Longleaf Partners Funds®

Quarterly Report

at March 31, 2008

Partners Fund

Small-Cap Fund

International Fund

Managed By:
Southeastern Asset Management, Inc.™
Memphis, TN

Cautionary Statement

One of Longleaf's "Governing Principles" is that "we will communicate with our investment partners as candidly as possible," because we believe our shareholders benefit from understanding our investment philosophy and approach. Our views and opinions regarding the investment prospects of our portfolio holdings and Funds are "forward looking statements" which may or may not be accurate over the long term. While we believe we have a reasonable basis for our appraisals and we have confidence in our opinions, actual results may differ materially from those we anticipate. Information provided in this report should not be considered a recommendation to purchase or sell any particular security.

You can identify forward looking statements by words like "believe," "expect," "anticipate," or similar expressions when discussing prospects for particular portfolio holdings and/or one of the Funds. We cannot assure future results and achievements. You should not place undue reliance on forward looking statements, which speak only as of the date of this report. We disclaim any obligation to update or alter any forward looking statements, whether as a result of new information, future events, or otherwise. This material must be preceded or accompanied by a Prospectus. Please read the Prospectus carefully for a discussion of fees, expenses, and risks. Current performance may be lower or higher than the performance quoted herein. You may obtain a current copy of the Prospectus or more current performance information by calling 1-800-445-9469 or at Longleaf's website (www.longleafpartners.com).

The price-to-value ratio ("P/V") is a calculation that compares the prices of the stocks in a portfolio to Southeastern's appraisal of their intrinsic values. P/V represents a single data point about a Fund, and should not be construed as something more. 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 is a useful tool to gauge the attractiveness of a 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. To the extent an investor considers P/V in assessing a Fund's return opportunity, the limits of this tool should be considered along with other factors relevant to each investor.

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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 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,

Mason

Staley

O. Mason Hawkins, CFA
Chairman & CEO
Southeastern Asset Management, Inc.

G. Staley Cates, CFA
President
Southeastern Asset Management, Inc.

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Partners Fund - MANAGEMENT DISCUSSION

Longleaf Partners Fund declined 10.9% in the first quarter. Over the Partners Fund's 20+ year history we have had twenty down quarters including the one just ended. Each has been disappointing, but also each has aided our ability to deliver good long-term returns, which are reflected in the numbers below.

	Cumulative Returns			
	Inception	20 years	15 years	10 years
Partners Fund	**1133.0%**	**1122.6%**	**460.0%**	**102.5%**
Inflation plus 10%	1230.8	1068.5	499.6	233.4
S&P 500	633.1	699.7	287.7	41.1

Please see page 8 for additional performance information.

Almost $300 million in net inflows in the quarter combined with lower stock prices enabled us to further strengthen the portfolio for above average long-term results. We added to seven holdings that have competitively entrenched franchises, capable management partners, and materially discounted prices. These additions included Dell, eBay, FedEx, Liberty Interactive, Sun, UBS, and Walgreen. We sold two residual small holdings, Sprint and Comcast, as well as an initial minute position in Limited to concentrate more heavily in higher quality more discounted businesses.

UBS, the biggest detractor from performance in the quarter, was a mistake. Our case assumed that new management led by Marcel Rohner would return the firm to its roots as the world's best private bank at minimal cost. We were half right: Rohner has taken the steps required to focus UBS exclusively on its high-return, low-risk wealth management and asset management businesses. The cost, however, has far exceeded our worst-case estimates of how much the historically prudent and conservative Swiss bank's board permitted the investment bank to over-leverage its balance sheet with questionable assets. Writeoffs of nearly $40 billion plus dilution associated with two rights issues have destroyed $100 billion of value, several times the capital committed to the investment bank in our initial appraisal. As you would expect of owner-operators, we have taken a fresh look at the Fund's existing investment. The company has installed a new chairman and completely replaced the management who put its balance sheet at risk. We believe that current leadership is committed to protecting and building the valuable wealth management business, which has proven resilient. The role of investment banking has been reined in to serve solely as a support function to wealth management clients. If management acts as promised, UBS should be a tremendous investment from this point.

At Dell, which was down 19%, revenues are growing, margins are improving, the business produces an annual cash coupon of over $2 per share, and the company bought in 8% of its stock in the past quarter at less than half of our appraisal of intrinsic value. In addition, the company announced intentions to reduce annual costs by $3 billion — more than $1.00 per share after tax — over three years, which extends beyond the horizon of most Wall Street analysts. We do not fully incorporate these savings into our cash projections. We expect significant further repurchases given Michael Dell's previous actions and his confidence in the company's future. After netting out the $5 per share of net cash on the 2/1/08 balance sheet, Dell sells for less than 7x its cash net earnings.

Our appraisal of TDS was stable though the stock declined 35%. The telecom industry as a whole, and cellular operators in particular, fell. Level 3's value grew in the quarter in spite of the stock's 30% decline. The market overlooked the company's progress in reducing its backlog of new customers and improving provisioning times. This positive news was overshadowed by the announcement of COO Kevin O'Hara's departure. We are confident that Jim Crowe, the CEO, is the right person to lead the company and grow its value, and we are glad that CFO Sunit Patel, who previously planned to step down, has decided to remain in his role.

Several stocks in the portfolio advanced in the quarter, but none as dramatically as Chesapeake, which rose almost 18%. Energy companies have done well through the recent market volatility given record oil prices and rising natural gas prices. Few companies, however, have concurrently built value as rapidly as Chesapeake thanks in large part to Aubrey McClendon's leadership and focus on growing value-per-share through efficient operations, successful exploration, and beneficial hedging. Aubrey is the consummate owner operator — he just completed the personal purchase of another $20 million of stock.

