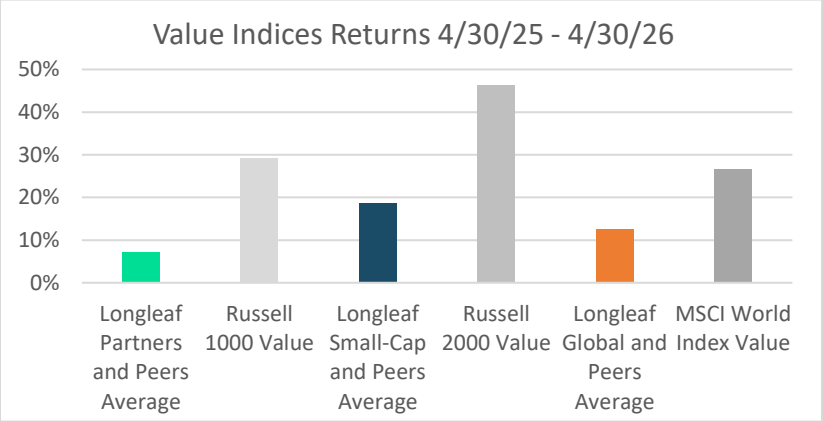
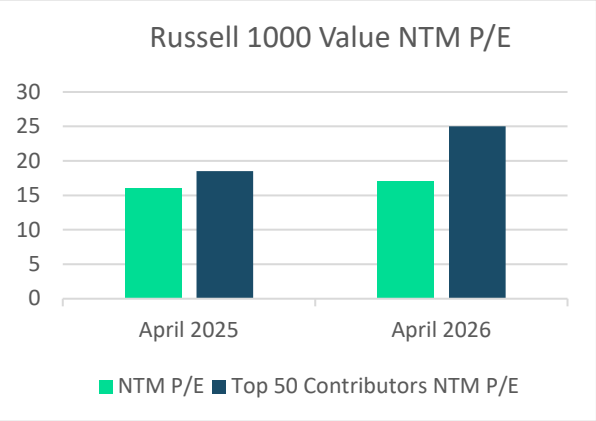
Research Perspectives
May 2026

Southeastern Asset Management

Our returns are up in absolute terms since 4/30/25, but we (and other concentrated value investors) are trailing the value index. This Research Perspective explains why the value index is not a value today overall, why chasing its recent top-performing components is dangerous and why sensible Business, People, Price investing will work.





Source: FactSet.

Building a value index requires more active management than constructing a typical "passive" index, as lower multiple stocks replace higher multiple stocks at regular intervals. Everyone has their own definition of value, and one of ours is paying 8-15x growing free cash flow (FCF) power for something worth 13-23x. The Russell 1000 Value ("R1KV" – the large cap value index focusing on USA stocks) was at a reasonable multiple on 4/30/25, but the main drivers of R1KV performance since then have been AI-related: Micron, Alphabet, AMD, Cisco, Intel, etc. Other strong contributors include perceived AI beneficiaries such as Caterpillar and Corning plus banks financing the AI building boom. The only positive performing group not in this category are oil stocks, due to the Iran War. The top 50 contributors in the R1KV have delivered over 70% of the aggregate contribution during the last-twelve-months (LTM), and over 80% of this contribution comes from the above buckets. Even including stocks worth lower multiples like banks and oil majors, these top 50 R1KV contributors were at a high-teens next-twelve-months (NTM) P/E on 4/30/25, above the index's total multiple. They are now at a mid-20s multiple, which is definitely not a value multiple, especially on peaky earnings. Those multiples do not work long-term. The priciest parts of the value index went up the most over the LTM, while the most underpriced parts underperformed, but that makes our portfolios even more attractive at multiples in the heart of our target range.

Small cap value as defined by the Russell 2000 Value (R2KV) has been… weirder. The larger price increase over the LTM for this index has been broadly based, with the top 50 contributors representing only ~1/3rd of the total contribution, and the top 200 over 70%. The drivers have similar themes as above: AI/tech/biotech, banks funding this and unhedged oil, but there is excessive risk-taking building beyond these themes. We have noticed that the more speculative the stock and/or the worse the balance sheet, the better the stock price performance has been. Some examples might help. EchoStar (a recent addition to the S&P 500 – telling) and TTM Technologies were the top contributors to the R2KV over the LTM. Both were undervalued a year ago but in our too-hard-box for multiple reasons. We believe they have both overshot their long-term values. We get it that this is "anecdata," but it is harder to put group multiples on the total R2KV because of the large amount of money-losing and/or underfollowed companies without forward estimates. While the R2KV top 200 contributors did have a median NTM PE of 11x at 4/30/25, ~25% of this group did not have earnings (in fact, five out of the top ten contributors were "N/A" in FactSet on this metric – is AST SpaceMobile really a value stock?). At 17x today, the top 200 median multiple shows a multiple point increase consistent with large caps, but its greater percentage increase explains why small caps have outperformed large caps over the LTM. The MSCI World Value has some similar themes as the above USA large cap and small cap extremes, but with broader dispersion and less AI-related-overvaluation for a more attractive multiple.

Market laggards have included Consumer Staples, Healthcare and Building Products/Real Estate. These sectors all have durable value but have faced short-term headwinds that have impeded value per share growth across our portfolios. We are not alone here, as our most concentrated value peers have also trailed the index. We track ten value funds that have also been around for decades and own 30 or fewer stocks. While all of us own different stocks and have different approaches, the average group underperformance vs. the value benchmark during the LTM has been 20-25 percentage

points as the graph above shows. We were all already in stocks that were undervalued and underowned by indices on 4/30/25, then as value index flows picked up LTM while the non-value parts of the index got boosts from the themes above, this hurt relative performance, even if it sets up future returns. It is another sign of the times that the stock at the bottom of the R1KV detractors list by contribution is Berkshire Hathaway, the original value stock.

