Southeastern Asset Management

Data and discussion as of March 31, 2022

Average annual total returns for the Fund and its benchmark for the one, five, ten year and since inception (2/21/89) periods ended March 31, 2022 are as follows: Small-Cap Fund: 0.26%, 6.48%, 10.21% and 10.42%; Russell 2000: -5.79%, 9.74%, 11.04% and 9.65%.

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. As reported in the May 1, 2021 prospectus, the total expense ratio for the Small-Cap Fund is 0.96%. Effective September 1, 2021, Southeastern has contractually committed to limit operating expenses (excluding interest, taxes, brokerage commissions and extraordinary expenses) to 0.95% of average net assets per year. This agreement is in effect through at least April 30, 2023 and may not be terminated before that date without Board approval.

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 *https://southeasternasset.com/account-resources**. Please read the Prospectus and Summary Prospectus carefully before investing.***

RISKS

The Longleaf Small-Cap 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. Smaller company stocks may be more volatile with less financial resources than those of larger companies.

The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3,000 Index

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.

ESG considerations may affect the Fund's exposure to certain companies or industries and the Fund may forego certain investment opportunities. While we view ESG considerations as having the potential to contribute to the Fund's long-term performance, there is no guarantee that such results will be achieved.

Please click here for definitions of certain terms used.

As of March 31, 2022, the top ten holdings for the Longleaf Partners Small-Cap Fund: Lumen, 12.2%; CNX Resources, 6.9%; Oscar Health, 6.3%; Realogy, 5.8%; Empire State Realty, 5.7%; Liberty Braves Group, 5.6%; Mattel, 5.4%; White Mountains, 5.1%; Madison Square Garden Sports, 5% and Graham Holdings, 4.8%. Fund holdings are subject to change and holdings discussions are not recommendations to buy or sell any security. Current and future holdings are subject to risk.

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Gwin Myerberg:	00:10	Hello, and thank you for joining us for a Q1 2022 review, with the portfolio managers of the Longleaf Partners Small-Cap Fund. I'm Gwin Myerberg, Global Head of Client Relations and Communications of Southeastern Asset Management. Today, you'll be hearing from the portfolio managers of the Small-Cap Fund. Ross Glotzbach, who joined Southeastern in 2004 and is our CEO and Head of Research, and Staley Cates, who joined Southeastern in 1986 and is also our Vice-Chairman. Ross, could you start us off by discussing inflation, which is top of mind for most investors as the Fed starts to raise rates? What are your expectations for inflation and how is the portfolio positioned for this kind of environment?
Question:		What is your outlook for inflation and how are you positioning the portfolio as a result?
Ross Glotzbach:	00:51	We have been wary of inflation becoming a factor again, like it has been through most times in history, but not for a lot of the last 10 to 15 years, probably to our relative detriment. But as we started to see the forces building for it in 2020, it was something we thought

about even more, especially as we talked with each of our individual portfolio companies. And we would ask them, "How are your wage rates, wage increases looking next year?" And when top-down Fed consensus was more like low-single digits, they were saying mid-single digits plus, and now that has become much more consensus. But we do think that just overall, this is where we benefit from being bottom-up stock pickers and not top-down macro forecasters, because this impact will be very different for each of our companies and each of the prospective holdings we're looking at and we'll get into some of those later. But what we're looking for overall is pricing power, companies that can price through these cost increases and grow their profitability as a result of that. We think we've got it up and down the portfolio. And then there's some more kind of direct interest rate holdings, like for example, things in the insurance world. Those will benefit from increased rates in their investment portfolios. Banks are an interesting one, where we've historically been overweight. I mean, underweight. The value index is very overweight in banks. That's why I messed that one up. But that's a tougher industry for us. That doesn't mean we're not looking at it, but there could also be some interesting factors at play if the yield curve continues to invert, as it has, that could bias our insurance ones over bank ones, and we think that could be a help for us as well.

Question: How is our portfolio positioned for a potential recessionary environment?

Staley Cates: 02:44 Well, it's the fair question, but the unsatisfactory answer, is that it totally depends on each industry and company. There's not a macro-overlay with which we begin and then apply that across the board. It's just different by every industry to model that and to see which industry has which recessionary risk. It's not just recession, as we come out of COVID, there can be weird year-over-year comparisons on COVID results and post-COVID. There are always these moving parts, and it's not just yield curve talking recession. It's also industry groups, like housing doing one thing, and transport doing another. So, the market will send you these different signals that you have to take seriously and potentially embed in your appraisals, but you just have to dig on each company, talk to the management teams to evaluate the risk name by name. That one will just never have a formulaic answer at any given time.

