estate from 65% to 80%, possibly forcing investment in companies that do not qualify under our disciplines;
- the discounted real estate opportunities that do qualify for investment can be pursued through the other Longleaf Partners Funds.

The Fund's managers will reinvest their personal Realty Fund assets in the three remaining Longleaf Funds, which hold a number of our most qualified real estate investments. *(The Small-Cap Fund will be temporarily open to Realty Fund investors. Taxable investors may want to wait until after the November 13th capital gain distributions to exchange into the other Longleaf Funds)*. Shareholders in these Funds will continue to benefit from our strongest realty opportunities through less constrained vehicles. For more details please see the Realty Fund section of this report on page 18.

Distribution Information

As in years past, the three remaining Funds will have a capital gain distribution around November 13th and an income distribution at the end of December. We will not know the final amounts until these dates, and any portfolio sales through

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LETTER TO SHAREHOLDERS

October 31st will affect the capital gain distribution. We will post information on our web site as it becomes available. The Partners Fund currently has minimal realized capital gains. The Small-Cap Fund's realized capital gains are almost all long-term and are approximately 8% of NAV due to the sale of several large, successful holdings during the year. The International Fund has gains of roughly 6% of NAV, with approximately half long-term.

Proxy Results

We held a shareholder vote on September 18th, and all the items on the ballot were approved. The details of the results are included at the end of this report. We thank those of you who took the time to return your proxies. We welcome Perry Steger to the Funds' Board of Trustees and look forward to his stewardship on behalf of all shareholders.

Conclusion

Our prayers are with those directly affected by our nation's recent tragedy. Our response as fund mangers has been to try to ensure that we are secure with what we own and that we are prepared to take advantage of new opportunities that emerge out of the current uncertainty. The immediate future may hold more challenges, but we are optimistic about our prospects as long-term investors and as citizens. We are also grateful to have many dedicated and supportive partners. Thank you for your commitment to Longleaf.

Sincerely,

Mason | Staley

O. Mason Hawkins, CFA
Chairman & CEO

G. Staley Cates, CFA
President

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS:

Your managers and co-investors at Southeastern Asset Management, Inc. are pleased to report that each of the four Longleaf Partners Funds delivered exceptionally strong absolute and relative performance for the quarter, six months, and year ended June 30, 2001. The table below summarizes your recent results.

RETURNS THROUGH 6/30/01

	Three Months	Six Months	Twelve Months
Partners Fund	**11.3%**	**10.9%**	**30.4%**
S&P 500	5.8	(6.7)	(14.9)
International Fund	**6.0**	**15.7**	**29.6**
EAFE	(1.7)	(15.5)	(24.9)
Realty Fund	**14.6**	**15.6**	**26.4**
Wilshire RE Securities	10.9	9.8	24.6
Small-Cap Fund	**9.2**	**9.6**	**21.8**
Russell 2000	14.4	7.0	0.7

For those who had equal amounts invested in the four Funds, the Longleaf family earned an average annual return of 27.0% over the last year, more than doubling our long-term baseline objective of inflation plus 10%. Our partners gained significant economic advantage as most other U.S. and international equity owners experienced erosion in their portfolios. We are grateful that the decline in the world's major market indices did not affect Longleaf shareholders.

Immediate Past Unlikely to be Prologue

This is the 57th consecutive quarterly letter we have written to our partners and the returns included in this report are some of the best we have produced. We have cautioned shareholders many times not to expect future performance to equal our past results. We do so again with greater emphasis because:

- Equity markets are **not** cheap and most superior businesses are richly priced.
- The price-to-value ratios for Longleaf's four Funds have risen close to their historic averages.
- Our analysts are having difficulty finding qualifying investments.
- Cash reserves at the Funds are building primarily from the sale of fully valued holdings and from positive cash flows.

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- Individual security selection is paramount – we do not anticipate bull market tailwinds in the foreseeable years.

Long-Term Partners Likely to be Successful
Against the above overview we want you to know:

- Southeastern Asset Management's research talent and efforts have never been stronger.
- No mutual fund management team is more dedicated and properly incented than Longleaf's. We are the Funds' largest shareholder group and we will continue to increase our stake.
- We will act opportunistically in our global search for competitively entrenched, growing businesses when we can purchase such companies at the required discount from our appraisals.
- We realize holding Treasury Bills will not meet our long-term absolute return objective.
- If we exercise patience, wonderful individual investment opportunities will "show up"; we plan to capture our fair share.
- Our recent success has included several disappointments. We intend to learn from these and further improve the execution of our disciplines.

Upcoming Shareholder Meeting
All Fund shareholders will soon receive a proxy to elect the Funds' trustees and approve several pre-existing relationships. This slate of trustees will give Longleaf five outside or "independent" directors and three board members who are affiliated with Southeastern or the Funds. The proxy also asks for approval of PricewaterhouseCoopers LLP, which through a predecessor has been the Funds' auditor since inception. Third, the proxy gives International Fund shareholders the chance to formally approve Southeastern Asset Management as the Fund's manager and administrator. Technology has made voting simple – you can vote via mail, telephone, or Internet. **To minimize the cost of the proxy we urge our partners to vote their proxy upon receipt.**

We greatly appreciate the terrific attendance in May at Southeastern's presentation in Memphis for Longleaf shareholders. Over 400 partners joined us. For those who could not be there, we posted our comments on www.longleafpartners.com and hope that you find this useful.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

We wish our fellow shareholders a wonderful summer. We thank you for your support and your partnership.

Sincerely,

O. Mason Hawkins, CFA
Chairman & CEO

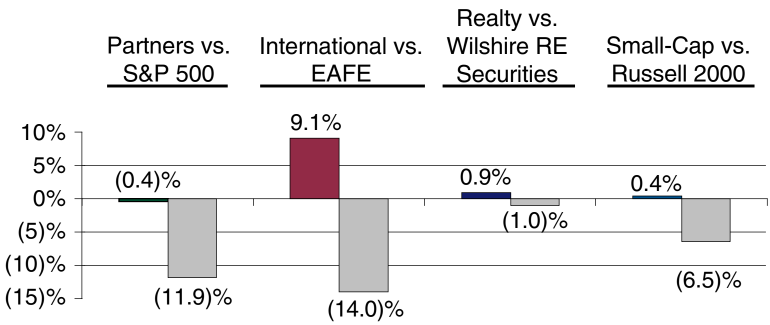
G. Staley Cates, CFA
President

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

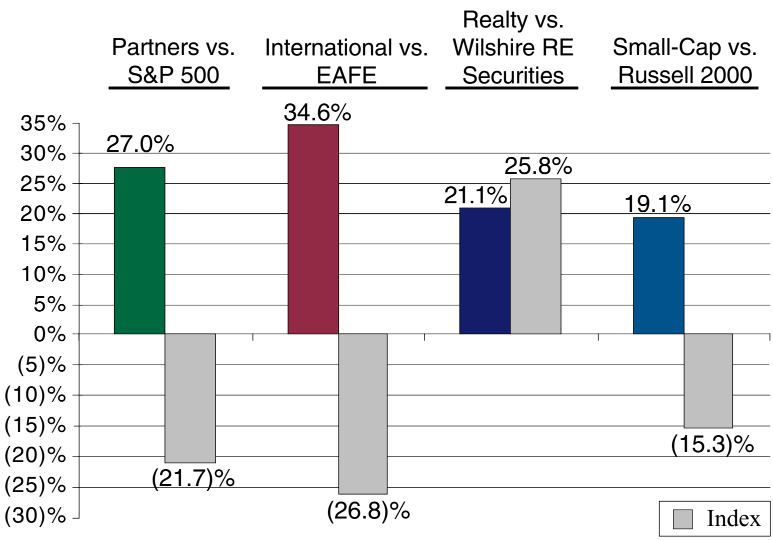
TO OUR SHAREHOLDERS:

In the first quarter of 2001 all four Longleaf Partners Funds posted terrific relative results, although only Longleaf Partners International Fund made material progress towards our absolute annual return hurdle of inflation plus 10%. Over the past year each Longleaf Fund produced significant absolute returns; and Partners, International, and Small-Cap outperformed their benchmarks by the widest margins in their histories. We have enjoyed an exceptional twelve months. The following charts highlight the Funds' achievements for both the quarter and twelve months ended March 31, 2001.

Quarter Ended 3/31/01



Twelve Months Ended 3/31/01



Longleaf Partners Funds
LETTER TO SHAREHOLDERS

What is important

The preceding charts are important not because they show relative numbers, but because they illustrate a critical concept that we often find ignored — absolute return. Over the last ten years the bull market has driven a frenzy where relative performance has superceded absolute return objectives. We find people asking, ‘‘How did we do relative to the benchmark?’’ We rarely hear, ‘‘Did we do well enough to fund our scholarships, pay our retirement benefits, award grants, or pay tuition?’’ Over a market cycle managers should outperform relevant indices to justify their fees. Focusing on short-term relative results, however, can lead to irrational and costly actions especially when indices are overvalued.

The following are some examples of errant logic created by looking through a relative lens:

- Managing the portfolio to eliminate market tracking error rather than to produce return;
- Keeping all cash in S&P Futures for full market exposure, rather than waiting for a qualifying investment;
- Owning technology because it has a large index weighting rather than buying the lowest risk, highest return opportunity;
- Participating in IPOs rather than buying proven and growing cash flows; and,
- Paying more than 60% of intrinsic value because the market is high rather than patiently insisting on a wide margin of safety.

The focus on relative performance has continued in the recent market decline — it has been used primarily to placate investors whose losses are less than the market’s. We are not satisfied with a flat return, nor will we put your capital and ours at risk to mirror benchmark numbers. **We want all of our partners to be able to answer ‘‘yes’’ to the following:**

1. **Is our capital protected?**
2. **Are the probabilities high that we will earn an adequate, absolute long-term return?**

What is available

We are hopeful that the market’s drop over the last year will provide investment opportunity. So far Ben Graham’s caution that we cited in our Annual Report has proven accurate: ‘‘The great majority of common stocks of strong companies must be considered speculative during most of the time, simply because their price is too high to warrant safety of principal in any intelligible sense of the phrase.’’ After a 64.2% decline from the NASDAQ peak, we have searched mightily to find understandable, competitively entrenched investments. And

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

while the broader market decline has made our research jobs more interesting, we have identified few bargains that qualify for ownership. In spite of the fact that the S&P has lost 22% in the last year, this market index still trades at 24 times trailing earnings versus an historic average P/E of 15. We have been well served over the last 26 years by exercising patience and discipline in looking for each new investment. We will continue to do so without regard to the market.

In the meantime we are extremely pleased with the positioning of our portfolios. The price-to-value ratios of the four Funds range between 54% and 60%, well below their past averages. Our conservative appraisals recognize that the economy is slowing, and we like the businesses we own and our management partners. We also have cash available to take advantage of the qualifying ideas that will inevitably come our way.

London Office

We are excited to have Jim Thompson, an important member of our research group, moving to London to further our investment pursuits. Jim will complete a triangle of global coverage from Memphis to Tokyo to London. Time with corporate managements is important to our research, and Jim's opening of our London office will enable us to visit more managements more quickly. Broader and deeper coverage will benefit our partners in all four Funds.

The increasing contributions from Jason Dunn and Richard Hussey give us the flexibility to have Jim on the ground in Europe. Jason's excellent progress as an analyst significantly bolsters our analytic capabilities; and, Richard's comprehensive technological efforts allow us to continue operating as a team while in multiple locations.

Annual Presentation

We look forward to seeing those of you who plan to attend Southeastern's Annual Presentation to Shareholders in Memphis on Monday, May 7 at the Memphis Botanic Garden at 5:30 p.m. For those who cannot join us we will have the audio available on our web site, www.longleafpartners.com, a few weeks after the meeting.

Sincerely,

O. Mason Hawkins, CFA
Chairman & CEO
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President
Southeastern Asset Management, Inc.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS:

We are pleased to report that 2000 was a terrific year for the owners of the Longleaf Partners Funds. Each of our four Funds produced significant double-digit returns in an environment where all major U.S. and overseas market indices declined. When taken as a group, Longleaf Partners was one of the leading fund families in 2000, rising 18.5% for those who had equal commitments to the four portfolios.

The table below shows the Funds' results for the quarter and year ended December 31, 2000, compared to their respective benchmarks.

	Fourth Quarter	2000
Partners Fund	**12.1%**	**20.6%**
S&P 500	(7.8)	(9.2)
International Fund	**2.2**	**25.9**
EAFE	(3.0)	(15.2)
Realty Fund	**3.2**	**14.8**
Wilshire Real Estate Securities	4.6	30.7
Small-Cap Fund	**5.9**	**12.8**
Russell 2000	(6.9)	(3.0)

A redefining, principle-testing year

The year 2000 was a distinct, watershed period: financially irrational, illogical behavior gave way to more rational, logical thought processes; a greed-driven, price-following mania imploded and a more fearful time followed; nine years of positive bull market performance succumbed to negative returns; and many lost significant permanent capital while a few accumulated capital. The difference between speculation and investment was indelibly redefined for a new generation.

The last several years have reminded us just how wise Ben Graham was. We have reviewed his in-depth discussions of the differences between investment and speculation in both the first and second editions of *Security Analysis*. His writing not only reflects brilliance and clarity of thought, but his lessons from sixty years ago are timeless. Graham's definition of investment serves as an outline to discuss our approach to managing the Longleaf Partners Funds.

"An investment operation is one which, upon thorough analysis, promises safety of principal and a satisfactory return. Operations not meeting these requirements are speculative."

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

Safety of principal: Graham wrote, "the safety sought [means] protection against loss under all normal or reasonably likely conditions"; or, said another way, "a safe stock … holds every prospect of being worth the price paid." A company's worth must "be justified on **both** qualitative and quantitative grounds."

To protect our capital and yours we spend a significant amount of time analyzing the qualitative aspects of a business including its competitive advantages. We also give substantial weighting to the people running the company – we want good partners who are owners of the business and who can both run the operations capably and allocate the cash flow wisely.