Let's revisit the five stocks we wrote about in our first two Research Perspectives notes to better understand what is going on. FedEx (annualized absolute performance: +52%; relative vs relevant value index: +33%) has done well since our February 2025 note, delivering growing FCF per share. The coming spinoff of its freight business is a valuable option. Amazon remains a risk, but FedEx's large size and moat of its Business help vs. this threat. IAC (+20% ANGI-adjusted; +1%) has performed well over the last year-plus, too. The ANGI spin worked for us given how we traded it post-spin. The core assets of People Inc. and MGM are operating well even if both have faced some challenges (Google/AI pressure and Vegas travel trends, respectively). We have been pleased to see the company sell its non-core Care.com business and signal additional asset sales to focus on People and MGM, all while buying in significant amounts of stock thanks to Barry Diller and Neil Vogel executing on the People side. Canal+ (+21%; -1%) has been on quite the ride since our note on it, but there's been more good than bad over the last year. Positives include resolving tax issues in France, improving sports rights costs in Europe and closing the merger with MultiChoice. But because it took longer than expected for this merger to close, 2026 results will be weaker than the market hoped at the start of this year, leading to a decline in the stock price recently. We had trimmed into strength earlier this year but bought more after the pullback, as the long-term FCF per share power is unchanged, making today's Price as compelling as it was last year.

Our second group has lagged the market but is now more undervalued and on offense. When we wrote about Gruma (-1%; -26%) in February 2025, two short-term but material headwinds had not yet materialized. First, the ICE crackdown in the USA turned out to be more intense than expected, and this had a chilling effect on a subset of the company's customer base. Second, a private USA tortilla competitor ramped up its efforts last summer. These two factors led to a lack of value growth for Gruma over the LTM. The good news is that ICE is no longer intensifying, and Gruma has regained its small amounts of lost market share while the competitor has retrenched. We have been encouraged to see material share repurchase and believe future FCF/share growth can get back to a double-digit rate at this great Business, which is attractive for a stock trading at 10-11x FCF. Albertsons (-20%, -43%) is the wrong stock for these go-go times and trades at an even lower, single-digit FCF multiple than it did a year ago. While there was understandable fear about the company's earnings power in the wake of the failed Kroger deal, that has not materialized. Albertsons has become one of our largest share repurchasers thanks to the People duo of CEO Susan Morris and CFO Sharon McCollam. The market – public or private – will eventually appreciate this quality real estate and the company's brands. If Albertsons trades at the same low, actual value stock multiple that Kroger has now (12x FCF), it will be almost twice its current Price.

Thank you for reading. We believe the best way to connect is through meaningful discussions about companies, so please reach out to info@seasset.com if you would like to continue the conversation.

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Before investing in any Longleaf Partners Fund, you should carefully consider the Fund's investment objectives, risks, charges, and expenses. The Prospectus and Summary Prospectus contain this and other important information, please read them carefully before investing. A list of Fund holdings can be accessed here: Partners Fund, Small-Cap Fund, Global Fund. As of March 31, 2026 the annualized total return for the 1, 5 and 10 year periods were: Longleaf Partners: 3.7%, 1.3%, 5.8%; S&P 500: 17.8%, 12.1%, 14.2%; Longleaf Small-Cap: 3.1%, 2.1%, 6.1%; Russell 2000: 25.7%, 3.8%, 9.9%; Longleaf Global: 14.1%, 1.8%, 6.9% and MSCI World: 18.9%, 10.3%, 11.8%.

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.

RISKS - The Fund is 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 Fund generally invests 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. Smaller company stocks may be more volatile with less financial resources than those of larger companies. Investing in non-US 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 widely regarded as the best single gauge of US large-cap equites, which includes 500 leading companies and covers approximately 80% of available market capitalization. The Russell 1000 Value Index measures the performance of US large-cap value stocks, and is drawn from the constituents of the Russell 1000 Index based on lower price-to-book ratios and growth rates. The indexes are unmanaged, include reinvested dividends, do not reflect the deduction of fees or expenses, and cannot be invested in directly.

The Russell 2000 Index measures the performance of 2000 US small-cap companies. The Russell 2000 Value Index is a subset of the Russell 2000 Index based on lower price/book ratios and growth rates. The indexes are unmanaged, include reinvested dividends, do not reflect the deduction of fees or expenses, and cannot be invested in directly.

The MSCI World Index captures large and mid-cap representation across 23 Developed Markets countries, and covers approximately 85% of the free float-adjusted market capitalization in each country. The MSCI World Value Index is a subset of the MSCI World Index exhibiting overall value style characteristics using three variables: book value to price, 12-month forward earnings to price and dividend yield. The indexes are unmanaged, include reinvested dividends net of foreign withholding tax, do not reflect the deduction of fees or expenses, and cannot be invested in directly.

Expense Ratios (Gross / Net)
Longleaf Partners Fund: 0.93 / 0.79%*
Longleaf Partners Global Fund: 0.96 / 0.95%*
Longleaf Partners Small-Cap Fund: 1.02 / 0.95%*

*Subject to a contractual fee waiver to the extent the Fund's normal annual operating expenses (excluding interest, taxes, brokerage commissions and extraordinary expenses) exceed 0.79% / 0.95% / 0.95%, respectively, of average annual net assets. This agreement is in effect through at least April 30, 2027, and may not be terminated before that date without Board approval.

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