While we added to existing holdings, we did not buy any new names because owning more of the Fund's best qualifiers was more attractive than other opportunities we identified. Shareholders will see a new name in the portfolio, however, as Liberty Capital spun out its DIRECTV stake into a separate tracking stock called Liberty Entertainment. This position together with the Fund's direct ownership of DTV makes the satellite broadcaster our largest holding. The company has everything we covet as investment managers — a growing top line with simultaneous margin improvement, an increasingly entrenched franchise, two owner operators with proven track records in Chase Carey and John Malone, and a huge margin of safety of value over price.

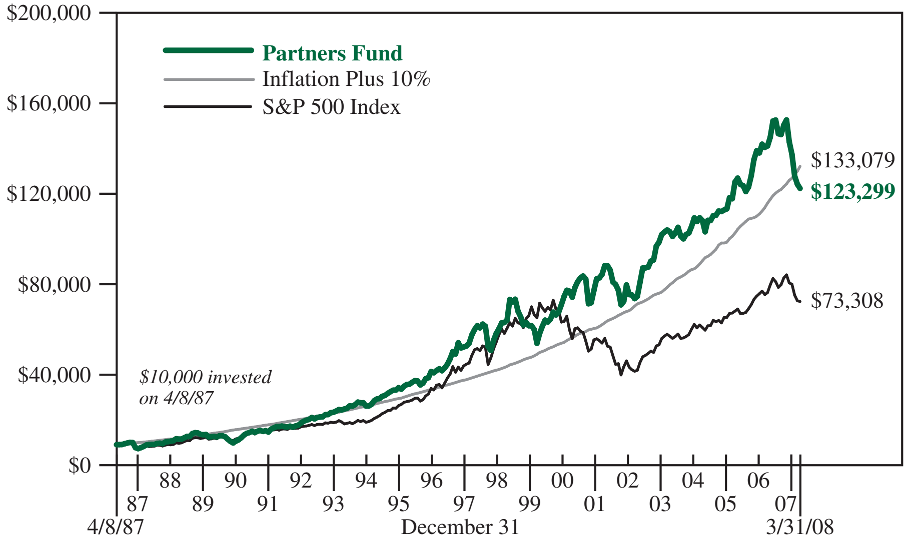
Partners Fund - MANAGEMENT DISCUSSION

The significant capital your partners at Southeastern have added recently to the Fund supports our belief that the Fund is quantitatively and qualitatively well positioned to deliver significant future returns. Given the opportunity set that still exists, the Partners Fund remains temporarily open. Current shareholders will benefit from our ability to add to high quality names that are selling below the portfolio's already low P/V. We also have several names on deck. In spite of the frustrating recent performance, the opportunity is exciting:

- A P/V that is in the high-50%s, substantially lower than where it has traded in the last five years;
- Businesses that are growing value through substantial cash flow generation from, in a number of cases, top line growth and margin improvement in spite of a slower economy;
- Corporate partners who are meaningfully adding to value per share by aggressively buying in stock at steep discounts.

LONGLEAF PARTNERS FUND

Comparison of Change in Value of $10,000 Investment Since Public Offering 4/8/87



AVERAGE ANNUAL RETURNS

for the periods ended March 31, 2008

	Partners Fund	Inflation Plus 10%	S&P 500 Index
Year-to-Date	**(10.89)%**	3.3%	(9.45)%
One Year	**(13.20)**	13.98	(5.08)
Five Years	**10.29**	13.00	11.31
Ten Years	**7.31**	12.80	3.50
Since Public Offering 4/8/87	**12.72**	13.13	9.95

Past performance does not predict future performance, Fund prices fluctuate, and the value of an investment at redemption may be worth more or less than the purchase price. The Fund's performance results in the table shown above do not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares. The S&P 500 Index is shown with all dividends and distributions reinvested. In 1987, the reinvested S&P 500 Index was available at month-end only; therefore, the index value at March 31, 1987 was used to calculate performance since public offering. This index is unmanaged and is not hedged for foreign currency risk. Longleaf often hedges its exposure to foreign currencies. This practice will impact the Fund's relative performance versus a similar unhedged portfolio. Generally the relative returns of hedged positions improve when the dollar strengthens and decline when the dollar weakens. The U.S. Bureau of Labor Statistics compiles the CPI-U values used to calculate inflation. Seasonally adjusted inflation data is presented for periods less than one year. Current performance may be lower or higher than the performance quoted. Please call 1-800-445-9469 or view Longleaf's website (www.longleafpartners.com) for more current performance information.

TABLE OF PORTFOLIO HOLDINGS
at March 31, 2008

		Net Assets
Common Stock		97.8%
Dell Inc.	8.2	
Chesapeake Energy Corporation	6.3	
The DIRECTV Group, Inc.	5.5	
Liberty Media Entertainment Corporation	5.5	
eBay, Inc.	5.2	
FedEx Corporation	5.0	
Liberty Media Holding Corporation – Interactive	5.0	
Koninklijke Philips Electronics N.V.	5.0	
Yum! Brands, Inc.	4.8	
Walgreen Co.	4.8	
The Walt Disney Corporation	4.7	
The NipponKoa Insurance Company, Ltd.	4.7	
Cemex S.A.B. de C.V. ADS	4.7	
Aon Corporation	4.6	
Sun Microsystems, Inc.	4.4	
Pioneer Natural Resources Company	4.1	
UBS AG	3.9	
Level 3 Communications, Inc.	3.2	
Telephone and Data Systems, Inc.	2.7	
General Motors Corporation	2.6	
Symantec Corporation	1.9	
Liberty Media Holding Corporation – Capital	1.0	
Options		0.4
Cash Reserves		2.6
Other Assets and Liabilities, net		(0.8)
		100.0%

PORTFOLIO CHANGES
January 1, 2008 through March 31, 2008

New Holdings

* Liberty Media Entertainment Corporation – Class A (Liberty Media Holding Corporation–Capital)

Eliminations

Comcast Corporation – Class A Special
Limited Brands, Inc.
Sprint Nextel Corporation

* Change due to corporate action (name of related holding)

Partners Fund - PORTFOLIO OF INVESTMENTS
at March 31, 2008 (Unaudited)