For Graham, the safety of "an investment must always consider the price as well as the quality of the security. Strictly speaking, there can be no such thing as … an investment regardless of price." We require a large margin of safety in the price we are willing to pay. A company's price must be no more than 60% of what we believe the business is worth based on its ability to generate free cash flow, its liquidation value, and/or the level at which similar businesses have sold.

These stringent qualitative and quantitative criteria can make finding new investments difficult, and patience is often required. We are not willing to compromise our principles and thus our principal. Even sixty years ago Graham noted the challenge of finding qualifying investments: "the great majority of common stocks of strong companies must be considered speculative during most of the time, simply because their price is too high to warrant safety of principal in any intelligible sense of the phrase."

Satisfactory return: Buying quality businesses steeply below their quantifiable values not only provides safety of principal, but this discipline also largely determines return. How much return is enough? Graham calls satisfactory return "a subjective term; it covers any … return, however low, which the investor is willing to accept, provided he acts with reasonable intelligence." As the largest owners of the Longleaf Partners Funds, we define 10% above inflation as our satisfactory baseline objective because it is 40% to 50% greater than the market's long-term real return and doubles real savings every 7.2 years. Instead of "satisfactory," however, your partners at Southeastern hope to score "excellent." Over the last ten years Longleaf Partners Fund generated an average annual return of 20.1%, which was 17.4% over inflation or 74% higher than "satisfactory." We will continue to use the standard of "reasonable intelligence" to assess investments. While we hope the next ten years are as prosperous as the last, we think that today's investment climate of low interest rates and high returns on capital make similar returns unlikely.

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Over the last few years as speculation rose and the technology and dot.com mania took off, many viewed a real return of 10% as unsatisfactory to put it nicely. The big technology returns of 1999, however, proved speculative and short-lived. Using NASDAQ as a proxy for recent speculation, much of the "easy money" has been eroded since that index peaked on March 10, 2000. By contrast, businesses that met the Graham investment definition generated better than satisfactory gains.

	Return 3/10/00 – 12/31/00
NASDAQ	(51.0)%
Partners Fund	40.1
International Fund	32.4
Realty Fund	29.1
Small-Cap Fund	25.3

In last year's Annual Report we quoted value investor Seth Klarman who said, "Being very early and being wrong look exactly the same 99% of the time." At the outset of 2000 most people called us wrong because we did not participate in the speculation of the previous year. As it turned out, we were somewhat early. Our return over the last two years was twice that of the NASDAQ.

	Initial Investment 12/31/98	**Value at 12/31/99**	**Value at 12/31/00**
NASDAQ	$100	$186	$ 113
Partners Fund	$100	$102	**$123**

While the above demonstrates the vagaries of speculation, satisfactory return should always be defined in absolute terms with all risks considered. Relative numbers do not necessarily preserve or compound capital. Our investment decisions have delivered strong absolute and relative performance over the long-term, but only the former has added to shareholders' accounts. We mention this because we believe it's important for our partners to have realistic return expectations. We do not expect to be the #1 fund in any given year, even though in some years a Longleaf Fund might be at the top of its category, as was Longleaf Partners International Fund in 2000.

What's in store for 2001?

We will continue to execute Graham's disciplines as we have done over our 25-year history. In spite of last year's solid results our return opportunity remains extremely attractive. The price-to-value ratios of all four Funds are 60% or less,

Longleaf Partners Funds
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still well below our historic average and only a few points above where we began 2000.

While most of the businesses we own have a wide margin of safety in their prices, new qualifying investments in the U.S. are not as abundant as they were a year ago. The market's general decline as previously shown, was not homogeneous. We are assessing some of the technology carnage, but so far have found that the few companies meeting our qualitative criteria do not yet meet our price requirement. By contrast, we continue to have more opportunities than cash in the International Fund, and we encourage you to consider becoming our partners overseas if you have not already done so. Please visit our web site for a more detailed list of reasons we believe the International Fund is attractive.

We hope that you have accessed www.longleafpartners.com and found it useful. We have added the ability to look up account information, and are planning additional enhancements in 2001. We view this as a very efficient and effective way to keep in touch with our partners. Please give us your feedback on the site.

Our annual shareholder gathering will be in Memphis on Monday, May 7 at 5:30 p.m. at the Memphis Botanic Garden. Every year we are honored by the number of people who attend and the distance many travel. We hope to see many of you there again this year.

A message of gratitude

We close this letter with a word of thanks for being logical, disciplined partners who understood the difference between investment and speculation when the rational world seemed gone. Standing against conventional wisdom is never easy, but is often profitable. We are pleased that your patience was rewarded. We congratulate those who mustered the courage to add to their investment early in 2000 – opportunities like those that evolved in the first quarter of 2000 have been rare. The dot.com bubble was a true test of your commitment to Longleaf Partners Funds. Thank you for exhibiting what it takes to help make our partnership a successful one.

Sincerely,

O. Mason Hawkins, CFA Chairman & CEO	G. Staley Cates, CFA President

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS:

We have much to celebrate at the end of the third quarter. The Longleaf Partners Funds posted another three months of solid absolute and relative performance, with returns ranging from 4.9% to 9.6%. Additionally, all four funds delivered meaningful results through the first nine months of 2000, a period when a number of our peers experienced material declines and major stock market indices such as the DJIA, S&P 500, NASDAQ, and EAFE dropped 6.3%, 1.4%, 9.7%, and 12.6%, respectively.

	Period ended 9/30/00	
	Quarter	Year-to-date
Longleaf Partners Fund	**4.9%**	**7.6%**
S&P 500 Index	−1.0%	−1.4%
Longleaf Partners International Fund	**9.6%**	**23.2%**
EAFE Index	−8.4%	−12.6%
Longleaf Partners Realty Fund	**5.9%**	**11.2%**
Wilshire Real Estate Securities Index	8.5%	25.0%
Longleaf Partners Small-Cap Fund	**4.9%**	**6.5%**
Russell 2000 Index	1.1%	4.2%

August also marked Southeastern Asset Management's 25th anniversary. After a quarter of a century, the saying that "the more things change, the more they stay the same" applies to much of what we have learned.

Fear and greed drive market swings, but owners will get paid a business' value.

In 1975 we were coming out of one of the worst and longest bear markets in history. Fear was abundant (especially as measured by the looks of disbelief and pity we got when we told family and friends that it was an opportune time to start an investment management firm). The bear market had not only taken much excess out of the overpriced "Nifty Fifty," which we discussed in our first quarter letter, but the fear had left many exceptional businesses selling for less than half their worth. The S&P 500 had fallen from a P/E ratio of 18.4 times trailing earnings at year-end 1972 to 7.7 times two years later.

Benjamin Graham's teachings stood ready — financially sound, good businesses run by capable management teams and offered at steep discounts to intrinsic value present low-risk, high-return opportunities for the intelligent investor. We took advantage of the market's bargains and built the foundation for a successful long-term record of compounding.

Longleaf Partners Funds
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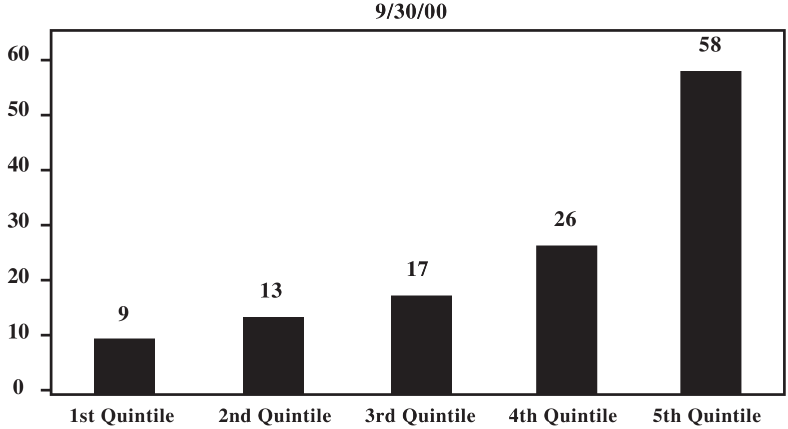
Twenty-five years later we appear to be seeing the end of a ten-year bull run as measured by the S&P 500 and NASDAQ. Greed lifted the prices of many companies, especially those driving these two indices, to unprecedented levels. Recently, however, a dose of reality and some fear have crept into the market. Many stocks had become so inflated with unrealistic assumptions about growth, that small adjustments to earnings expectations have caused huge price dislocations. Over the last six months the S&P 500 has declined 3.6% and the NASDAQ has plunged 19.7%. Because recent excesses in the bull market existed in large-cap technology and dot.com related companies, the newfound fear has had little impact on Longleaf's holdings, which already had a large margin of safety between price and value. Longleaf's net asset values over the last two quarters have climbed between 12.0% and 20.7%.

The dramatic relative swing between the indices and Longleaf might cause one to conclude that fear and greed have approached equilibrium. The numbers tell us otherwise. A significant divergence remains in the market. The NASDAQ still sells at 146 times trailing earnings. The chart below shows the average P/E of S&P 500 companies broken into quintiles. The wide dispersion confirms what we have found — attractively priced businesses are still available. Our parsimony highlights Longleaf's opportunity — the Funds' average price to after-tax free cash flow is a low 8 to 9 times.

Average P/E's of S&P 500 Companies by Quintile
9/30/00



We find ourselves as enthusiastic today as we were 25 years ago about the opportunity imbedded in our holdings. All four Longleaf Funds are selling at approximately 55% of our appraisal of their values, implying substantial returns when these businesses reach intrinsic worth. As contrasted with the mid-1990's when we closed our funds and turned away new shareholders, our message to clients today echoes that of a quarter century ago — now is a compelling time to increase your stake in the Longleaf Funds or to become a new partner.

Our management partners are critical to our outcome.
A second truism that has not changed in 25 years is how much our success depends on associating with high quality management partners. Assessing CEOs is one of our most challenging endeavors. Management can mislead us about their intentions as well as the realities confronting a business, and even honorable executives can make mistakes. In spite of the challenge, working hard to find top-notch corporate leaders is more than worth the effort. Good management can magnify value creation at a dominant, competitively entrenched business; mediocre leadership can imperil an average company. Corporate stewards greatly determine how fast business value grows and whether intrinsic worth gets recognized. Our most successful investments have been largely due to corporate partners who consistently and constructively acted to build per share value. Conversely, most of our opportunity costs and frustrations have occurred at the hand of executives who proved to be misdirected, incapable, or less than honorable.

We prefer not to divulge specifics on how we screen for corporate leadership, personal character, competence, passion, and the proper set of incentives. We will tell you we have 100% of our equity capital and careers committed to selecting good management partners, and half of our research effort is spent on this endeavor.

The margin of safety and value growth protect us and reward us.
Graham defined an investment as something that offers safety of principle and an adequate return. For the last 25 years we have increasingly seen the importance of the margin of safety in providing both our protection and our reward. In our March 2000 quarterly letter we discussed the substantial return opportunity presented when we pay half of appraisal for a company and when the value of the business grows.

The margin of safety that generates the return also creates a cushion if something unexpected lowers the value. In spite of our tremendous effort to appraise companies and assess managements, we can misjudge our partners or lower our appraisals because of unanticipated events such as new competitive threats, changes in interest rates, legal claims, or regulatory surprises. Paying half of a company's worth at the outset provides a cushion; even if an unanticipated occurrence lowers our appraisal by 20% or more, the value remains higher than the price we paid.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

Over the last quarter century our focus on the margin of safety has evolved from simply paying a low entry price to also assessing how the value of a company will build. If a business is cheap but its value stagnant, we have some protection and return opportunity. Both are enhanced, however, if the value is building faster than inflation. The value build means a higher return when we do get paid, thus lowering the opportunity cost of waiting. Value growth also benefits taxable investors who defer taxable gains if the value rises faster than the stock price.

Partnership and accountability are a three-way relationship.
A large part of our success over 25 years stems from the common goals we share in our three-way partnership. Longleaf's shareholders, the employees of Southeastern, and corporate management at our investees all have a substantial stake in the underlying companies' shares. Each partner has a responsibility in our joint outcome. Fund shareholders must take a long-term view and understand the benefits of investing at times of market despair. Southeastern's employees must select the portfolio holdings wisely and deliver real, long-term performance of at least inflation plus 10%. Our corporate partners must make intelligent operating and capital allocation decisions to grow business values and have those values recognized.

Communicating with shareholders is imperative.
We endeavor to keep our partners well informed of our progress. Enclosed is a copy of the "*Forbes* Honor Roll" of 15 funds selected for their capital preservation and long-term performance. Other recent articles appearing in *AAII Journal*, *Outstanding Investor Digest*, and the *New York Times* can be accessed or ordered on our web site, www.longleafpartners.com.

We encourage you to use our web site. In addition to relevant articles, from time to time we post conversations with the portfolio managers to answer shareholder questions. With our successful transfer agent conversion in August, we also added the capability to look up account information electronically. As we enhance the site, we welcome your comments and suggestions for content, presentation, or navigation.

Portfolio changes to conform with tax code diversification standards.
To meet the tax code requirements for diversification at each quarter end, positions of 5% or less combined with holdings where we own no more than 10% of a company must total at least half of the assets in each fund. Because we run concentrated portfolios and our holdings do not move in synch with one another, we sometimes scale back a position which has appreciated to over 5% of the portfolio.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

Many shareholders review our portfolio changes from quarter to quarter with great scrutiny. We mention our diversification-related portfolio management because we do not want anyone to read too much into a position's slight reduction.

We want to keep you apprised of distribution plans.
Our capital gains distribution will be in early November, around the 7th. We will not know the final amounts until that time, and any activity through October 31 will be included. We are using our web site to keep shareholders aware of distribution plans. Through September the Small-Cap and Realty Funds have little to no gains to pay out. The Partners Fund has some long-term realized gains from the conclusion of our Philips Electronics sale late last year. At this point the level of payout is approximately 8% of NAV. Along with the success of the International Fund have come meaningful gains, 16% of NAV. Because the Fund is only two years old, a large part of those are short-term.