Question: What holdings have contributed positively to the Fund's performance and what drove returns?

Ross Glotzbach: 03:49 Yeah, CNX was a very solid one with some energy exposure there. This was never some kind of top-down energy macro bet. It was bottom-up security selection, that we thought could win in a world where people eventually realize the importance of natural gas and natural gas infrastructure. And we certainly got a big jolt of that in the first quarter with the conflict in Ukraine and Europe really regretting some of the decisions they've made on energy security. And it does on a business quality standpoint highlight the critical infrastructure and nature of natural gas and the US' ability to export a lot of it around the world and hopefully to our allies in Europe and other places. You're seeing that start to get priced through in the futures curve, where CNX saw strong value growth in the quarter as a result of that. And because they've been buying so many of their own shares in their share repurchase program, they're getting a further kick. We still see this stock, CNX, trending towards probably over $3 a share of free cash flow. It's trading in the low 20s. Still undervalued, and our value is growing. We've got great partners there - Chairman Will Thorndike, the full team, is doing a good job there.

Staley Cates: 05:17 Oscar performed well in the quarter, more as a bounce-back from what was a disastrous 2021. Not so much for us, but for the stock price overall. But it had come public at 39. It got all the way down to six or seven. Oscar is a confusing set of financials for the market because it shows huge losses as they rapidly grow their health insurance subsidiary. The true value underneath it is two pieces. One is some inherently profitable managed healthcare plan members, as judged by a healthy MLR underneath the consolidated losses as they grow. And then a tech platform which has its own value. That is being used by non-affiliated third-party providers and plans, and that also has yet to emerge as a value in terms of its consolidated EBITDA, even though the revenue growth is very large. In an analyst meeting, on Analyst Day, they outlined really high long-term margin goals for that software business. And then Kodak. First of all, it's worth reminding and pointing out that we own converts, not the common. So, there are a lot of crazy things that have gone on there. There are these weird disparate parts. Some extremely solid, like the licensing business. Some in transition and in flux, like some of the printing pieces. But overall, there is a lot of optionality off of a really small market cap. But the most notable thing that happened in this particular quarter, which made our convert go up, is the biggest bounce we have ever seen in a company in one quarter, growth in their book value. Their book value went from a few dollars a share to just under $10 per share because of their overfunded pension, which had a combination of great performance on its asset side, and interest rate rising actually helping its liability side. We have the same dynamic at Graham Holdings, even though it is not as much of a percentages of NAV. But these are these particular things that will benefit from interest rates going up.

So, the broader market has seen a huge insider purchase at Kodak. Their lender is Kennedy Lewis in the last financing package. They also have board seats, and one of those members filed, or Kennedy Lewis filed a large ownership, which is great. As the outside world and commentators looked at that, they chalked it up to some of the new business announcements coming out of Kodak, without even mentioning that book value is up about $6 per share. So, this is a bell-ringing number. One other thing about this, it's a huge change in the creditworthiness of the company. Rating agencies are lagging indicators, not leading indicators. I don't know how long it will take them to upgrade Eastman Kodak, but on a book value that's now almost $10, and some of that is this overfunded pension, which is almost like having a hedge fund there as an extra asset. This definitely enhances the creditworthiness of the debt part of our convertible. So that was a great fundamental thing that'll keep giving, not just this quarter.

Note: International Fund PM Josh Shores discusses top detractor Lanxess, a German-listed specialty chemical company whose primary value is in underlying US company Chemtura, a prior successful Small-Cap Fund investment.

Josh Shores: 08:51 Lanxess is the one that we touched on earlier that actually is a little bit more of an indirect impact to Russia and Ukraine, and it is in the middle of a gigantic transformation, this company, that we think the market really does not appreciate. When we first invested in Lanxess in 2018, it still had some of legacy commodity chemical aspects to it that had come from old Bayer, that had been spun out from years ago. This management team, led by Matthias Zachert (CEO), has been in a five- year process of transforming this business by selling over $4 billion of assets, and then reallocating over $4 billion of assets of those proceeds into much higher value, much more niche, much higher ROIC and high margin specialty chemical assets. There was a big deal closed last year for Emerald Kalama. The next one for the bioscience business of IFF should close in the next several months, and the transformation of the group, which I don't think the market really understands, will be 80% complete. As this Ukraine-Russia crisis over time, hopefully its impact on gas markets and German exposure to Russian gas is mitigated and other sources come into play, you're going to see the value of that business, which is up to 2x what the current share price today is giving credit for, come to the fore and we remain confident that this management team understands that and will get after it. So, while frustrating for the last year or so, Lanxess, really because of the gas worries about Russia exposure to Germany. Even before the invasion, I think the market was sniffing out some of this exposure. We remain confident from where it's at today, and the price is extraordinarily attractive at 9x free cash flow power.