Shares		Value
Common Stock 97.8%		
	Automobiles 2.6%	
14,240,000	General Motors Corporation[c]	$ 271,272,000
	Broadcasting and Cable 11.0%	
22,810,900	*The DIRECTV Group, Inc.	565,482,211
24,962,000	*Liberty Media Entertainment Corporation – Class A	565,139,680
		1,130,621,891
	Construction Materials 4.7%	
18,592,000	Cemex S.A.B. de C.V. ADS (Foreign)	485,623,040
	Entertainment 5.7%	
6,240,500	*Liberty Media Holding Corporation – Capital Series A	98,225,470
15,489,800	The Walt Disney Corporation	486,069,924
		584,295,394
	Financial Services 3.9%	
13,756,000	UBS AG (Foreign)	396,172,800
	Insurance Brokerage 4.6%	
11,668,090	Aon Corporation	469,057,218
	Internet and Catalog Retail 5.0%	
32,002,600	*Liberty Media Holding Corporation – Interactive Series A	516,521,964
	Internet Services 5.2%	
17,903,050	*eBay, Inc.	534,227,012
	Natural Resources 10.4%	
13,914,200	Chesapeake Energy Corporation	642,140,330
8,657,900	Pioneer Natural Resources Company[b]	425,276,048
		1,067,416,378
	Pharmacies and Drug Stores 4.8%	
12,814,000	Walgreen Co.	488,085,260
	Property & Casualty Insurance 4.7%	
63,701,000	The NipponKoa Insurance Company, Ltd. (Foreign)[b][c]	485,681,782
	Restaurants 4.8%	
13,292,252	Yum! Brands, Inc.	494,604,697
	Software 1.9%	
11,754,800	*Symantec Corporation	195,364,776

Partners Fund - PORTFOLIO OF INVESTMENTS
at March 31, 2008 (Unaudited)

Shares		Value
	Technology 17.6%	
42,379,166	*Dell Inc.	$ 844,192,987
11,806,035	Koninklijke (Royal) Philips Electronics N.V. (Foreign)	451,619,374
1,640,165	Koninklijke (Royal) Philips Electronics N.V. ADR (Foreign)	62,883,926
29,303,996	*Sun Microsystems, Inc.	455,091,058
		1,813,787,345
	Telecommunications 5.9%	
153,597,754	*Level 3 Communications, Inc.[b]	325,627,238
1,530,800	Telephone and Data Systems, Inc.	60,114,516
5,666,200	Telephone and Data Systems, Inc. – Special	211,349,260
		597,091,014
	Transportation 5.0%	
5,588,501	FedEx Corporation[c]	517,886,388
	Total Common Stocks (Cost $8,621,184,532)	10,047,708,959
Contracts		
Options 0.4%		
	Construction Materials 0.4%	
9,000,000	Call Options Purchased Cemex S.A.B. de C.V. ADS (Foreign), expiring March 2012 @ $45 (Cost $43,658,065)	32,983,200
Principal Amount		
Short-Term Obligations 2.6%		
267,769,000	Repurchase Agreement with State Street Bank, 0.80% due 4/1/08, Repurchase price $267,774,950 (Collateral: $236,595,000 U.S. Treasury Bond, 1.32%, due 1-15-16, Value $273,128,051)	267,769,000

Total Investments (Cost $8,932,611,597)[a]	100.8%	10,348,461,159
Other Assets and Liabilities, Net	(0.8)	(78,495,692)
Net Assets	100.0%	$10,269,965,467
Net asset value per share		$29.55

* Non-income producing security.

(a) Aggregate cost for federal income tax purposes is $8,953,572,133. Net unrealized appreciation of $1,415,849,562 consists of unrealized appreciation and depreciation of $2,703,751,746 and $(1,287,902,184), respectively.

(b) Affiliated issuer, as defined under Section 2(a)(3) of the Investment Company Act of 1940 (ownership of 5% or more of the outstanding voting securities of the issuer).

(c) All or a portion designated as collateral for forward currency contracts.

Note: Companies designated as "Foreign" are headquartered outside the U.S. and represent 19% of net assets.

OPEN FORWARD CURRENCY CONTRACTS

Currency Units Sold	*Currency Sold and Settlement Date*	*Currency Market Value*	*Unrealized Loss*
9,746,000,000	Japanese Yen 11-6-08	$ 98,758,953	$ (8,385,162)
18,089,954,000	Japanese Yen 12-3-08	183,496,055	(17,715,685)
22,423,000,000	Japanese Yen 2-5-09	227,995,275	(16,099,715)
206,658,000	Swiss Franc 4-25-08	208,123,564	(24,914,615)
		$718,373,847	$(67,115,177)

SWAP AGREEMENT

Units	*Agreement*	*Underlying Notional Amount at Value*	*Unrealized Loss*
4,750,000	General Motors Corporation Preferred, 6.25% Convertible Series C due 7-15-33 . .	$78,375,000	$(24,276,791)

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Small-Cap Fund - MANAGEMENT DISCUSSION

Longleaf Partners Small-Cap Fund declined 11.6% compared to a 9.9% drop in the Russell 2000 Index. The Fund's longer term results are shown below.

	Cumulative Returns				
	15 years	10 years	5 years	1 year	1st Qtr
Small-Cap Fund	**534.8%**	**142.8%**	**113.9%**	**(15.4)%**	**(11.6)%**
Inflation plus 10%	499.6	233.4	84.2	14.0	3.3
Russell 2000	266.1	62.3	100.3	(13.0)	(9.9)

Please see page 16 for additional performance information.

We sold First American and scaled back several other names that had performed well in order to concentrate in the Fund's highest quality and most steeply discounted holdings. We added to Fair Isaac, Markel, Wendy's, and Worthington. While we have a number of qualified "on deck" names, none were more compelling than some of the companies we already own.