We will also have a small income distribution in late December. Please use www.longleafpartners.com to keep abreast of all distribution information.

We appreciate the part you have played in our success over the last 25 years. We believe the future has never looked brighter for the risk averse, disciplined value buyer.

Sincerely,

O. Mason Hawkins, CFA
Chairman & CEO

G. Staley Cates, CFA
President

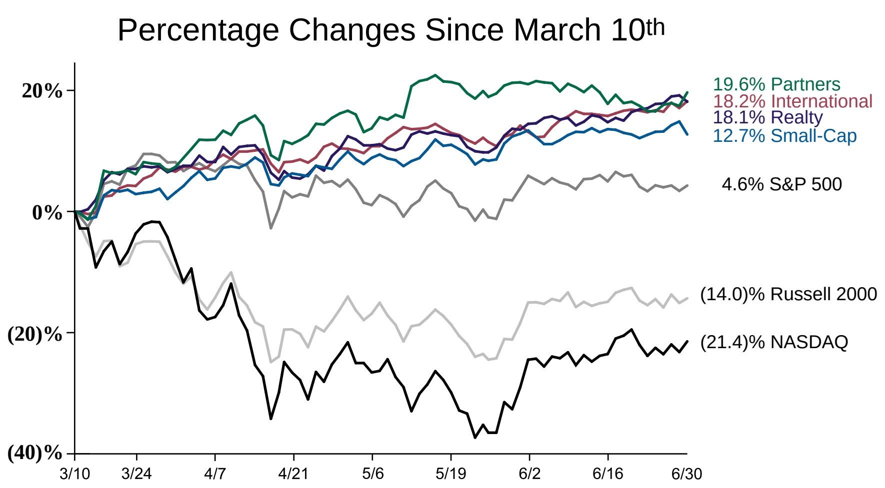
Longleaf Partners Funds
LETTER TO SHAREHOLDERS

To Our Shareholders:

Each of the four Longleaf Partners Funds posted strong net asset value gains ranging between 6.8% and 10.1% in the second quarter. Additionally, the Partners, International, and Small-Cap Funds significantly outperformed their respective benchmarks as those indices declined in the period. A major shift in market sentiment combined with substantial progress at many of our holdings drove the quarter's positive results.

Sentiment Shift

On March 10th, speculation and the NASDAQ peaked. Since then market participants have begun to demand customers, revenues, and operating cash flows that support defendable intrinsic values over business plans without profits. Although capital has flowed more rationally over the past three months and twenty days, many pockets of pricing inefficiency remain. Our holdings have benefited from this recent shift as the chart below shows.



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Progress at our holdings

During the second quarter we continued to see fundamental business progress at most of the companies we own. Economic values built as management teams grew their revenues, improved margins, and reinvested free cash flows wisely. Share repurchases proceeded at an unprecedented pace. As our corporate partners have spent $1 to buy $2 of business value, their companies' values-per-share have materially increased.

We are actively exploring ways both to build values and to get corporate values recognized with our management partners. Toward that end Southeastern has filed a number of 13-D's which enable us to work more closely with management and talk to potential acquirors. We submitted some of these because third party buyers approached us about purchasing our stakes as part of their efforts to acquire the companies. Several of our holdings are receiving bids for parts or all of their businesses. During the quarter acquisition announcements by Unicredito Italiano for Pioneer Group and by Phillip Morris for Nabisco caused PIOG and NA to more than double from their first quarter lows. As others have begun to recognize how discounted the prices of our holdings are, merger and acquisition interest as well as liquidation plans have emerged as a means of getting paid.

Portfolio opportunity

The price-to-value ratio (P/V) calculates the stock price of a business versus our appraisal of its value. We measure the composite P/V for each of the Funds monthly and view this number as the best indicator of our future performance potential, i.e. the lower the P/V, the higher our expected return. In early March we saw P/V's **under** 50% — a first in the history of the Funds. If you purchased shares of the Longleaf Funds in early March, you paid less than half of what our appraisals indicated the portfolios were worth.

Because of the rebound since March previously discussed, P/V's have increased. Each Fund, however, remains extremely cheap relative to its historic average. All four Funds sell below 55% of our ascribed values, versus a long-term average of 68%. These numbers are compelling and imply higher prospective returns than our long-term results. We continue to add to our personal stakes in all four Longleaf funds.

Longleaf Partners Funds
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Shareholder meeting

We were delighted to see almost 400 partners at our meeting in May. For those who were unable to attend, we have posted the audio and slides on our web site, www.longleafpartners.com. The presentations and questions elaborate on many of the points discussed above. We hope that the site gives our partners a better feel for our approach and our views on the Funds.

Transfer Agent Change

In our governing principles we state that "we will continue our efforts to enhance shareholder services." As part of that commitment we are moving the Longleaf Partners Funds' transfer agent function from NFDS in Kansas City to PFPC in Westborough, MA. The transfer agent records and reports all direct account activity. In moving to PFPC we anticipate improved statements, internet account access, a more experienced staff, and increased accountability.

Our phone numbers will stay the same, and aside from an improvement in service and a new mailing address, the transfer agent change should be seamless. You will receive a Welcome Kit including an updated Prospectus before the mid-August conversion.

Distribution Information

Capital gains distributions are still five months away, and it is impossible to project what our realized gains will be or how many fund shares will exist. Because some shareholders have inquired, we will tell you what little we know. The Partners, International, and Small-Cap Funds will have small "spillback" distributions from gains booked in November and December of 1999. Current-year realized gains in the Partners Fund are minimal at this point. The International Fund has booked gains in 2000 of over $29 million, which could change dramatically if losses offset the amount or more gains are realized. Both the Realty Fund and Small-Cap Fund have no distributable gains to date and have net losses available to offset over $20 million of additional capital gains in each Fund.

These numbers are extremely fluid and should not be used to make any projections. Our third quarter report will provide more information about both the distribution date and amounts.

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Conclusion

We appreciate the support that our partners have exhibited through the market's volatility over the last year. We are pleased with the progress made recently in our NAVs, and more importantly, with the results at most of our portfolio companies.

Communicating with our partners is paramount. We hope you will review our postings on the web site and send us your ideas of how the site can be more beneficial. We have included copies of several recent articles about Longleaf in this mailing. We also encourage you to read the Fund reports that follow.

Sincerely,

O. Mason Hawkins, CFA
Chairman & CEO

G. Staley Cates, CFA
President

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS:

In the twenty-five year history of Southeastern Asset Management, we have aggressively pursued additional assets from new and existing clients in the Partners Fund universe three times — late 1987, 1990, and October of 1998. We have otherwise been indifferent to inflows or have closed the Fund when qualifying investments with the required margins of safety were difficult to find.

In the current environment where many already discounted stocks are under further pressure from value managers who are liquidating holdings, Longleaf sees significant opportunity. For the fourth time in our firm's history we are encouraging our existing partners to add aggressively to their Longleaf investments, and we are pursuing new shareholders as well. Many of our institutional clients have added to their accounts with the gains they have captured from their technology holdings. We believe that Longleaf's return opportunities are significant, and the attendant risks are minimal. We are convinced that partners who invest today will be as satisfied with their long-term results as those shareholders who invested in late 1987, the fourth quarter of 1990, and October of 1998.

The Risk

While some use volatility measures such as standard deviation to measure risk, most thoughtful long-term investors equate risk with the probability of permanently losing capital. In today's extremely bifurcated market where a handful of excessively valued companies dominate indices, our holdings have demonstrable intrinsic values which are materially greater than their share prices.

Much has been written about the resemblance of today's market to the early 1970's when fifty stocks known as the "Nifty Fifty" ruled that equity environment. In an article on February 24, 2000 the *Wall Street Journal* drew a striking comparison. At the end of 1972 the top 20% highest priced stocks of the S&P 500 sold for a median P/E of 33.9 while the remaining 80% sold for 12.3X. The contrast in today's market is more extreme. The top 20% of the S&P 500 sells for over 70X earnings, and the lower 80% sells for a P/E of less than 15. Today's "Nifty Fifty" equivalents are Internet related and biotech businesses. In 1999 the 68 technology stocks in the S&P 500 returned 131% while the remaining 432 companies were up less than 2%. The first quarter of 2000 has been a continuation of this polarity.

Historically, those who owned stocks which sold at large premiums to their underlying business values paid dearly. Shareholders who did not cash in their gains from the "Nifty Fifty's" run through 1972, or worse, speculators who chased the good performance and bought those companies as they approached their peaks, had dismal results. Within two years many of the "Nifty Fifty" owners had lost 50–80% of their capital by the time the market bottomed in late 1974. Even if those shareholders held "America's 50 Best Companies" for the succeeding decade, the returns were a woefully inadequate 1.1% **per year**. The table below tells the story.

Nifty Fifty Returns
10 Year Analysis
12/31/72 – 12/31/82

Company	10 year Cumulative Return (%)	Compounded Annual Return (%)
American Express	41.1	3.5
American Home Products	65.1	5.1
American Hospital Supply	48.1	4.0
AMP	89.4	6.6
Anheuser-Busch	54.1	4.4
Avon Products	(66.1)	(10.3)
Baxter International	89.3	6.6
Black & Decker	(33.0)	(3.9)
Bristol Myers	169.2	10.4
Burroughs[4]	(9.6)	(6.6)
Chesebrough-Pond's	46.3	3.9
Citicorp	31.5	2.8
Coca-Cola	8.2	0.8
Digital Equipment	225.3	12.5
Disney (Walt) Company	(34.2)	(4.1)
Dow Chemical	52.1	4.3
Eastman Kodak	(16.9)	(1.8)
Emery Air Freight	(20.5)	(2.3)
General Electric	100.2	7.2
Gillette	22.1	2.0
Halliburton	84.2	6.3
Heublein[5]	45.5	3.9
Intl Business Machines	77.7	5.9
Intl Flavors & Fragrances	(17.4)	(1.9)
ITT	6.4	0.6
Johnson & Johnson	36.5	3.2
Kmart	(42.3)	(5.3)

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Company	10 year Cumulative Return (%)	Compounded Annual Return (%)
Lilly (Eli)	(2.4)	(0.2)
Louisiana Land & Exploration	(23.0)	(2.6)
Lubrizol	13.6	1.3
McDonalds	27.5	2.5
Merck	23.2	2.1
MGIC[(5)]	(35.0)	(4.6)
Minnesota Mining & Mfg	24.6	2.2
Penney (J C)	(19.0)	(2.1)
Pepsico	72.1	5.6
Pfizer	118.7	8.1
Pharmacia & Upjohn	(3.0)	(0.3)
Philip Morris	170.0	10.4
Polaroid	(74.6)	(12.8)
Procter & Gamble	48.7	4.0
Revlon	13.2	1.2
Schering-Plough	(21.2)	(2.4)
Schlitz (Jos.) Brewing[(5)]	(64.1)	(10.3)
Schlumberger	341.5	16.0
Sears Roebuck	(16.0)	(1.7)
Simplicity Pattern[(4)]	(79.1)	(14.5)
Squibb	14.6	1.4
Texas Instruments	74.3	5.7
Xerox	(64.1)	(9.7)
Nifty Fifty (equal-weighted)	31.0%	**1.1%**
S&P 500 Composite	91.9%	**6.7%**

Notes:

(1) Data provided by FactSet using Compustat database.

(2) Returns split-adjusted with dividends reinvested.

(3) Spin-offs become dollar-equivalent dividends reinvested in parent.

(4) Burroughs became UNISYS Corp; Simplicity Pattern became Maxxam Group

(5) Schlitz, MGIC, and Heublein were acquired during 1982. Returns are annualized for the portions of the year that they traded as independent entities.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

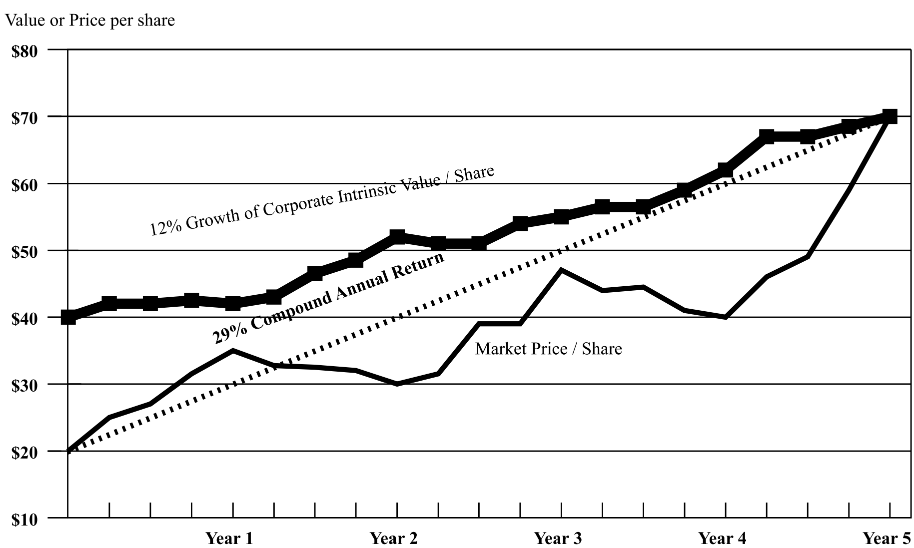
Following a comfortable consensus of owning everyone's favorite stocks almost always hurts your financial health in the long run. The market over the long-term properly prices businesses. Holding overvalued stocks exposes capital to extreme danger.

The Return Opportunity

At the end of the first quarter, all four Longleaf portfolios are selling at approximately half of our appraisals of their intrinsic or private market values. These discounts imply over a 100% return should these businesses reach our appraisals because the corporate values are building through the retention and reinvestment of net cash earnings. Even if it takes five years for the values to get recognized, the return opportunities are substantial.

If we buy a company for half its appraised value, if the value grows 12% per year through business operations and intelligent capital deployment, and if the share price rises to reflect corporate worth in the fifth year, we will compound capital at 29% per year. (If the price approached appraisal more quickly, the return would be higher; if the process took more than five years, the return would be less.) The following hypothetical graph, based on these assumptions, illustrates this process.