Question: What have been the other top detractors in the quarter and why?

Ross Glotzbach: 10:49 One thing that we’ve been finding in small-cap world, not yet in large-cap world, were some pretty dramatic pullbacks in some of these digital internet, whatever you want to call them, software companies that have been flying extremely high and we’ve been largely sitting out for a number of years. Staley got to talk about Oscar and how we’ve timed that one pretty right so far. Vimeo is one where we’ve been early so far. It spun out of IAC last year, reached about $60 a share. There were smart investors, Josh Kushner’s group Thrive, and then some other individuals who paid pretty interesting prices significantly above where Vimeo trades today. So, when this stock fell into the teens late last year, we felt it was time to get going on it. We’ve added in the first quarter as well, but just on Business, People, Price, this is a company that is not the indie version of YouTube. It is very much becoming an enterprise software company, but that transition is not yet staring the market in the face. So, it still kind of trades up and down with a lot of these software stocks that are viewed as consumer, and therefore less sticky than enterprise. Also, it's somewhat disappointed versus market perception on its growth. When it spun out, everybody was revved up, thought it was going to grow 30% per year forever. Now it's more down to 20%. We think that's just fine at this price. And so, we are excited to also partner with who we think will be a good CEO, Anjali Sud. She did a great job getting the company on this path to transition. Then we've got Joseph Levin as Chairman, who is a great value creator as well, and we own IAC in our larger cap funds. So, we think this one, our value per share is still about where it would've been at the start of this quarter, and we're not going anywhere on that one.

Staley Cates: 12:56 Lazard had a couple of things going on. One is the way we appraise Lazard, we have about two-thirds of its intrinsic value coming from the money management side, and about a third from the investment banking side. Both of those groups basically suffered overall with the Ukraine war. On the money management part, one of the things we love about their money management business is that it is not tethered to US S&P, and it will benefit from emerging market growth, which includes commodity growth. So, we would submit it shouldn't have taken the kind of hit that may be attributed to that part of the company based on Europe. But that's part of the stock price action. But what is true fundamental negative would be on the investment bank part. Investment banking activity is getting slammed by the war. That is definitely a fundamental disappointment. It hurts that side of the business, and Lazard suffered more than something like Evercore, because their historical strength is more Europe weighted than only North America weighted. So as a European investment banker, that was kind of a double hit. But again, overall, since most of our value is money management, we had nothing like that in terms of intrinsic value decline.

Lumen had two negative things going on. One which is a true economic question, the other is a short-term price movement. And what I mean is, the economic question for them, the big one remains “What's the organic revenue growth going to look like?” And they reported a fourth quarter that was weak in terms of organic revenue, and they guided to more weakness in 2022. The thing to remember, though, is the free cash flow coupon here is so large. Some of which we get in a dividend. Some of which is both bought in shares and expanded their CapEx in laying more fiber. But the free cash flow coupon has grown our value overall, over the past few years, such that it's not only about this organic revenue question. But that does have to kick in at some point, or we have a bigger long-term problem, and we do think that'll start to kick in later in the year. The other thing I mentioned that was a short-term noneconomic value issue is that Temasek has been the largest shareholder since they sold Global Crossing for shares to Level 3 way back when. They owned around 10%. They sold about a fourth of their position. So that creates the dreaded "overhang" that the minute they do that, the market is expecting their remaining stake to come out in some form. And that is, in our experience, a very regular occurrence of suppressing a stock price until questions about the overhang are cleared up. We have a 13D that we filed in the past, urging share repurchase. So not a mystery that we would continue to urge the company to do something about that, but we'll see what happens.

Gwin Myerberg: 16:15 Thank you, Ross and Staley, for the discussion, and thank you for listening in. We hope that you found the discussion useful, and we look forward to speaking again soon.