IHOP returned 31% in the quarter, partially bouncing back after its steep decline in late 2007. IHOP provides a good example of how stock prices are much more volatile than intrinsic values, and thus the market's inefficiency in the short run. Six months ago IHOP sold for over $63 per share which was close to 80% of our appraisal. The price fell by over 40% in the fourth quarter of 2007, and we marked our appraisal down around 10% reflecting the slower pace at which the company would be able to sell Applebee's stores to franchisees and pay down debt. Over the last three months, IHOP's stock rose 31% to almost $48 versus an appraisal gain of 1% from the cash flow the business generates. Vast swings between price and value provide opportunities to take advantage of Mr. Market.

Fair Isaac, Service Corp., IDT, Level 3, and the Washington Post had the greatest negative impact on the Fund's results in the quarter. Fair Isaac, which produces the widely used FICO score that helps lenders determine the risk profiles of borrowers, was impacted by the fear surrounding all companies involved in credit related activity in addition to company specific concerns. While lenders pulled fewer scores with the seizing of credit markets, we believe FICO scores will retain their critical role in underwriting. New management is pursuing a credible strategy to reinvigorate growth and has bought back significant stock at discounted prices using the company's still prodigious cash flow and strong balance sheet. The stock fell by one-third, and we added to the Fund's position at less than half of appraised value.

Service Corp.'s value rose slightly in the quarter while its price sank 28%. Although death rates have declined, this funeral services provider has successfully integrated last year's Alderwoods acquisition and has used its substantial free cash flow to repurchase discounted shares. Cash drains from IDT's competitive long distance calling card business as well as concerns over where the company might deploy its significant cash helped drive the price down 54%. IDT trades for less than the sum of its cash and securities.

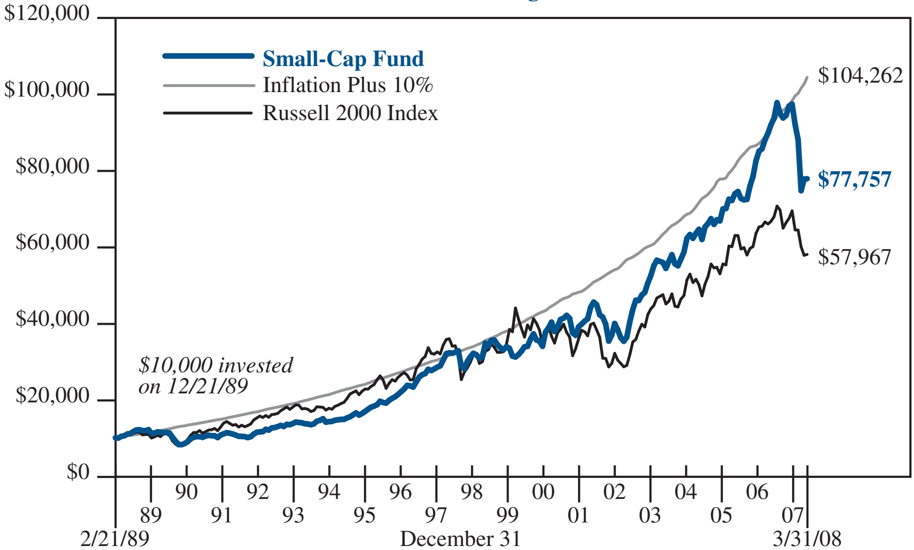
Level 3's value grew in the quarter in spite of the stock's 30% decline. The market overlooked the company's progress in reducing its backlog of new customers and improving provisioning times. This positive news was overshadowed by the announcement of COO Kevin O'Hara's departure. We are confident that Jim Crowe, the CEO, is the right person to lead the company and grow its value, and we are glad that CFO Sunit Patel, who previously planned to step down, has decided to remain in his role.

Washington Post, the Fund's largest holding, fell 16% due to fears of shrinking availability of private education loans and a recession's impact on the media business. Very little of the company's value is related to advertising revenues from media. The Kaplan education division comprises the largest part of our appraisal. The half of Kaplan that is related to test preparation services has no loan dependency. Of the higher education piece, less than 10% of Kaplan's students are served by private loans. Washington Post sells for approximately half of our appraisal.

While the Fund will remain closed to contain asset size, we encourage our fellow shareholders to add to their investments in the Fund as we have. The composite P/V is in the high-50%s, its lowest level in over five years. Values are growing as share prices are declining, giving us an even larger margin of safety and upside return. Most of our management partners are owners and many are pursuing initiatives to increase value-per-share. The market's current mispricing juxtaposed against the quality of what we own presents a unique opportunity.

LONGLEAF PARTNERS SMALL-CAP FUND

Comparison of Change in Value of $10,000 Investment Since Public Offering 2/21/89



AVERAGE ANNUAL RETURNS

for the periods ended March 31, 2008

	Small-Cap Fund	Inflation Plus 10%	Russell 2000 Index
Year-to-Date	**(11.61)%**	3.3%	(9.90)%
One Year	**(15.37)**	13.98	(13.00)
Five Years	**16.42**	13.00	14.90
Ten Years	**9.28**	12.80	4.96
Since Public Offering 2/21/89	**11.33**	13.06	9.63

Past performance does not predict future performance, Fund prices fluctuate, and the value of an investment at redemption may be worth more or less than the purchase price. The Fund's performance results in the table shown above do not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares. The Russell 2000 Index is shown with all dividends and distributions reinvested. This index is unmanaged and is not hedged for foreign currency risk. Longleaf often hedges its exposure to foreign currencies. This practice will impact the Fund's relative performance versus a similar unhedged portfolio. Generally the relative returns of hedged positions improve when the dollar strengthens and decline when the dollar weakens. The U.S. Bureau of Labor Statistics compiles the CPI-U values used to calculate inflation. Seasonally adjusted inflation data is presented for periods less than one year. Current performance may be lower or higher than the performance quoted. Please call 1-800-445-9469 or view Longleaf's website (www.longleafpartners.com) for more current performance information.