Corporate Value, Share Price, and the Compounding Process



Longleaf Partners Funds
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For this compounding to work, we must buy the shares at steep discounts to solid corporate values, the business values must grow, and over time, the share prices must properly reflect the values. Patience and a reasonable time horizon are prerequisites.

Buy at steep discounts: All four Funds recently sold at the lowest price-to-value ratios in their histories. Said another way, our businesses as a whole are selling for about half of their intrinsic values. Recent corporate transactions imply that our appraisals are low, and therefore, the composite P/Vs actually may be more attractive than our conservative calculations, giving us a better prospective return. Even if our analytic conclusions are high by 20% (i.e. the P/V is actually 62.5%), the average annual return in the example is still 23% over five years.

Value growth: Our example assumes 12% annual growth in value over the five-year period. This value build-up is a function of a company's profitability and its management's capital allocation skills. We believe we own businesses which are sufficiently profitable and have management partners who can properly assess risks and returns when weighing whether to reinvest in their businesses, make acquisitions, or repurchase shares.

Price reflecting value: The gap between price and value can close in several ways: the market rises to reflect value; the company liquidates; mergers or acquisitions occur; management takes the business private; or aggressive share repurchase programs arbitrage price towards value. At today's prices we **and** our corporate partners are focused on being good stewards of your capital. In certain cases where we feel we can be helpful, we have elected to work closely with managements and their boards to help build value-per-share and/or to get value recognized. Many companies are liquidating all or part of their assets at fair value and reviewing how best to deploy or distribute the proceeds. A number of our holdings are in active merger discussions — some of our companies are putting themselves up for sale publicly; some are getting calls from private buyers; and some are receiving unsolicited offers. LBO activity has also increased with the decline of share prices. Share repurchases at the companies we own are being executed at a level that we have never seen, with many of our holdings reducing their outstanding shares by over 10% in a year's period. We applaud these buybacks because they increase value-per-share substantially when executed at such undervalued prices, and because today's repurchases represent the highest return and lowest risk capital allocation alternative at almost all of our companies.

Longleaf Partners Funds
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To summarize, your partners at Southeastern have aggressively invested in the Longleaf Funds. We are convinced our returns from today's price levels will be exceptional and the concomitant and comparative risks are negligible.

Shareholder Meeting
Our annual gathering of shareholders will be Wednesday, May 10 at 5:30 p.m. at the Memphis Botanic Garden. We hope to see many of you there. We look forward to reviewing the opportunities in each of the Longleaf portfolios.

www.longleafpartners.com
We have received numerous visitors at www.longleafpartners.com and appreciate your interest. An audio replay of the shareholder meeting presentations should be available on the Web site by the end of May for those of you unable to attend.

Sincerely,

O. Mason Hawkins, CFA
Chairman & CEO

G. Staley Cates, CFA
President

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS:

Longleaf Partners International Fund reported outstanding results in the first full year of operation in 1999, yet many of our undervalued assets in the three domestic funds did not receive their fair weighing by the market. In 2000 we will be disappointed if we don't achieve our base-line objective of inflation plus 10% in all four Funds. As we discuss below, our return opportunities have not been foregone, but have improved as most of our corporate appraisals have grown.

The lackluster reported results for the three domestic funds should not overshadow the fact that 1999 was one of our best years from a buying perspective. The foundation that has been established should produce more than acceptable future returns. We committed more of our personal capital to the Longleaf Funds last year than in any prior period.

We have formatted this letter to answer some of the questions shareholders have raised recently.

Is something wrong at Longleaf?
We don't think so. We are in the same boat with other managers we admire tremendously. After a year when Berkshire Hathaway's performance did not equal some of the momentum followers', the December 27, 1999 *Barron's* headline read, "Has Warren lost his touch?" We and other disciplined value brethren have been through previous periods of underperformance. When our returns are hot (as recently as six months ago) people think we're smarter than we are, and during periods of weak relative performance we have had to explain our rationale. Like seasoned sports coaches, we don't get that excited when being carried off the field and we don't get that upset if the fans are screaming to fire us.

Aren't you exercising disciplines that are no longer valid in this new age?
Mathematically, the value of a business is equal to the net present value of its future free cash flows. History has proven that over time stock prices, although volatile in the short-term, will converge with intrinsic business value.

Companies that can grow their free cash flow in the high single digits or low double digits **without spending capital to get that growth** currently are considered downright frumpy. When we add the wisely reinvested free cash flow coupon to the organic growth rate, the companies we own are capable of growing their intrinsic values in the mid-teens for a long time. Buying those businesses at half their values implies large future returns. For our capital, a quality, low risk investment has an assured growth of corporate intrinsic worth and has a large margin of safety with the appraised value significantly greater than the share price. Remember, as business analysts we look through the stock to the assets that a company owns; free cash flows, not newspaper headlines or short-term stock price action, determine quality. We made a lot of money in Seagram last year; initially when we invested, many confused the then bad press with the quality of Seagram's assets. The same applies to Waste Management today.

Some are worried about the opportunity cost of meager returns from quality businesses while the hot, speculative stocks are rising so dramatically. **The opportunity of a significantly undervalued investment is not foregone.** Why? Assume that high-quality company A was worth \$40 in 1998, and it grew its intrinsic value through retained and reinvested cash flow by 15% to \$46. Assume further that the price of A went from \$20 to \$17 in 1999. If in the long run stock prices converge with underlying values, which they have done for the last couple of centuries, then our target payoff is now \$46 for A, not \$40. We have postponed and **increased**, not given up, our return. As long as the value grows, when the payoff happens is irrelevant because the prospective return rises. Furthermore, for taxable investors, long-term capital gains tax liabilities are deferred.

Stock market recognition of business value has never come in straight lines or equally measured amounts. If we knew the payoff pattern, we would not need to be either patient or long-term.

Why are you avoiding the Internet growth stories?
Historically, owning industries that transform the economy and have guaranteed high **unit** growth rates has almost never equaled investment success. Knowing that autos, aviation, televisions, and computers would proliferate did not translate into acceptable returns for investors for two primary reasons. First, the revolutionary benefits of these incredible breakthroughs accrued to customers and users, not owners. Second, in our open capitalist markets, competitive pricing fire rained down from everywhere, eliminating all but a few survivors. The risks are too high if the business owner might not keep the benefit of burgeoning demand because of having to discount prices, or if the current high grower might not have a competitive position in five years. Because a company's value is derived from the net present value of all future cash flows, what happens in year five is of massive importance to today's price. Sometimes investors assign multiples lightly or irrationally to earnings, revenues, "pageviews," or other relevant measures without any certainty about whether and when the company will generate cash.

Will Longleaf ever invest in technology?
We have and we will, but only on our terms and conditions. We can benefit from new, revolutionary, and productivity-enhancing technologies in four intelligent

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ways. Each has varying degrees of risk and probabilities of success, and each must be analyzed carefully. First, we can invest in unique, strongly competitive non-tech businesses that will become more profitable through their use of new technologies (Marriott, Hilton, Waste Management). Second, we can own companies that will benefit significantly as service providers to rapidly growing technology enterprises (FedEx). Third, we can purchase above-average companies that are so undervalued we receive their established and/or nascent high-tech endeavors for no or negative consideration (Hughes through General Motors, semiconductors and digital technologies such as DVD through Koninklijke Philips Electronics, Nokia via Sampo). Fourth, we can own technology companies directly (MediaOne and 360° Communications). In this last alternative, the business clearly must fall within our sphere of understandability, be competitively entrenched, have a definitive cash earnings stream that determines our value, and be available in the market at less than 60% of our appraisal.

Can't you just admit you missed the mark on Waste Management?
Our long-term investment success depends solely on 1) getting our appraisals right, and 2) having the values grow. No matter what the stock price does short-term, if the company's value rises, we will be successful over time. That is why, after only six months since the price declined, we are not ready to throw in the towel on Waste Management. The quality of the business and the competitive strength of the company have not been harmed. WMI's landfills and ability to generate substantial cash flow through efficient integration of waste collection and disposal create a large and **growing** value. The company has the right leadership in place with Maury Myers, and his team is several months into fixing computer related and operational problems from the merger.

With such large personal stakes in the Funds, we are constantly assessing whether we are "right" about our appraisals, the managements, and the businesses we own. We admit and try to learn from our errors. It is instructive to look at what we consider poor assessments, where 1) the values have dropped or stagnated, and 2) there is a meaningful measurement period of years, not months.

Our economic assessment of Alexander & Baldwin was too optimistic. The Hawaiian economy has stayed weak for so long that our appraisal hasn't grown in the past few years, nor has the price of the stock. We continue to hold A&B because our appraisal is finally growing as the new CEO, Allen Doane, takes advantage of the state's distress by buying Hawaiian properties cheaply and repurchasing his undervalued shares.

We also misjudged Host Marriott's ability to allocate capital. Our value took a major hit when, instead of rolling up partnerships cheaply for cash, management issued undervalued equity for partnerships and for a major acquisition. We remain shareholders because we are convinced that the newly appointed CEO, Chris Nassetta, will do a better job at capital allocation; performance of the hotel properties has not missed a beat; and the company has begun to aggressively buy in shares.

We sold five companies across the four funds last year at close to breakeven results because our assessments of management turned negative, even though the stocks remain undervalued. We would rather not name them to protect the guilty.

As your portfolio manager and large investment partner we are responsible for making sure our businesses grow in value. To do that, it behooves us to judge ourselves critically and improve our investment and analytical process, rather than worry about people's perceptions of our judgement. Renowned value investor Seth Klarman pointed out that "Being very early and being wrong look exactly the same 99% of the time."

Why aren't you worried about your results?

We reassess our holdings constantly, as any long-term owner should. Today's evaluations point to one conclusion — we currently own the best collection of assets we have ever held, at the best prices.

- You and we own sited landfills that have almost no risk of duplication, little serious competition, strong pricing power, and growing long-term demand. These landfills sell for less than seven times free after-tax cash flow (contrasted to the S&P's P/E of over 30X).
- You and we own the highest quality worldwide express delivery network in the world via FDX for a fraction of replacement cost. While UPS has higher stock price parameters because of its strength in business-to-consumer Internet delivery, FDX is stronger in business-to-business commerce. This e-commerce market will become substantially larger than the consumer side.
- You and we own the highest quality collection of hotels anywhere at unlevered cash-on-cash yields in the mid-teens.
- You and we own vast amounts of timberlands with high cash flow returns at a few hundred dollars per acre.

This list goes on and on. If we bid today's market equivalent prices for comparable private assets, sellers would either have a stroke laughing or punch us for the insult.

In the past we have been unable to own as many assets of this quality. Prices were too rich to stomach, despite how we salivated at the rapid value growth. To our benefit today's stock market is assigning the "quality" label only to those businesses such as technology and communications with a case for phenomenal **unit** growth.

The management teams at the companies we own are not only good partners, they are enhancing our appraisals with share repurchases. With stock prices more disconnected from their businesses than most can remember, our partners are making the intelligent capital allocation choice to buy back shares. The current level of share repurchase activity at our portfolio companies is unprecedented. Using the Partners Fund as a proxy, only **four** U.S. companies in the entire portfolio are not buying back their shares. While this statistic means nothing short-term, repurchases significantly raise intrinsic values-per-share (as the denominator shrinks faster than the numerator), and therefore increase our long-term return.

Our strong optimism about the Longleaf portfolios, despite an overvalued market, is based on our compelling and undervalued holdings. When we compare the appraisal of each company we own to its stock price, we have some of the cheapest, quality businesses that we have ever owned. Collectively, these positions should produce significant future returns. We have increased our own investments in all four Longleaf funds for all the above reasons.

How could I have known about the distributions?
Our vehicle for communicating with our partners has always been our quarterly reports. Every quarter we list positions sold and we discuss significant sales in each Fund's commentary.

- Our Third Quarter Report included a paragraph indicating the date and magnitude of distributions for the funds.
- With the introduction of our Web site (see below), we will have an additional way to inform you of distribution plans.
- Because we have received so many questions and comments about this topic, we put together a separate discussion on distributions. Although many of you received a copy in the mail, we have reprinted it in this report on page 7.

Have Fund redemptions been a problem?
Some shareholders redeemed their investments in all four funds in 1999. Redemptions have not disrupted our portfolio management. In the cases where we sold securities, we liquidated our highest price-to-value positions and improved the undervaluation of the remaining portfolio. More importantly, we are grateful to those of you who continue to believe in our disciplines. Our almost

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30 years of experience convinces us your allegiance will be amply rewarded; superior returns would be the best "thank you" we know of.

How can I stay more aware of what's going on at Longleaf?
We spend a substantial amount of time trying to make our quarterly reports thorough and useful, and encourage all our partners to read them. Because the Annual Report is audited, it requires about six weeks to get a final version. We try to turn around the other quarterlies within three to four weeks of quarter end to enable our partners to have the information they want as soon as possible.

We also encourage you to come to our annual gathering of shareholders. Last year we had over 400 partners attend. This year the meeting will be Wednesday, May 10 at 5:30 p.m. at the Memphis Botanic Garden.

We enter the new century by announcing a Longleaf Web site, www.longleafpartners.com. We heard from a number of you with content suggestions, and have tried to incorporate your comments in our design. The site should be available around the first of February. We will be adding enhancements to the site over the next few months, and welcome your suggestions. We will use the site to post our quarterly reports electronically and to notify shareholders of any fund news. Background information, historical data and reports, and articles will be available.

Will the Partners Fund reopen?
The Partners Fund re-opens to new investors on February 1, 2000. The Fund is extremely well positioned with undervalued, high quality holdings and little cash. We have found several compelling additional investments which cash inflows will enable us to own. All our partners will benefit from new assets into the Fund. Buying our most undervalued investment ideas will decrease the Fund's already historically low price-to-value ratio, thereby further improving our substantial return opportunity.

We extend our best wishes to each of you as we head into 2000. We look forward to visiting with our partners at the annual meeting.