TABLE OF PORTFOLIO HOLDINGS
at March 31, 2008

		Net Assets
Common Stock		98.8%
The Washington Post Company	7.6	
Pioneer Natural Resources Company	6.4	
Texas Industries, Inc.	6.3	
Ruddick Corporation	5.8	
Fairfax Financial Holdings Limited	5.7	
Dillard's Inc.	5.1	
Del Monte Foods Company	4.9	
Potlatch Corporation	4.8	
IHOP Corp.	4.6	
Office Depot, Inc.	4.6	
Markel Corporation	4.6	
Wendy's International, Inc.	4.5	
Everest Re Group, Ltd.	4.5	
Worthington Industries, Inc.	4.4	
Fair Isaac Corporation	4.3	
Service Corporation International	4.0	
Level 3 Communications, Inc.	3.6	
Hilb, Rogal & Hobbs Company	3.6	
Willis Group Holdings Limited	2.8	
Discovery Holding Company	2.4	
Olympus Corporation	2.0	
IDT Corporation	1.3	
Odyssey Re Holdings Corp.	1.0	
Cash Reserves		1.2
Other Assets and Liabilities, net		–
		100.0%

PORTFOLIO CHANGES
January 1, 2008 through March 31, 2008

New Holdings	Eliminations
None	The First American Corporation

Small-Cap Fund - PORTFOLIO OF INVESTMENTS
at March 31, 2008 (Unaudited)

Shares		Value
	Common Stock 98.8%	
	Construction Materials 6.3%	
3,244,800	Texas Industries, Inc.[b]	$ 195,044,928
	Education & Media 7.6%	
352,167	The Washington Post Company – Class B	232,958,470
	Entertainment 2.4%	
3,516,505	*Discovery Holding Company – Class A	74,620,236
	Food 4.9%	
15,725,283	Del Monte Foods Company[b]	149,861,947
	Funeral Services 4.0%	
12,221,571	Service Corporation International	123,926,730
	Grocery – Retail 5.8%	
4,823,500	Ruddick Corporation[b]	177,794,210
	Information Technology 4.3%	
6,196,000	Fair Isaac Corporation[b]	133,337,920
	Insurance Brokerage 6.4%	
3,526,400	Hilb Rogal & Hobbs Company[b]	110,975,808
2,513,000	Willis Group Holdings Limited (Foreign)	84,461,930
		195,437,738
	Manufacturing 4.4%	
8,034,400	Worthington Industries, Inc.[b]	135,540,328
	Medical and Photo Equipment 2.0%	
2,060,800	Olympus Corporation (Foreign)	62,435,955
	Natural Resources 11.2%	
4,004,300	Pioneer Natural Resources Company	196,691,216
3,605,140	Potlatch Corporation[b]	148,784,128
		345,475,344
	Office Supplier 4.6%	
12,901,759	*Office Depot, Inc.	142,564,437
	Property & Casualty Insurance 15.8%	
1,541,100	Everest Re Group, Ltd. (Foreign)	137,974,683
608,201	Fairfax Financial Holdings Limited (Foreign)	177,106,804
321,905	*Markel Corporation	141,628,543
843,800	Odyssey Re Holdings Corp.	31,009,650
		487,719,680
	Restaurants 9.1%	
2,978,100	IHOP Corp.[b]	142,650,990
6,062,000	Wendy's International, Inc.[b]	139,789,720
		282,440,710

Small-Cap Fund - PORTFOLIO OF INVESTMENTS
at March 31, 2008 (Unaudited)

Shares			Value
	Retail 5.1%		
9,050,748	Dillard's, Inc. – Class A[b]		$ 155,763,373
	Telecommunications 4.9%		
459,400	IDT Corporation		1,534,396
10,133,310	IDT Corporation – Class B		39,215,910
52,451,000	*Level 3 Communications, Inc.		111,196,120
			151,946,426
	Total Common Stocks (Cost $3,102,146,060)		3,046,868,432
Principal Amount			
	Short-Term Obligations 1.2%		
39,574,000	Repurchase Agreement with State Street Bank, 0.80% due 4-1-08, Repurchase price $39,574,879 (Collateral: $34,970,000 U.S. Treasury Bond, 1.32%, due 1-15-16, Value $40,369,779)		39,574,000
Total Investments (Cost $3,141,720,060)[a]		100.0%	3,086,442,432
Other Assets and Liabilities, Net		–	(1,028,257)
Net Assets		100.0%	$3,085,414,175
Net asset value per share			$23.90

* Non-income producing security.

[a] Aggregate cost for federal tax purposes is $3,142,040,029. Net unrealized depreciation of $(55,277,628) consists of unrealized appreciation and depreciation of $480,804,545 and $(536,082,173), respectively.

[b] Affiliated issuer as defined under Section 2(a)(3) of the Investment Company Act of 1940 (ownership of 5% or more of the outstanding voting securities of the issuer).

Note: Companies designated as "Foreign" are headquartered outside the U.S. and represent 15% of net assets.

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International Fund - MANAGEMENT DISCUSSION

Longleaf Partners International Fund fell 11.5% in the first quarter compared to an 8.9% decline for the EAFE index. Long-term performance appears in the chart below.

	Cumulative Returns			
	Inception	5 years	1 year	1st Quarter
International Fund	**231.3%**	**138.6%**	**(3.4)%**	**(11.5)%**
Inflation plus 10%	215.4	84.2	14.0	3.3
EAFE Index	90.4	163.7	(2.7)	(8.9)

Please see page 24 for additional performance information.

Performance approached the Fund's worst ever quarter: March 2003. Then, as now, panic selling drove prices in selected markets far below intrinsic value. Then, as now, the portfolio included mistakes both acknowledged and unanticipated. Then, as now, the overall quality of the portfolio combined with bargain prices to move the composite P/V below 60%. Longleaf International's long-term track record of superior compounding results primarily from periods when the entire portfolio sold below 60% of value. This quarter marked the first drop below 60% since early 2003.

The most important question for shareholders today, and that includes your management team, is: "Should we have confidence in the analytical ability reflected in the all-important "V" of the P/V ratio?"