Sincerely,

O. Mason Hawkins, CFA
Chairman & CEO

G. Staley Cates, CFA
President

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TO OUR SHAREHOLDERS:

Benefits of Price Declines and Volatility

In the third quarter of 1999 the International Fund rose slightly while the three domestic Longleaf Partners Funds suffered disappointing price declines which eroded much of the performance delivered in the second quarter. The Longleaf Funds are fortunate to have perspicacious long-term partners who understand that increased price volatility produces salutary benefits for patient, disciplined, value-driven investors.

Ben Graham described these benefits in Chapter 8 of *The Intelligent Investor*.

> As long as the earnings power of his holdings remains satisfactory, he (the investor) can give as little attention as he pleases to the vagaries of the stock market. More than that, at times he can use these vagaries to play the master game of buying low and selling high. . . . The investor who permits himself to be stampeded or unduly worried by the unjustified market declines in his holdings is perversely transforming his basic advantage into a basic disadvantage. . . . Price fluctuations have only one significant meaning for the true investor. They provide him with an opportunity to buy wisely when prices fall sharply and to sell wisely when they advance a great deal.

Recent bouts of market fear coupled with specific company shortfalls from consensus quarterly earnings estimates have enabled us to "buy wisely" in compelling investment opportunities. We made significant progress in our domestic portfolios.

- We added to existing holdings that we know well at very attractive prices.
- We acquired several new positions at prices below 60% of our conservative appraisals.
- These investments have decreased the levels of low yielding cash in each Fund.
- Our corporate values per share, as well as our ownership in certain businesses, increased as many of our corporate partners moved to repurchase shares aggressively.

This progress has lowered the Funds' composite price-to-value ratios and increased implied future returns. We recently have added materially to our personal commitments in each of the four Longleaf Funds.

When do we sell a stock?

We sell a stock for one of four reasons:

1) The price reaches our appraisal and no margin of safety remains.

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2) We can improve our risk/return profile substantially, e.g. we can replace a business selling at 80% of worth with an equally attractive company at 40% of value.
3) The future earnings power of the company becomes severely impaired by threats to the business, poor capital allocation, or other reasons.
4) We no longer believe management can build shareholder value and efforts to find new corporate leadership would be unsuccessful or too costly.

Some have asked how long we will wait for a stock's price to rise before we decide to exit an investment. A stock's price tells **nothing** about its value, nor does it indicate over a short period how well we are executing. Asset values and the free cash flow streams produced from those assets determine a company's intrinsic value and our eventual outcome. Our horizon is opportunity driven, not time driven. If the return opportunity remains significant based on the quality of the business, the actions of management and the board, and the price of the stock, we are patient. Additionally, we will always encourage managements to build their long-term competitive advantage, even if it means sacrificing short-term results.

A Twelve Month Perspective
Having a solid understanding of a business' value rewards us when its stock price rises and when it falls. In the third quarter of 1998, all three domestic Longleaf Funds declined **more** than they did in the third quarter of 1999. Armed with our appraisals, we were buyers. We noted in the September 1998 report that:

> For the first time since the Partners Fund closed in September 1995, all three Longleaf Funds have sufficient undervalued and qualified investment opportunities to become fully invested. This is a significant change from our June report when cash reserves in the Small-Cap and Partners Funds were 27% and 15%, respectively. Secondly, lower share prices and our commitment of cash reserves to a number of very undervalued businesses have reduced the composite price-to-value ratios for each Longleaf Fund to historically low levels. Our partners today have larger margins of safety and higher implied future returns than at any point since 1990.

Following these comments, the twelve month returns, including the declines in the third quarter of 1999, are 21.7% for the Partners Fund and 19.6% for the Small-Cap Fund. The Realty Fund's 1.7% return is also satisfactory given its universe, where the NAREIT Index is down 8.5% and the Wilshire Real Estate Index has declined 4.3%.

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We and our partners benefited by acquiring what we knew were steeply discounted companies. We reaped the rewards when fear subsided and the market began to properly weigh the values of some of our holdings. Our prospects today are as compelling as they were twelve months ago.

Distribution Information
Our capital gains distribution will be in early November, around the 10th. We will not know the final amounts until then, but the Partners Fund and Small-Cap Fund each have booked meaningful realized gains, primarily long-term, from selling businesses that reached appraisal. The International Fund currently has a small book gain, and we do not anticipate a capital gain distribution in the Realty Fund.

Web Site
We have determined that a web site for Longleaf will strengthen our partnership with you by making information more accessible. We are in the process of designing the site, and our goal is to introduce it early in 2000. (This timing saves addressing Y2K concerns and should help minimize the cost of the project.) Expect to read more about our site in our Annual Report.

Y2K Update
Our direct shareholders received our Y2K Readiness document with their account statements. For your convenience, it is reprinted on the following pages.

Sincerely,

O. Mason Hawkins, CFA
Chairman & CEO

G. Staley Cates, CFA
President

Longleaf Partners Funds
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TO OUR SHAREHOLDERS:

Second Quarter Performance
We are pleased to report the Longleaf Partners family of funds posted one of its best quarterly results ever, with each Fund producing high absolute, real returns for the three months ended June 30, 1999, and performing well against market benchmarks. Although the Longleaf Funds operate in four distinct arenas, their returns were remarkably similar.

Longleaf Partners Fund	+14.16%
Longleaf Partners International Fund	+15.72%
Longleaf Partners Realty Fund	+14.49%
Longleaf Partners Small-Cap Fund	+13.83%

Horace's quote which we cited in our last report — "Many shall be restored that are now fallen, and many shall fall that are now in honor"— proved prophetic. A number of our undervalued businesses rose significantly in the second quarter while most of the formerly popular Internet market leaders collapsed.

We implore our partners to remember that **annual** long-term equity returns have averaged 12%. Many, many quarters may pass before all four Longleaf Funds again produce results in excess of stocks' long-term performance, and accomplish the feat over a three month span. Longleaf's investment partners had much to celebrate this Fourth of July.

How the High Market Affects Us
Ben Graham, describing past bull markets in Chapter 8 of the fourth edition of *The Intelligent Investor*, wrote:

> Nearly all the bull markets had a number of well-defined characteristics in common, such as (1) a historically high price level, (2) high price/earnings ratios, (3) low dividend yields as against bond yields, (4) much speculation on margin, and (5) many offerings of new common-stock issues of poor quality.

The current bull market, measured by the S & P 500 Index, has no peer, and the persistently good investment environment has dulled even the bears' view of risk.

- Assuming 1999 ends with positive performance, stocks will have gone up nine consecutive years. Equities previously never had risen more than six years without posting a down period.

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- Stocks have climbed from the lows of 1990 approximately 465%, a rate of 21.8% annually when dividends are reinvested.
- Equities sell at the highest multiple of trailing earnings ever — 36 times.
- This unprecedented P/E ratio is being assigned to the highest level of profitability in corporate history. Operating profit margins and returns on equity capital have never exceeded current levels.
- After-tax earnings yields are only half the yields on long-term Treasuries. Dividend yields are inconsequential.
- Frenetic day trading has grown to become a meaningful percentage of Wall Street's daily volume.
- Internet IPO's are being floated with such frequency that most new student entrepreneurs believe any reasonable MBA.COM idea should make them billionaires.

How should we react to this unprecedented market environment? The risk of losing significant capital is high if you own the market or if you own companies with no margin of safety between their prices and their values. Our operations will not change. We will sell stocks when they reach our appraisals. We will purchase new positions only when we find qualifying businesses managed by competent individuals at prices below 60% of intrinsic value. If we cannot find such stocks, cash reserves will build. This has been the case in the Partners Fund, which closed to new investors on June 1 to limit inflows.

Patience and discipline are our weapons against the grossly elevated levels of big company stocks. Either the general market will correct, or individual businesses will temporarily be mispriced. We are ready to take advantage of either case. Our research resources are substantial, and our efforts are acutely focused.

This supercharged market environment has not eroded the opportunities in our other three Funds. The market's broadening in the second quarter did not erase the dichotomy between large cap equities and everything else. The International, Realty, and Small-Cap Funds are fully invested and cash inflows are being deployed in businesses selling at steep discounts to their appraisals. The price of each Fund relative to its underlying value is 60% or less. We are continuing to increase our personal stakes in the Realty and International Funds, where the values are most compelling.

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A Tribute to our Partners

We have some of the most astute and involved investors in the industry, and we appreciate your support. We had another crowded Partners Meeting in May with over 400 shareholders from across the country. We thank you for the effort many of you made to be with us.

The press recently has written about the demise of mutual funds, lower inflows, and record redemption levels. It is appropriate that Longleaf's investment partners are contrarian. We had net inflows both in 1998 and through the second quarter of 1999 in all four funds. With two closed funds, 39% of our asset growth has come from cash inflows over the last six months. We take your commitment seriously and in turn commit that we will encourage long-term partners who embrace our philosophy and discourage speculators who chase performance.

Sincerely,

O. Mason Hawkins, CFA
Chairman & CEO

G. Staley Cates, CFA
President

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR INVESTMENT PARTNERS: April 7, 1999

The Dichotomy – Equities are Expensive/Equities are Undervalued
As the Dow Jones Industrial Average dances around the 10000 level, there is a pronounced dichotomy between the performance of the few large growth and technology companies dominating the S&P 500, and everything else. The market indices shown below reflect the large divergences:

	1st Quarter 1999 Return	1998 Return
S&P 500 Index — *500 most widely held public companies, market weighted*	5.0%	28.6%
Largest 50 companies in S&P 500 Index — *market weighted*	6.6%	50.3%
S&P 500 Index **equally weighted** — *500 most widely held public companies, equally weighted*	(0.9)%	7.1%
Russell 2000 Index — *Smallest 2000 of the 3000 largest public companies, market weighted*	(5.4)%	(2.6)%
Value Line Index — *1650 large and mid-cap public companies, equally weighted*	(6.4)%	(3.8)%

The disparate performance between the fifty largest companies and the rest of the market has pushed valuation levels of the two groups in opposite directions. The opening quote in the first edition of Ben Graham's *Security Analysis* is particularly fitting today:

"Many shall be restored that are now fallen, and many shall fall that now are in honor." Horace – *Ars Poetica.*

Think, Don't Follow
The 17th century British philosopher and scholar John Locke wrote, "It is thinking which makes us who we are." This is a time for all investors to think. Too often in investing, thinking becomes subordinated to following – mindlessly buying stocks solely because of other investors' prior success. Increased share price begets additional market participants, and soon price levels rise to exceed any reasonable valuation relative to earnings potential. Greed, not thought, is driving the prices of the companies dominating today's market.

As our Scout leaders may have admonished, this market environment implores all investors to be prepared. Be prepared for the current market leaders' almost surreal valuations to decline dramatically, and for many currently ignored equities to rise appreciably.

Foregone opportunities will not change your economic status, but lost capital might. Longleaf requires new investments, as well as current holdings, to have appraisals that materially exceed each company's stock price. In these heady times, one should be as concerned for the return **of** principal as for the return **on** principal, and not concerned at all with whether, in the short run, he or she matches an overvalued index.

The margin of safety requirement guides our research effort. Although the Partners Fund's price-to-value ratio remains attractive, we are having difficulty finding new qualifying investments in the large cap world. Our other three Funds – International, Realty, and Small-Cap – have compelling investment opportunities. The price-to-value ratios of these three funds are at or near their all-time lows; their implied returns from this level are significant. Your management team and Southeastern's retirement plan have recently added substantial capital to both the International and Realty Funds. Our partners should consider doing the same.

Volatility – Friend of the Disciplined Investor

Volatility is the best friend of the long-term investor, and is terrifying for the speculator with a short-term horizon or with leverage. As long-term owners who know what our companies are worth, we benefit when market fear offers undervalued investment opportunities. In buoyant times, we benefit by selling businesses at prices equal to, or even higher than, our appraisal of their intrinsic values.

The Partners Fund's two largest holdings, FDX (parent of Federal Express), and Marriott International (ticker MAR), provide examples of volatility's rewards. Last summer FDX plunged from the mid-$80's to the low $50's on short-term concerns about Asia and the U.S. economy. This decline heavily impacted the Partners Funds' third quarter performance, but did not change the company's long-term value. We used the price weakness to invest another $84 million in FDX at an average cost of under $53. Today the market values those shares at $164 million. After almost reaching $40 per share, MAR dove into the low $20's in September while our appraisal was unaffected. We purchased an additional $94 million worth of MAR at an average cost of under $23 per share. Today that commitment is selling for $146 million. Without the third quarter swoon, we would have foregone $130 million of profit from adding to FDX and MAR. Not only did the market value of our original stakes end up higher after the roller coaster dip, but the volatility enabled us to make more money than if the plunge and bounce back never had occurred.

All the Funds took advantage of the opportunities in the third quarter of 1998. In the current buoyancy of the Partners Fund's universe, we have recently sold stocks at excellent prices and temporarily have cash. The other three Funds are continuing to take advantage of the price weakness in their respective arenas. Volatility works both ways, and opportunities will continue to be offered on our terms if we are patient. Our main message to our partners is this: instead of focusing on performance during "down" periods, or on cash positions in "up" periods, remember that price volatility constantly lays the groundwork for **higher** returns than we would receive if equity prices moved up in a straight line. The key to taking advantage of volatility is knowing the intrinsic value of each company we own and the ability of our management partners.

Year 2000 Update

Many of you have expressed interest in staying current on our Y2K compliance. Our Annual Report summarized our overall effort. We will continue testing internal systems. We are also monitoring our vendors who report being on track for 2000 readiness. The readiness of the companies in our portfolios is also a factor in our investment appraisals. We remain vigilant and will report our status throughout the year.

Web Site and Other Technology Update

Thanks to many of you who responded to our question in the Annual Report regarding a Longleaf Web Site. We appreciate the thought you gave not only to whether a site would benefit you personally, but also how it would impact the Funds. We are taking a deliberate approach. The site should be a useful and cost effective communication tool. It should not compromise our focus on research and portfolio management. We will keep you posted.