The best answer to this question begins with a frank admission of our mistakes. UBS, the biggest detractor from performance in the quarter, was a mistake. Our case assumed that new management led by Marcel Rohner would return the firm to its roots as the world's best private bank at minimal cost. We were half right: Rohner has taken the steps required to focus UBS exclusively on its high-return, low risk wealth management and asset management businesses. The cost, however, has far exceeded our worst-case estimates of how much the historically prudent and conservative Swiss bank's board permitted the investment bank to over-leverage its balance sheet with questionable assets. Write offs of nearly $40 billion plus dilution associated with two rights issues have destroyed $100 billion of value, several times the capital committed to the investment bank in our initial appraisal. As you would expect of owner-operators, we have taken a fresh look at the Fund's existing investment. The company has installed a new chairman and completely replaced the management who put its balance sheet at risk. We believe that current leadership is committed to protecting and building the valuable wealth management business, which has proven resilient. The role of investment banking has been reined in to serve solely as a support function to wealth management clients. If management acts as promised, UBS should be a tremendous investment from this point.

The real story of the past twelve months is not our mistake at UBS, but the string of appraisal successes that have resulted in multiple sales at or near intrinsic value. This quarter's sales of Cheong Kong, EnCana, and Nestle joined last year's exits from Renault, Nikko Cordial, and Vivendi. We also reduced overweighted positions in Fairfax and Olympus. EnCana and Nikko Cordial reached value in less than a year. Renault and Vivendi reached value after five years, but paid us to wait by building value in the interim.

Although we have adjusted corporate appraisals as earnings growth has slowed and asset markets have deflated, our appraisals have fared significantly better than stock prices. We care about intrinsic values, not the market. New investments can perform poorly initially as they are often in the midst of the troubles that made them cheap enough to buy, and we do not attempt to time purchases. The Fund's two newest additions, Daiwa Securities and NH Hoteles, declined steadily after we began buying, only to reverse sharply at the end of the quarter and join Nestle and Millea as the quarter's largest contributors.

Fairfax, another major contributor, deserves special mention because it benefited from the widening credit spreads that hurt short-term performance at many companies. Prem Watsa's correct bets against credit markets have worked out spectacularly well, driving performance and value growth at the company. Only two years ago Fairfax reached the point of maximum pessimism, and from that level has more than quadrupled.

Dell and Olympus hurt performance most after UBS. Their declines illustrate the opportunity provided by today's portfolio. At Dell, which was down 19%, revenues are growing, margins are improving, the business produces an annual cash coupon of over $2 per share, and the company bought in 8% of its stock in the past quarter at less than half of our appraisal of intrinsic value. In addition, the company announced intentions to reduce annual costs by $3 billion — more than $1.00 per share after tax — over three years, which extends beyond the horizon of most Wall Street analysts. We do not fully incorporate these savings into our cash projections. We expect significant further repurchases given Michael Dell's previous actions and his confidence in the company's future. After netting out the $5 per share of net cash on the 2/1/08 balance sheet, Dell sells for less than 7x its cash net earnings.

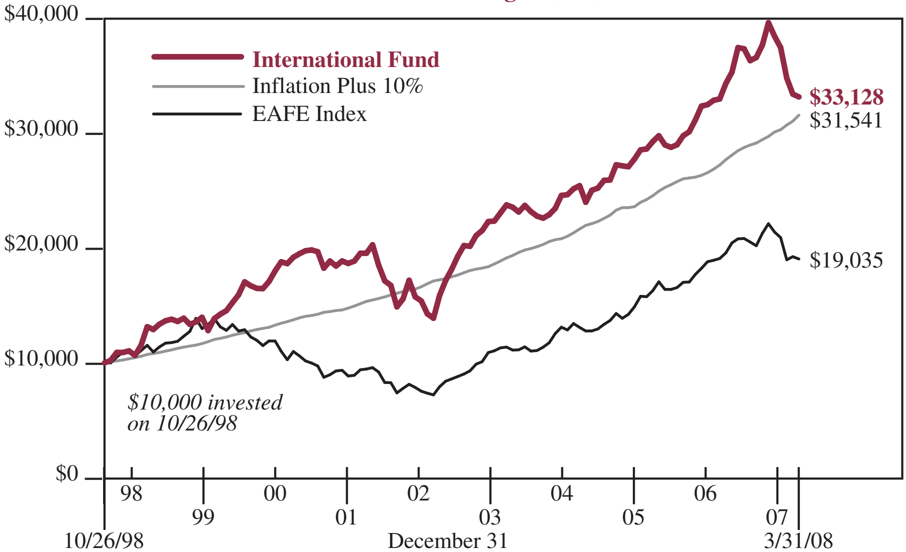
At Olympus, nothing significant has changed since the stock traded near appraisal last summer. The stronger yen will impact reported yen profits, but the short-term impact on dollar profits will be less severe. The long-term pricing power of a market-leader with 70% market share in medical endoscopes will allow Olympus to maintain long-term margins. Olympus declined primarily because of its Japanese listing, a market that investors have abandoned for the third time in the Fund's history. In the first quarter, foreign investors were net sellers of Japanese stocks by the largest margin since 1987. A stronger yen softened the performance impact in U.S. dollars (an impact partly offset in the Fund by our hedges of some Japanese holdings). Nevertheless, the frustration amongst investors with Japanese equities leaps from every headline.

We view this disdain with enthusiasm. While we have had our share of frustrations with Japanese management partners, we have observed slow but steady progress both in general and within the Fund's holdings over the past decade. We prefer today's Japanese opportunity set to those offered the last two times Japan dropped off investors' maps in 1998 and 2003. Today's valuations are similar, but returns on capital are higher, attitudes towards M&A have improved, dividend payouts are increasing, and share repurchases are accelerating. This activity extends to the portfolio, where Millea, Daiwa, and NipponKoa have all been significant repurchasers. Opportunities exist for improvement, but the Fund's Japanese companies enter this downturn with stable businesses and strong balance sheets in a capital-starved world. Most important, valuations discount Armageddon. For confirmation that valuations matter, we need only look across the Sea of Japan to China, last year's sure-fire winner. Amidst all the doom and gloom about Japan, the Shanghai composite dropped an eye-popping 33% in the quarter compared to the 6.4% decline for the TOPIX. At last summer's peak, the Shanghai Index traded at over 50x earnings. Today, the Nikkei trades at about 13x earnings.

We end the quarter much as we have ended other difficult periods: determined to improve, but confident in our process, people, and partners. Longleaf Partners International Fund started as a vehicle to allow us to invest our own money alongside yours in compelling overseas opportunities. In the past three months, your managers have added significantly to the Fund. We hope that you will join us.

LONGLEAF PARTNERS INTERNATIONAL FUND

Comparison of Change in Value of $10,000 Investment Since Public Offering 10/26/98



AVERAGE ANNUAL RETURNS

for the periods ended March 31, 2008

	International Fund	Inflation Plus 10%	EAFE Index
Year-to-Date	(11.48)%	3.3%	(8.91)%
One Year	(3.40)	13.98	(2.70)
Five Years	19.00	13.00	21.40
Since Public Offering 10/26/98	13.55	12.96	7.07

Past performance does not predict future performance, Fund prices fluctuate, and the value of an investment at redemption may be worth more or less than the purchase price. The Fund's performance results in the table shown above do not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares. The EAFE Index is shown with all dividends and distributions reinvested. In 1998, the EAFE was available at month-end only; therefore, the EAFE value at October 31, 1998 was used to calculate performance since public offering. This index is unmanaged and is not hedged for foreign currency risk. Longleaf often hedges its exposure to foreign currencies. This practice will impact the Fund's relative performance versus a similar unhedged portfolio. Generally the relative returns of hedged positions improve when the dollar strengthens and decline when the dollar weakens. The U.S. Bureau of Labor Statistics compiles the CPI-U values used to calculate inflation. Seasonally adjusted inflation data is presented for periods less than one year. Current performance may be lower or higher than the performance quoted. Please call 1-800-445-9469 or view Longleaf's website (www.longleafpartners.com) for more current performance information.

TABLE OF PORTFOLIO HOLDINGS
at March 31, 2008

		Net Assets
Common Stock		98.2%
Dell Inc.	6.6	
Ingersoll-Rand Company Limited	6.6	
Fairfax Financial Holdings Limited	6.4	
The NipponKoa Insurance Company, Ltd.	6.4	
ACS Actividades de Construccion Y Servicios, S.A.	5.6	
Millea Holdings, Inc.	5.2	
Olympus Corporation	5.1	
Kyocera Corporation	5.1	
Yum! Brands, Inc.	5.0	
Allied Irish Banks plc	5.0	
Daiwa Securities Group, Inc.	4.8	
Japan Petroleum Exploration Co., Ltd.	4.8	
Koninklijke Philips Electronics N.V.	4.8	
SK Telecom Co., Ltd.	4.8	
Cemex S.A.B. de C.V. ADS	4.5	
UBS AG	4.0	
Willis Group Holdings Limited	3.5	
NH Hoteles S.A.	3.5	
British Sky Broadcasting Group plc	3.4	
KDDI Corporation	3.1	
Cash Reserves		4.6
Other Assets and Liabilities, net		(2.8)
		100.0%

PORTFOLIO CHANGES
January 1, 2008 through March 31, 2008

New Holdings	Eliminations
Daiwa Securities Group, Inc.	Cheung Kong Holdings Limited
NH Hoteles, S.A.	EnCana Corporation
	Nestle S.A.

International Fund - PORTFOLIO OF INVESTMENTS
at March 31, 2008 (Unaudited)

Shares		Value
Common Stock 98.2%		
	Broadcasting and Cable 3.4%	
10,442,364	British Sky Broadcasting Group plc (United Kingdom)[(b)]	$ 115,330,857
	Conglomerate 5.6%	
3,352,000	ACS, Actividades de Construccion Y Servicios, S.A. (Spain)	190,882,114
	Construction Materials 4.5%	
5,950,000	Cemex S.A.B. de C.V. ADS (Mexico)	155,414,000
	Electonics 5.1%	
2,054,200	Kyocera Corporation (Japan)[(b)]	172,488,503
	Financial Services 9.0%	
7,968,000	Allied Irish Banks plc (Ireland)[(b)]	169,823,653
2,914,439	UBS AG (Switzerland)[(b)]	83,935,843
1,786,561	UBS AG (Local) (Switzerland)[(b)]	51,918,387
		305,677,883
	Hotels 3.5%	
7,232,214	NH Hoteles, S.A. (Spain)[(b)]	120,230,520
	Industrial Machinery 6.6%	
5,048,000	Ingersoll-Rand Company Limited (Bermuda)	225,039,840
	Insurance Brokerage 3.5%	
3,586,000	Willis Group Holdings Limited (United Kingdom)	120,525,460
	Medical and Photo Equipment 5.1%	
5,779,600	Olympus Corporation (Japan)[(b)]	175,104,254
	Natural Resources 4.8%	
2,476,900	Japan Petroleum Exploration Co., Ltd. (Japan)[(b)] . . .	164,000,201
	Property & Casualty Insurance 18.0%	
757,074	Fairfax Financial Holdings Limited (Canada)	220,458,297
4,841,500	Millea Holdings, Inc. (Japan)[(b)]	178,739,165
28,556,000	The NipponKoa Insurance Company, Ltd. (Japan)[(b)]	217,722,311
		616,919,773
	Restaurants 5.0%	
4,602,000	Yum! Brands, Inc. (United States)	171,240,420
	Securities Brokerage 4.8%	
19,055,000	Daiwa Securities Group, Inc. (Japan)[(b)]	165,163,724

International Fund - PORTFOLIO OF INVESTMENTS
at March 31, 2008 (Unaudited)