We are consolidating our phone lines into a single number. We currently have separate toll free numbers for ordering fund materials, processing transactions, and accessing the automated phone line. You can still reach these different areas by dialing the same numbers you use now, but if you want to remember a single number for all Longleaf interaction, use (800) 445-9469. This consolidated system should take effect in mid-May.

Annual Meeting

We hope you will join us for our Annual Meeting. Last year we had over 400 participants. The meeting is Tuesday, May 4, 1999, at 5:30 p.m. at the Memphis Botanic Garden, located at 750 Cherry Road. If you are coming from out of town and need directions or other information, please call us at (901) 761-2474.

Please review the discussion on each Fund that follows. We have tried to communicate our enthusiasm and conviction for the companies we own and for our substantial return opportunity.

Sincerely,

Mason

O. Mason Hawkins, CFA
Chairman & CEO
Southeastern Asset Management, Inc.

Staley

G. Staley Cates, CFA
President
Southeastern Asset Management, Inc.

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TO OUR SHAREHOLDERS:

Our ten guiding principles serve as an outline for commenting on 1998 and our efforts going forward.

We will treat your investment in Longleaf as if it were our own.

Year 2000 Readiness

During 1998 attention increasingly focused on "Y2K". Many computer programs use two digits instead of four to designate a year; two digit systems may read the start of the next century as 1900 instead of 2000. This simple problem has widespread consequences if not corrected. A computer system with an inaccurate date may not operate correctly or could calculate wrong numbers.

At Longleaf we are taking steps to ensure that our fellow shareholders receive the same level of service on January 1, 2000, that they had the previous day. According to our vendors, mission critical systems at Southeastern Asset Management are already Y2K compliant, meaning they will correctly recognize dates after December 31, 1999. We will run a full test this quarter by setting the date to 2000 and confirming that systems run smoothly.

Longleaf also relies on outside vendors for functions such as custody, transfer agency, and trading. We are monitoring our vendors' Y2K readiness. Each has provided a plan for compliance. All appear on track. Our objective is to identify those vendors unable to modify their systems prior to 2000, and put contingency plans in place until those systems are working properly. Throughout 1999 we will track progress and perform tests with our vendors. Our vendors will also participate in an industry wide test scheduled in the spring.

Our Y2K effort also includes monitoring the companies we own in the Longleaf portfolios. As part of our research effort we ask corporate management about their vulnerability, their plan to address any problems, and the cost to be compliant. We factor their answers into our appraisals of their business.

In spite of the planning, all systems may not be ready. Even if Longleaf, our vendors, and our portfolio companies are compliant, a problem at the phone or utility companies could temporarily negate our efforts. Not even the experts know if and where we will find a problem until the clock actually turns to 2000 and everyone's systems are running in real time.

To protect your investment in Longleaf against the unknown, we will save a copy of all account records as back up. In the worst scenario, we will rely on paper and pencil. If any system problems occur, they will be temporary, and we should return to normal operations relatively quickly. We will remain vigilant concerning any problems and will strive to protect our partners' capital in all circumstances. We will update you throughout the year.

No Soft Dollars
A second issue given attention by the SEC and the media during 1998 was investment advisors' use of soft dollars (commissions) to purchase services. Soft dollar concerns involve whether fund shareholders pay higher commissions for services and whether those services legitimately qualify as research expenses. To address both issues Southeastern Asset Management uses no soft dollars, a practice unique in the industry.

We will remain significant investors with you in Longleaf.

Our Commitment
The employees and affiliates of Southeastern represent one of the largest shareholder groups in each of our four funds. Our commitment increased during 1998. Many inquire about our allocation strategy. Over time we expect to own equal amounts of our four funds for both diversification and opportunistic reasons. At the time of investment, we generally add to the portfolio selling at the steepest discount. During 1998 most of our personal inflows went into the Realty and International Funds.

We will invest for the long-term, while always striving to maximize after-tax returns and to minimize business, financial, purchasing power, regulatory, and market risks.

After-tax returns
As owners we tally our compounding success after paying taxes. In 1998 tax efficiency was lower than historical averages in the Partners and Small-Cap Funds for two primary reasons. First, a number of companies reached full value and/or were acquired. To protect our capital, we sell a business when no margin of safety exists between price and value. We deferred our gains in these companies over the years we owned them, but ultimately their prices reached full value. Most of our gains were long-term. Price appreciation is our goal when buying a business. Unfortunately, we must pay taxes when prices rise to appraisals and we sell shares.

Having the Funds closed also impacted shareholders' tax liabilities. We closed our Funds to protect existing owners' ability to compound. In a year with large distributions, shareholders in closed funds receive a bigger pay-out because there are no cash inflows creating a wider base for spreading the increased gains and dividends.

We do not alter our portfolio for tax management purposes. We sell a business when it reaches full value or if a materially better long-term opportunity presents itself. When we make the decision to sell, execution focuses on tax efficiency. We will not, however, sell a company which has a paper loss if we are still confident in the underlying value of the business and its management. First, offsetting gains with losses is a short-term strategy that only defers, not eliminates, taxes. Second, and more importantly, being out of a company for 30 days to book a loss has tremendous potential opportunity cost and definitely incurs added execution costs. If the stock price rises above 60% of value during that time, we have lost both the tax free appreciation and the appropriate weighting of an undervalued company in the portfolio. As an example, many of our peers who booked losses with very depressed stocks in the third quarter paid the opportunity cost with the market's rapid fourth quarter rise.

We will choose our common stock investments based on their discount from our appraisal of their corporate intrinsic value, their financial strength, their management, their competitive position, and our assessment of their future earnings potential.

Current price-to-value ratios

We choose equities across the four funds using the above criteria. Surprisingly, given the strength of the S&P 500, each Fund enters 1999 at or near its lowest price-to-value ratio this decade. The P/V is the best indicator we know for future performance. We calculate the value of each business in the portfolio and its current market price. The composite P/V is the weighted average for all the holdings in a fund. A lower P/V means a larger margin of safety, and consequently a greater appreciation opportunity.

We will comply with the diversification standards of the Internal Revenue Code, but will not overdiversify our holdings.

The importance of concentration

When we find a business that passes our stringent investment criteria, we want to own a lot of it. Taking positions that are 5% or more of a Fund's assets forces us to choose only our best ideas and ensures those businesses have a meaningful impact on the portfolio. The largest contributors to performance are typically among the top five holdings during the year, and 1998 was no exception. The sections on each Fund will highlight the impact of concentration.

We will not impose loads, holding periods, exit fees or 12b-1 charges on our investment partners.

Continued low ownership costs

Low expense ratios and no surcharges are in shareholders' best interest. Mutual fund families that prioritize growing assets over owning large amounts of their own funds are paying large distribution costs. In 1998 and into 1999 other funds are exploring adding 12b-1 fees and raising management fees to help cover the cost of gathering assets. We will not raise or add fees.

We will consider closing the Funds to new investors if our size begins to restrict our ability to manage the portfolios, or if closing would otherwise benefit existing shareholders.

Partners Fund
Three years after closing Longleaf Partners Fund, we re-opened it in 1998. The third quarter's market decline enabled us to fully invest the portfolio and gave us additional opportunities for putting new cash to work. We have had inflows of approximately $250 million since mid-October, and have invested most of the cash. If, however, qualifying investment opportunities again become elusive, we will re-close the Fund.

Small-Cap Fund
The Small-Cap Fund will remain closed to enable the Fund to continue investing in small companies.

We will discourage short-term speculators and market timers from joining us, the long-term investors in Longleaf.

Short-term investors not welcome
During 1998 we worked closely with third party clearing firms and our transfer agent to identify market timers. We have compiled a large list of investors and advisors who are prohibited from trading in any of our funds. Inflows from a person whose time horizon is less than three years do not benefit our investment partners.

We will continue our efforts to enhance shareholder services.

Phone purchases
At the suggestion of a shareholder, we will allow purchasing shares over the phone and having the amount debited directly from your bank account. We plan to add this capability in May and will notify you when it is available. We welcome other suggestions for better service.

Web Site
We are exploring whether the cost of creating and maintaining a web site would be justified. We are interested to know whether and how our investment partners would use a site. Would you use a Longleaf site for accessing portfolio information and account information, for buying and redeeming shares, for receiving your statements and financial reports or other functions? What information and capabilities would a site need to make it worthwhile? Please write Lee Harper with any comments or suggestions you have at 6410 Poplar Ave., Suite 900 Memphis, TN 38119, or e-mail her at lharper@llpf.com.

We will communicate with our investment partners as candidly as possible.

Simplified Prospectus
We are rewriting our prospectus to refocus and simplify it. You should expect to see our new version which will include all four funds in May. We welcome your feedback and suggestions.

Reprints from Outstanding Investor Digest
We hope you find our reports and reprints useful. The Outstanding Investor Digest in its December 29, 1998, issue summarized notes from several meetings that Longleaf sponsored in the fall. The article is sixteen pages of Q&A with Longleaf's portfolio managers and gives greater detail on our philosophy and investments. To save mailing and printing costs, we have not sent a copy with this report. If you have not seen the article and are interested in reading it, please call our service desk at (800) 445-9469, press 1 and request a copy.

Annual Meeting – May 4, 1999
We are always delighted to see our fellow shareholders at Longleaf's Annual Meeting. We appreciate the effort many of you make to travel from across the country. This year's meeting will be Tuesday, May 4, 1999, at the Memphis Botanic Garden. What is on your mind always proves more interesting than our prepared remarks. Bring your questions and we will look forward to a lively meeting.

One Final Note
To recognize John Buford's decade of contribution to our research effort, we have added John as a co-portfolio manager for both the Partners and Small-Cap Funds. Many of you have met or spoken with John over the years and know the critical role he has played in our Funds' success. While John's new title in no way diminishes the commitment and responsibility of Mason and Staley to the Funds, as co-portfolio manager John's accountability and focus will increase.

We wish you a very happy New Year and trust each of you will have a healthy and prosperous 1999. As always, we are very appreciative of your long-term support.

Sincerely,

O. Mason Hawkins, CFA
Chairman & CEO
Southeastern Asset Management

G. Staley Cates, CFA
President
Southeastern Asset Management

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS:

Best Positioning in Eight Years

The third quarter of 1998 was a period of demarcation for equity investors. Shareholders, lenders, currency speculators and hedge fund operators sought liquidity and ended an eight year bull market for U.S. stocks. The unweighted averages declined more than 30% peak to trough, IPO underwritings evaporated, mutual fund owners withdrew assets, and bond returns dramatically decoupled from equity results as capital preservation became a mantra. Market, business, and credit risks worldwide were reestablished in the forefront of investors' minds.

While the purging of financial excesses may be difficult to appreciate because of the resulting marked-to-market pain we have suffered, Longleaf owners reap two very salutary benefits. For the first time since the Partners Fund closed in September 1995 **all three** Longleaf Funds have sufficient undervalued and qualified investment opportunities to become fully invested. This is a significant change from our June report when cash reserves in the Small-Cap and Partners Funds were 27% and 15%, respectively. Secondly, lower share prices and our commitment of cash reserves to a number of very undervalued businesses have reduced the composite price-to-value ratios for each Longleaf Fund to historically low levels. Our partners today have larger margins of safety and higher implied future returns than at any point since 1990. We encourage you to read the report for each Longleaf Fund on the following pages.

Our Wonderful Partners

It is easy to be an investment partner when annual returns are 20+%. The test of our relationship with shareholders comes in down markets such as the third quarter. Over the last three months our partners have been more than supportive.

Unlike many funds that experienced net redemptions during the third quarter, all three Longleaf Funds added new assets. Many of you have called to confirm that this market has given us better bargains and to see if we can put additional cash to work. This level of understanding of our discipline makes us proud to be your partner, and, more importantly, benefits all shareholders. When investors send new cash knowing we can buy very cheap businesses, we all receive better long-term returns.

Because of the opportunities that the recent volatility has provided, we are encouraging our partners to add to their stakes in all three Funds. In recent months your partners at Southeastern have materially increased our investment with you.

Re-opening Partners Fund

We closed Longleaf Partners Fund when cash exceeded our qualifying investment opportunities. The reverse is now true. Cash inflows will enable the Fund to buy more good businesses at depressed prices, and thereby lower the Fund's composite price-to-value ratio. Because we have the opportunity to improve all shareholders' positions with new cash, the Partners Fund will re-open to investors on October 16.

Longleaf Partners International Fund Update

The number of undervalued businesses we are finding overseas is increasingly compelling. We filed our registration statement for Longleaf International with the SEC in early August and seeded it with our capital. It will be available to the public at the end of October, and we will send all shareholders a Prospectus with information on how to join us in the Fund.

1998 Distribution

Many of our partners, like ourselves, are taxable investors. You should be aware of our distribution plan and our approach to tax efficient portfolio management. Our investment decision to sell a holding occurs when its price approaches full value or when we can substantially improve our price-to-value relationship. Once we make a decision to sell, execution focuses on tax management. We generally first sell the highest cost shares and those held more than one year.

The Funds will pay gains realized through October 31 this year. With three weeks to go, we anticipate a sizable distribution, primarily of long-term gains from sales in the Partners and Small-Cap Funds earlier this year when many holdings reached fair value. The Realty Fund should have little or no realized gains to distribute. The distribution should be paid approximately November 18. At the end of December we will declare and distribute net income which is usually a small amount for each Fund.

After gains have been distributed in November, shareholders will have a unique opportunity to purchase all three Funds at one of the most tax advantageous points in their history. Each Fund has little in unrealized gains. After the distribution an investor will be purchasing a very small deferred tax liability and a large opportunity for long-term appreciation.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

The Calculus of Compounding

Four distinct variables determine an equity investor's long-term return and guide our discipline: the price we pay for shares relative to their underlying value today; the future growth of the business' value; the closing of the gap between price and value; and, the bonus or penalty owners receive from management's capital allocation decisions. The following example illustrates how our discipline works. If we buy a company for half its value, if the value grows 12% per year through business operations, and if the share price rises to reflect corporate worth in the fifth year, we will compound capital at 29% per year.