Shares			Value
	Technology 11.4%		
11,382,751	*Dell Inc. (United States)		$ 226,744,400
1,365,931	Koninklijke (Royal) Philips Electronics N.V. (Netherlands)		52,251,319
2,889,269	Koninklijke (Royal) Philips Electronics N.V. ADR (Netherlands)		110,774,573
			389,770,292
	Telecommunications 7.9%		
17,163	KDDI Corporation (Japan)[b]		104,858,216
286,648	SK Telecom Co., Ltd (South Korea)[b]		53,980,766
5,025,568	SK Telecom Co., Ltd ADR (South Korea)[b]		108,602,525
			267,441,507
	Total Common Stocks (Cost $2,852,650,583)		3,355,229,348
Principal Amount			
Short-Term Obligations 4.6%			
159,187,000	Repurchase Agreement with State Street Bank, 0.80% due 4/1/08, Repurchase price $159,190,537 (Collateral: $140,655,000 U.S. Treasury Bond, 1.32%, due 1-15-16, Value $162,373,787)		159,187,000
Total Investments (Cost $3,011,837,583)[a]		102.8%	3,514,416,348
Other Assets and Liabilities, Net		(2.8)	(96,613,237)
Net Assets		100.0%	$3,417,803,111
Net asset value per share			$17.51

* Non-income producing security.

(a) Also represents aggregate cost for federal income tax purposes. Net unrealized appreciation of $502,578,765 consists of unrealized appreciation and depreciation of $779,270,339 and $(276,691,574), respectively.

(b) All or a portion designated as collateral for forward currency contracts.

Note: Country listed in parenthesis after each company indicates location of headquarters.

OPEN FORWARD CURRENCY CONTRACTS

Currency Units Sold	*Currency Sold and Settlement Date*	*Currency Market Value*	*Unrealized Gain (Loss)*
10,667,000	British Pound 4-25-08	$ 21,132,228	$ 778,216
44,386,000	British Pound 12-3-08	86,377,784	537,587
132,308,000	Euro 12-3-08	206,233,165	(12,959,497)
19,072,000	Euro 2-20-09	29,611,155	(963,482)
19,076,000,000	Japanese Yen 4-25-08	191,680,145	(22,078,929)
37,982,700,000	Japanese Yen 12-3-08	385,278,790	(34,836,204)
13,433,000,000	Japanese Yen 2-5-09	136,585,672	(9,644,895)
133,416,000,000	South Korean Won 12-19-08	134,964,416	7,665,475
60,800,000	Swiss Franc 12-19-08	61,078,021	(5,995,578)
		$1,252,941,376	$(77,497,307)

COUNTRY WEIGHTINGS

	Equity Only	*Net Assets*
Japan	35.1%	34.5%
United States	11.9	11.6
Spain	9.3	9.1
United Kingdom	7.0	6.9
Bermuda	6.7	6.6
Canada	6.6	6.4
Ireland	5.1	5.0
Netherlands	4.9	4.8
South Korea	4.8	4.8
Mexico	4.6	4.5
Switzerland	4.0	4.0
	100.0%	98.2
Cash, other assets and liabilities, net		1.8
		100.0%

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Longleaf Partners Funds
FUND INFORMATION

The following additional information may be obtained without charge, upon request, by calling 1-800-445-9469, Option 1, or on the Funds' website at www.longleafpartners.com, or on the SEC's website at www.sec.gov.

Proxy Voting Policies and Procedures

A description of Longleaf's Proxy Voting Policies and Procedures is included in the Statement of Additional Information (SAI).

Proxy Voting Record

Information regarding how the Funds voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is contained in Form N-PX.

Quarterly Portfolio Holdings

Longleaf files a complete schedule of portfolio holdings for the first and third quarters of each fiscal year on Form N-Q, which is available on the SEC's website, and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. (please call 1-800-SEC-0330 for information on the operation of the Public Reference Room).

In addition to Form N-Q, Longleaf publishes reports for each fiscal quarter. These reports include complete schedules of portfolio holdings, as well as performance updates and management discussion. We furnish Longleaf's Quarterly Reports in lieu of Form N-Q to shareholders who request information about our first and third quarter portfolio holdings, and Semi-Annual and Annual Reports for requests related to the second and fourth quarters, respectively.

Fund Trustees

Additional information about Fund Trustees is included in the Statement of Additional Information (SAI).

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Longleaf Partners Funds
SERVICE DIRECTORY

Contact us at www.longleafpartners.com or (800) 445-9469

FUND INFORMATION — **OPTION 1**

To request a Prospectus, Statement of Additional Information (including Longleaf's Proxy Voting Policies and Procedures), financial report, application or other Fund information from 7:00 a.m. to 7:00 p.m. Eastern time, Monday through Friday.

DAILY FUND PRICES — **OPTION 2**

For automated reporting 24 hours a day, seven days a week.

ACCOUNT INFORMATION — **OPTION 3**

For account balance and transaction activity, 24 hours a day, seven days a week. Please have your Fund number (see below) and account number ready to access your investment information.

SHAREHOLDER INQUIRIES — **OPTION 0**

To request action on your existing account from 9:00 a.m. to 6:00 p.m. Eastern time, Monday through Friday.

CORRESPONDENCE

By regular mail:
Longleaf Partners Funds
P.O. Box 9694
Providence, RI 02940-9694

By express mail or overnight courier:
Longleaf Partners Funds
c/o PFPC
101 Sabin Street
Pawtucket, RI 02860
(508) 871-8800

PUBLISHED DAILY PRICE QUOTATIONS

Daily net asset value per share of each Fund is reported in mutual fund quotations tables of major newspapers in alphabetical order under the bold heading **Longleaf Partners** as follows:

Abbreviation	Symbol	Cusip	Transfer Agent Fund Number	Status to New Investors
Partners	LLPFX	543069108	133	Open
Sm-Cap	LLSCX	543069207	134	Closed 7-31-97
Intl	LLINX	543069405	136	Open

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