Firmly understanding a company's intrinsic worth drives this dynamic. Volatile markets which respond to the emotions of fear and greed do not change the value of the businesses we own. Our valuations provide a rational guide for decision making and are the lynchpin of our discipline. Our investment partners will be rewarded because we have affiliated with many excellent companies and outstanding managements at steeply discounted prices. We appreciate your unwavering support and confidence.

Sincerely,

O. Mason Hawkins, CFA
Co-Portfolio Manager

G. Staley Cates, CFA
Co-Portfolio Manager

C.T. Fitzpatrick, CFA
Co-Portfolio Manager

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS:

Second Quarter and First Half Performance

We are pleased to report that Longleaf Partners Fund and Longleaf Partners Small-Cap Fund performed admirably in the second quarter and first half of the year. Their substantial year-to-date absolute returns exceeded our expectations for **all** of 1998. The Partners and Small-Cap Funds' returns also surpassed their benchmark indices in both the second quarter and for the first six months. The Partners Fund was up 18.1% and Small-Cap grew 13.7% in the first half of 1998, while the average common stock fund increased 11.7%.

Longleaf Partners Realty Fund's results were not as good. The Realty Fund outperformed its benchmark and most of its peers in the first six months, but real estate funds were down through June, some severely. Longleaf Partners Realty Fund was negative 3.7%.

The Longleaf fund with the weakest short-term results ironically, but not surprisingly, offers the most compelling values. We are finding numerous qualifying investments for the Realty Fund. Our charge for the Partners and Small-Cap Funds is much more challenging.

Great Partners at Longleaf

In a recent session with Bill Gates, before 350 students at the University of Washington, Warren Buffett talked about the importance of having the right kind of owners at Berkshire Hathaway.

> What you want to do is attract shareholders that are very much like you, with the same time horizons and expectations. . . . we don't want people who are focusing on what's going to happen next quarter or next year. We want people to join us because they want to be with us until they die.

As many people say, "You get the shareholders you deserve." Mr. Buffett has wonderful long-term supporters and no one is more deserving of their backing than he and Charlie Munger.

The right kind of shareholder is more important to a mutual fund than to an individual corporation. We think Longleaf has a nonpareil group of owners. Our partners are unequaled in their average size, ownership duration, and moral support. Longleaf shareholders understand buying undervalued and qualifying businesses one at a time, minimizing taxes, and having a long-term time horizon.

We will remain substantial partners with you until we give our shares to charitable causes or our estates are settled. We prefer the former. We thank you for being the kind of owners we envisioned when we opened the Funds in 1987. Active asset allocators and market timers need not apply; we do all we can to discourage their involvement.

We're Keeping Our Shares

We have told you our views in numerous letters regarding the futility of market timing. If forced to make market calls, we would have been wrong in each of the past four years. We spend all our energy on what we can do successfully – analyze individual businesses and their managements to uncover investments with a wide margin of safety for long-term compounding.

This unprecedented bull market has raised questions from some of our partners about the risks of remaining invested. Some pundits recommend exiting the market now and reinvesting when it bottoms. While we agree that the S&P 500 is, at least, fully valued, there are three reasons we are **not** exiting Longleaf to wait for a correction.

1. We assess the probability of correctly timing the market to be less than 1 in 6. Successfully timing the market requires three sequential events – picking the market top, having a significant (*i.e.* 25%) decline, and picking the market bottom to reinvest. In our experience, the chance of correctly predicting **any** of these three occurrences is less than 50%.

To illustrate the extreme difficulty of market timing, we use an example of two mutual fund owners with an original investment of $300,000 and a balance of $1,000,000 at the market peak. We assume that the hypothetical market timer is better than average at anticipating events. A 55% chance of a) picking the market high, b) seeing a 25% decline, and c) reinvesting at the low, makes the probability of his calling all three correctly 1 in 6, or 16.6% (55% × 55% × 55% = 16.6%). Each investor's results are below.

	Long-term Shareholder	Successful Market Timer
Investment at market peak	$1,000,000	$1,000,000
Cost basis	300,000	300,000
Gain on investment	700,000	700,000
Tax liability (20% federal, 6% state)	0	182,000
Investment at market low	$ 750,000	$ 830,000*

Difference at market low: **$80,000**

* Assumes $182,000 capital gains tax paid and 1.5% after-tax interest earned on cash balance for 6 months.

Is it worth risking a $1,000,000 partnership and its future profitability for a 1 in 6 chance of making $80,000? We think not, given the difficulty of correctly forecasting **and acting upon** three turning points. Anecdotal evidence suggests that the chances of combining analysis and action on any one of these decisions is considerably less than 55%, given the emotional nature of the decision and the intestinal fortitude required to move directly on each. The odds for timers look even worse when the certainty of federal and state tax liabilities is weighed against the avoidance of these taxes by investors who hold shares until death or donation to charity.

The above is our conservative attempt to quantify the case for a timing advocate; the case is poor. In the real versus theoretical world, we think the odds of success are much, much lower than 1 in 6. The market could modestly appreciate for many more years; it could remain stable over a couple of years; it could decline modestly; the timer might not pick the absolute top and bottom even with a 25% decline. We believe the ability to correctly time the market is, realistically, at best a 1 in 100 shot. We have never known anyone who has successfully liquidated their equities, paid the required taxes, and reinvested at a large enough discount to justify the risks and come out ahead over the long-run.

2. Long-term equity ownership has created most of the wealth in the U.S.
A quick glance at the Forbes 400 reveals that holding significant ownership stakes in businesses over long periods without the participation of federal or state tax authorities has created most of the wealth in the United States. Bill Gates, Sam Walton, and the Rockefellers did not amass their fortunes through trading or by market timing.

3. The Longleaf Funds' portfolios are undervalued relative to major market indices.
Longleaf's holdings remain at a significant discount to appraised value, and the composite price-to-value ratio of each portfolio is still very attractive. Staying invested in the Funds is the best way to continue compounding the value of our own money. Our margin of safety provides great comfort against the risk of losing capital. We can easily tolerate volatility in our net asset values given the low probability of succeeding with a more activist approach founded on very tenuous assumptions.

Longleaf Partners International Fund
We are pursuing Longleaf Partners International Fund with great alacrity. We have added an analyst to our team to lead the international effort. Andrew McDermott joined us from the investment banking group at J.P. Morgan. During the last several years, Andrew has lived in Hong Kong, Tokyo, and Singapore. He will spend most of his time living in Asia and analyzing foreign companies and their managements.

Our research team has been hard at work spreading out numerous companies and visiting with managements throughout Asia. We now have the requisite number of undervalued and qualified investment opportunities to justify the Fund's formation. We are moving forward with the required SEC filings and expect to open the Fund by year end. We will notify all our shareholders when Longleaf Partners International Fund is available. Consistent with our partnership approach we will seed the portfolio with a substantial investment from the principals at Southeastern.

We enjoyed being with many of you at our annual meeting and appreciate all your questions and support. We hope you have a good summer with family and friends.

Sincerely,

O. Mason Hawkins, CFA
Co-Portfolio Manager

G. Staley Cates, CFA
Co-Portfolio Manager

C.T. Fitzpatrick, CFA
Co-Portfolio Manager

See pages 7, 11 and 15 for historical performance information on each fund.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS:

First Quarter Performance

We are pleased to report that first quarter results greatly exceeded our expectations. In fact, the Partners and Small-Cap Funds' returns for the last three months surpassed what we recently thought might be tough bogeys for all of 1998. The equity markets have proceeded to soundly repeal the platitude, "If it can't get better, it won't." After a record seven consecutive up years for the S&P 500 we believed stock performance could not get better. It did.

The increases in the three Funds' net asset values for the quarter were: Partners Fund up 13.6%; Realty Fund up 1.4%; and Small-Cap Fund up 12.4%. The Small-Cap and Realty Funds outperformed their benchmark indices while the Partners Fund approximately matched the S&P 500.

Margin of Safety

We have begun selling some of our most successful long-term holdings in the Partners and Small-Cap Funds as prices have risen to our appraisals. Without exception, these businesses' share prices have compounded faster than the growth of their underlying corporate values, completing the very profitable evolution that our research team had hoped for when we decided to buy these stocks. Parting company with beloved investments presents adverse consequences. We must pay capital gains taxes (albeit the lowest in recent history) for these winners; moreover, we will be very pressed to find businesses their equal at our required discounts.

You might logically ask, "Why not continue holding these excellent compounders even though they have reached full value?" The reason is no margin of safety remains of value over price. Having a significant discount from intrinsic value is paramount for two reasons. It protects one's capital against risk of permanent loss. Second, the closing of the discount between price and economic worth is one of two components in the compounding process. Without this "closing the gap phenomenon," our stocks' performance depends entirely on the growth of the underlying companies. We want both the shrinking of the discount and the building of the enterprise value to be at work compounding for our Funds' owners. Additionally, we want all the insurance we can build into our portfolios at today's rarefied market levels.

Short-Term Lending

In quarterly letters over the past three years we have often lamented how challenging our mission of finding qualifying equity investments has become, first in the Partners Fund and then in Small-Cap. Somehow, through an insightful analytical anomaly or because of an evanescent market downdraft, we have uncovered enough opportunity to succeed. This may not be the case in the months to come. Today's market ebullience has priced many stocks of interest to these two Funds through our evaluations. Hard work and numerous management visits are producing no qualifiers — companies priced at less than 60% of our conservative estimate of their worth. By contrast, qualifying businesses for the Realty Fund remain available.

While the Realty Fund is fully invested, cash levels have increased in the Partners and Small-Cap Funds. Through the purchase of government-backed cash equivalents, we are now doing our share of financing our profligate friends in Washington. Like you, we are not enamored with the long-term returns accorded lenders compared to those of owners. In the short run, however, if the price of ownership increases sufficiently, the implied returns diminish to a level where the temporary ownership of government obligations becomes the only intelligent option. We hope this residual commitment will be short-lived, but it may not be.

We will remain extremely vigilant for long-term equity opportunity. Increased market volatility comparable to that experienced in the second half of 1997, a traditional cyclical market decline, or additional foreign opportunities stemming from the financial crisis in Asia could each yield the chance to buy undervalued stocks. We will not, however, change our long-held disciplines for your capital nor for ours.

Annual Meeting

Our Annual Meeting will be Wednesday, May 13, at 5:30 p.m. at the Memphis Botanic Garden. After ten years of presentations and minimal time for questions, we have decided to reverse the time allocated to each. We will limit our prepared remarks, so bring any questions that are of interest and we will attempt to answer them. We look forward to seeing many of you there.

Sincerely,

O. Mason Hawkins, CFA
Co-Portfolio Manager

G. Staley Cates, CFA
Co-Portfolio Manager

C.T. Fitzpatrick, CFA
Co-Portfolio Manager

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS:

Report Card for 1997

We are pleased to report that 1997 marked another auspicious year of compounding capital for the Longleaf Partners family of mutual funds. The increases in the three Funds' net asset values were: Partners Fund up 28.3%; Realty Fund up 29.7%; and, Small-Cap Fund up 29.0%. Each Fund's return significantly exceeded Southeastern Asset Management's long-term record and, with the exception of the Partners Fund, outperformed its benchmark index. Furthermore, with inflation quiescent, our investing partners saw their portfolios make material progress on a real basis. The Partners and Small-Cap Funds continue to receive Morningstar's highest "★★★★★" rating while the Realty Fund, too young to be rated, remains one of the top real estate funds since its inception.

Your Funds continue to operate more efficiently. The overall expense ratios declined from: .95% to .94% in the Partners Fund, 1.50% to 1.20% in the Realty Fund, and 1.23% to 1.09% in the Small-Cap Fund.

Pricing vs. Timing

Over the past few years many of you have asked why we have held cash reserves and why cash levels have varied so markedly among the three Longleaf Funds. These inquiries have the benefit of hindsight and imply that owning treasury bills is foolish when it is "obvious the market will rise." We have never intentionally raised cash. Cash levels are the residual of our attempt to own competitively entrenched businesses, managed by competent individuals when their shares are available at significantly discounted prices. When we cannot find those opportunities, cash levels increase. To commit your assets and ours to equities, we require a substantial margin of safety between appraised corporate value and price. This conservative and disciplined approach has served us well for 26 years. We are extremely confident it will in the future.

In 1949, Benjamin Graham, in his seminal work *The Intelligent Investor*, gave the following sage advice regarding the investment of one's liquidity.

> Since common stocks, even of investment grade, are subject to recurrent and wide fluctuations in their prices, the intelligent investor should be interested in the possibilities of profiting from these pendulum swings. There are two possible ways by which he

> may try to do this: the way of *timing* and the way of *pricing*. By timing we mean the endeavor to anticipate the action of the stock market — to buy or hold when the future course is deemed to be upward, to sell or refrain from buying when the course is downward. By pricing we mean the endeavor to buy stocks when they are quoted below their fair value and to sell them when they rise above such value. We are convinced that the intelligent investor can derive satisfactory results from pricing . . . We are equally sure that if he places his emphasis on timing, in the sense of forecasting, he will end up as a speculator and with a speculator's financial results.

The "Boffo" 1990's

The United States equity markets, in closing out 1997, have just completed the longest uninterrupted period of compounding in the twentieth century. The S&P 500 has recorded seven consecutive up years, a run unmatched since the index was compiled.

The magnitude of the returns for the past three years is even more amazing. The average annual return of the S&P 500 over that time was 31.2%, the highest ever for three straight years. Only two previous such spans exceeded the 30% annual return barrier: the last three years of the 1920's bull market – 1926, 1927, 1928 – posted a 30.1% per annum profit; and, in the recovery years after the worst bear market in our history – 1933, 1934, 1935 – the S&P 500 grew annually at 30.9%. You should clearly remember our recent 1990's experience. We firmly believe it is unlikely to be repeated soon, if ever again in our lifetimes.

Our mission is to grow capital at the highest possible rate commensurate with the fewest risks. Our goal has never been to beat an index but, rather, to select one qualifying investment at a time with the requisite undervaluation we demand. As a by-product of this approach we have done well in absolute terms. Our firm has outperformed the market most years, and our long-term returns have significantly exceeded the indices. Currently we are delivering historically high absolute numbers with below-average risk. The most likely future scenario is that today's good absolute results will be tough to match. Ironically, those who care more about relative performance will probably be happier than they are now, even though we are likely to see a lower rate of return.

Businesses, People, Price vs. Asset Allocation

Roger Lowenstein's "Intrinsic Value" column in *The Wall Street Journal* is one of the most on-the-money reads we know. We encourage you not to miss his weekly contribution to sensible investing. Late last year he penned a wonderful piece on the current folly many pursue in mindlessly investing their assets in the international arena for the sake of asset allocation. We include various excerpts for your edification.

> What faddish bit of investing "wisdom" was exposed as nonwisdom in 1997? Easy. For years, financial planners have been saying that it is indispensable for ordinary Americans to invest all over the planet. They dressed up the argument with attractive pie charts – so slick you almost forgot they were talking about putting your money in markets you know nothing about . . . Thus, the "sound" investor is defined as one who has moved a goodly chunk of his money out of the society he knows to countries with which he is unfamiliar, each according to their market weights. Indeed, not to put assets in such *terra incognita* is deemed to be "unsound" . . .
>
> None of these experts has a bulb so dim that cannot recite that as Asia's collapse was unexpected so may be the next region's boom. This is like saying that because you never know which lottery ticket will hit, you should buy them all. To be sure, gambling on every country is wiser than gambling on one. But not gambling at all is wiser still. Meaning that investing in selected securities that meet a price and value test is to my mind safer than treating your portfolio like a food fair.
>
> It is of course, possible to intelligently invest overseas . . . And the burden of proof should be higher away from home . . . The difference between finding an undervalued *societe* (company) in France and deciding in advance to allocate cash to the Paris Bourse is night and day. And the latter is what planners are pushing.
>
> Alas, profits don't accrue to categories; they are earned, singly, by companies.

There are a number of individual offshore companies whose economics have appeal and whose shares are extremely undervalued. As a result, Southeastern Asset Management is aggressively pursuing the introduction of Longleaf Partners International Fund. We will inform you when it is available for investment. We will commit a significant amount of our own capital for opportunistic reasons, not because we think we should have foreign exposure. If the business, the people and the price aren't right, Longleaf will not participate.

Investment Opportunity in Asia

As you will see when reviewing the Partners and Small-Cap Funds' holdings, we have quite successfully established positions in several extremely overcapitalized and very undervalued Japanese property and casualty insurance companies. These shares were available at prices reminiscent of those in the 1974 U.S. market. We paid nothing for the underwriting businesses and received the excess cash and depressed security portfolios for approximately 50% of their marked to market values. While the shares have appreciated handsomely above our cost since the end of the year, they remain dramatically discounted from our appraisals. We have more than adequately hedged the yen exposure associated with our Japanese insurers, thanks to the expanded investment powers that shareholders overwhelmingly granted in our 1997 proxy. We are continuing to search for opportunities that the Asian turmoil may present for all three Funds. However, as said above, the burden of proof is much higher.

Annual Meeting

Our Annual Meeting is scheduled for Wednesday, May 13, at 5:30 p.m. at the Memphis Botanic Garden. We hope to see many of you there. We wish you a very happy New Year and trust each of you will have a healthy and prosperous 1998. As always, we are very appreciative of your long-term support.

Sincerely,

O. Mason Hawkins, CFA
Co-Portfolio Manager

G. Staley Cates, CFA
Co-Portfolio Manager

C.T. Fitzpatrick, CFA
Co-Portfolio Manager

Morningstar ratings, updated monthly, reflect historical risk-adjusted performance at 12/31/97, and are calculated from a fund's 3, 5 & 10 year average annual returns in excess of 90-day T-Bill returns with appropriate fee adjustments and a risk factor reflecting performance below 90-day T-Bills. The Partners Fund and Small-Cap Fund each received 5 stars overall and for five years. Partners Fund received 5 stars for ten years and 4 stars for three years. Small-Cap Fund received 5 stars for three years. 676, 1292 and 2332 equity funds were rated for ten, five & three years, respectively. The top 10% of funds in a category receive 5 stars.

For complete performance information, see the "Performance Summary" page for each Fund.

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS: October 7, 1997

The compounding process worked extremely well for all of our Longleaf partners during the third quarter. Additionally, each of our three Funds is ahead of its respective benchmark for the twelve months ended September 30. Outperforming the various averages over the past year has been a rewarding yet surprising achievement given the strength of the markets, the substantial cash position in the Partners Fund at the start of the year, the large cash flows into the Small-Cap and Realty Funds throughout 1997, and our disciplined parsimony which always applies to buying new positions.

Corporate Partners

Finding a significantly underpriced company is part of our challenge. We must also believe in the quality of the business and in the skills and character of the people at the helm, our corporate partners. The partners we have chosen have been big contributors to the Funds' outstanding long and short term returns, and we all are indebted to these individuals for the work they have done. We have been blessed to be associated with managers such as Landon Rowland at Kansas City Southern, Cor Boonstra at Philips Electronics, Tony Ridder at Knight-Ridder, Fred Smith at FedEx, Bill Stiritz at Ralston Purina, John Burns at Alleghany, and Peter Munk and Greg Wilkins at TrizecHahn. This group has managed and invested for the long term interest of all shareholders. They have applied discipline and intelligence to the operation of their businesses as well as to the allocation of **our** capital. Without their sagacious corporate stewardship and unwavering shareholder orientation, the Longleaf Funds' net asset values would be substantially lower. We will be challenged to find such qualified partners in the future.

Southeastern Partners

The undersigned portfolio managers get much more of the credit for the success of our three Funds than is warranted. John Buford and Jim Thompson are an indispensable part of your analytical team and carry more than their share of the water. Deborah Sullivan, who has headed our trading department for the past 10 years, continues to do a nonpareil job of getting our research conclusions implemented.

Investment Partners

The employees of Southeastern, our families and affiliates remain the largest shareholder group across the three Funds. We and all our investment partners benefit from maintaining a long term perspective, especially in periods of volatility. Market downturns present the opportune time to buy great businesses at low cost and provide the foundation for significant capital growth. For example, Longleaf Partners Fund shareholders who stayed the course through the market's downturn in 1990 have subsequently fared exceedingly well. An account balance of $100,000 at the outset of 1991 had grown to $455,518 by September 30, 1997, compounding at a 25.2% average annual return.

Concentration

Adopting the IRS standards for diversification for all three of the Longleaf Funds has immediately given us greater flexibility to manage our assets, and complements our commitment to concentrate portfolio resources in the best possible investment alternatives. In the following quarterly update of each Fund we highlight the significant impact of the five largest contributors to performance. We thank you again for your overwhelming approval of the critical diversification improvement for the Partners and Small-Cap Funds. Your support of this and the other items in our recent proxy statement has provided the Longleaf Funds the maximum discretion to pursue a prudent investment future.

Investment Opportunities

Increased market volatility in the third quarter helped misprice selected companies that we have been interested in at Southeastern, and aided us in establishing a few core stakes that we are excited to own. However, the general level of equity prices continues to make our mission in the Partners and Small-Cap Funds challenging. Furthermore, the composite price-to-value ratio of these two Funds are at their highest historical levels, a clear indication your advisor needs to work hard to find new holdings with larger margins of safety. To that end, we would welcome a market correction and the concomitant assistance it would provide. Conversely, Longleaf Partners Realty Fund has not struggled to find qualifying investments.

As Thanksgiving approaches, we are thankful for the commitment of our investment partners to the Longleaf Partners Funds.

Sincerely,

O. Mason Hawkins, CFA
Co-Portfolio Manager

G. Staley Cates, CFA
Co-Portfolio Manager

C.T. Fitzpatrick, CFA
Co-Portfolio Manager

Longleaf Partners Funds
LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS: July 3, 1997

Fabulous Yet Fatuous Times

In the 26 years we have worked in the investment counseling business we have never experienced economic times this good nor, ironically, a market environment more difficult for the disciplined value buyer. Inflation is quiescent with the consensus belief it will remain so, a view supported by the Producer Price Index dropping the past 5 months; unemployment is at a three decade low of 4.8%; consumer confidence is at a 28 year high as real incomes increase; the dollar stands tall against our primary trading partners' currencies; corporate profits are rising for the seventh consecutive year, to record levels; and, the return on invested equity capital is the highest in the history of modern capitalism at more than twice the long-term average of 12.1%. To the great surprise of the many cynical pundits of the early 1980's, the U.S. economy has become a paragon of economic strength and competitiveness.

This fabulous economic progress and record profitability have not gone unnoticed. Institutional, individual and foreign investors have bid the DJIA up some 230% from a low of 2365 in 1990 to the recent high of 7834. This bull market is now the U.S.'s longest and one of its largest. Currently the Dow trades at slightly over 18 times the 1997 expected earnings estimate of $426. Interestingly, only one other period in U.S. history has sustained this kind of P/E – from 1958 to 1965.

The fundamentals of that period, however, dramatically differed from today's. In 1950, the Dow's EPS were $31. Eight years later EPS were $28. In 1958, 18 P/E's were paid for extremely downtrodden earnings and returns on capital that had fallen to 9%. Bonds yielding 4.3% were not a competitive threat at an 80 basis point premium to dividend yields. Today, high grade corporate bonds yield over 500 basis points more than what investors receive from owning the Dow's dividends. Earnings have risen dramatically for seven years and the ROE of the Dow is the best ever. Investors are paying peak multiples for peak levels of profitability.

Arithmetically, shareholders' return on invested equity must decline as corporations reinvest their cash flows at returns below today's unprecedented levels. Thus, there's no room at today's market levels for P/E contraction nor for any slowdown in economic demand. Can anyone even imagine the thought that we could ever have another recession?

Our analyst team is working harder than at any time in memory yet finding fewer investment opportunities with the margin of safety we require. Additionally, many of our very successful holdings have been sold as they have risen to what we think is full corporate value. Cash reserves in the Small-Cap and Partners Funds have built as a result. Longleaf Partners Realty Fund has not faced the same pressure and remains fully invested.

Our cash position will act as a shock absorber should the market drop and will provide the liquidity for new long-term core positions when we find them. Patience most likely will be required because we will not force the investment process with our own capital nor with yours.

Why is Longleaf in Business?

At quarter end we announced the closing of Longleaf Partners Small-Cap Fund to new investors effective August 1, 1997. Stemming the deluge of cash flow coming into the Fund will prevent further dilution of Small-Cap's existing positions. Substantial cash inflows and selling several fully valued holdings have increased cash levels. Simultaneously the rising stock market has made finding significantly undervalued small cap investment opportunities much more difficult.

Longleaf Partners Realty Fund is now our only fund open to new investors. Most fund families make money by gathering assets which earn management fees. Funds don't often close and when they do, the fund family usually offers new products to ensure an ongoing revenue stream. By contrast Longleaf has virtually shut off a significant revenue opportunity by closing both the Partners and Small-Cap Funds, and many would question our skill as business operators.

The explanation for our actions is that we are **owner** operators. The employees and affiliates of Southeastern are the largest shareholders across our three funds with substantial personal capital invested alongside other shareholders. Earning above average returns on our invested capital is more rewarding than generating management fees.

A Decade Of Commitments

In the second quarter Longleaf completed its first decade of operations. We thank all our investment partners for ten years of successful growth. Your Funds have received outstanding industry recognition. Both the Partners and Small-Cap Funds have Morningstar's highest "5 Star" rating. The Realty Fund, too young to receive outside ratings, is the #1 real estate fund since its inception.* This decade of success has been guided by the following principles:

- We will treat your investment in Longleaf as if it were our own.
- We will remain significant investors with you in Longleaf.
- We will invest for the long-term in an attempt to maximize after-tax returns while always striving to minimize business, financial, purchasing power, regulatory and market risks.
- We will choose our common stock investments based on their discount from our appraisal of their corporate intrinsic value, their financial strength, their management, their competitive position, and our assessment of their future earnings potential.

- We will comply with the I.R.S. diversification standard but will not overdiversify our holdings.
- We will not impose loads, holding periods, exit fees or 12b-1 charges on our investment partners.
- We will consider closing the Funds to new investors if our size begins to restrict our ability to manage the portfolios or if closing would otherwise benefit existing shareholders.
- We will discourage short-term speculators and market timers from joining us, the long-term investors in Longleaf.
- We will continue our efforts to improve shareholder services.
- We will communicate with our investment partners as candidly as possible.

What's New?
This report contains the results of our recent shareholder proxy vote. Each of the resolutions passed and we thank shareholders for your overwhelming support. All three Longleaf Partners Funds now share the same diversification standards and investment capabilities. We have more flexibility to concentrate assets in our best investment ideas and more latitude to manage the risks and tax liabilities of the Funds.

This Semi-Annual report introduces a new format. All three Funds appear in one document to help streamline our operations and reduce Fund printing and mailing costs. Shareholders will receive fewer pieces of paper, and the combined report should clarify Longleaf's overall philosophy and operations.

We welcome your comments and feedback as you review the new report. Thank you for your support of Longleaf Partners Funds.

Sincerely,

O. Mason Hawkins, CFA
Co-Portfolio Manager

G. Staley Cates, CFA
Co-Portfolio Manager

C.T. Fitzpatrick, CFA
Co-Portfolio Manager

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* Morningstar ratings, updated monthly, reflect historical risk-adjusted performance at 6/30/97, and are calculated from a fund's 3, 5 & 10 year average annual returns in excess of 90-day T-Bill returns with appropriate fee adjustments and a risk factor reflecting performance below 90-day T-Bills. Both Funds received 5 stars overall and for five years, Partners Fund received 5 stars for ten years and 3 stars for three years. Small-Cap Fund received 4 stars for three years. 618, 1134 and 1997 equity funds were rated for ten, five & three years, respectively. The top 10% of funds in a category receive 5 stars. Lipper Analytical Services ranked the Realty Fund #1 out of 44 real estate funds covered from 12/31/95 to 6/30/97.