Data and discussion as of June 30, 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 June 30, 2022 are as follows: Small-Cap Fund: -17.03%, 2.71%, 8.03% and 9.78%; Russell 2000: -25.20%, 5.17%, 9.35% and 8.96%.

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, 2022 prospectus, the total expense ratio for the Small-Cap Fund is 0.97%. 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 June 30, 2022, the top ten holdings for the Longleaf Partners Small-Cap Fund: Lumen, 14.4%; White Mountains, 6.8%; Mattel, 6.6%; Liberty Braves Group, 5.2%; Eastman Kodak, 5.2%; Graham Holdings, 4.9%; GRUMA, 4.8%; Madison Square Garden Sports, 4.8%; Empire State Realty. 4.7% and CNX Resources, 4.6%. 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:	00:11	Hello, and thank you for joining us for a Q2 2022 review with the portfolio managers of the Longleaf Partners Small-Cap Fund. I'm Gwin Myerberg, Global Head of Client Relations and Communications for 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 also our CEO and Head of Research, and Staley Cates, who joined in 1986 and is our Vice-Chairman. Ross, can you start us off today with your view on value investing? As the markets pivot towards our style of investing, what's your outlook for the strategy and how does this differ to prior periods in our 47-year history?
Question:		As the market pivots towards value, what is your outlook for the strategy? How does this differ from prior periods in our 47-year history?
Ross Glotzbach:	00:55	So, one thing that we've been seeing broader in the market would be this bifurcation, or whatever you want to call it, in value world, that does explain some of the absolute and relative numbers over the last few months and maybe even a little bit longer last year or so. So, to

one extreme of value world, you’ve had folks who did what could be called paying up for quality. And that worked very well for a long time, but it is definitely not working this year, and there has been some pretty extreme, permanent capital loss, we would argue, in that world. Now, it's also led to some potential opportunities for us that we're looking at and we're checking out in great detail. We'll talk about some of those later. But just growth at all costs or stability and high ROCs at all costs, we don't think that's necessarily the way to go, especially in a more normal interest rate environment.

Ross Glotzbach:	01:59	Now, what has been working more over the last several months and parts of last year too, is the flavor of value that we would call more value ETF, where you just want low multiples on current earnings and/or reasonable stability or dividend yield or book value multiples, whatever you want to call it. There are a few places where folks have been doing that to success recently. We would question that success long term. One would be some of the larger and less differentiated banks out there. Those can be hard ones for us to get there qualitatively, on both business and people often, but when rates were going up, and maybe rates will still go up, that was a good place to be.
Ross Glotzbach:	02:52	But longer term, the yield curve is going to govern your spreads often and therefore your ROEs, and boy, the yield curve is not looking as good as it once was at times earlier this year, last year. Big oil and gas, and this is more Exxons of the world than the CNX and Williamses of the world, they've just had their earnings go up a lot because of Russia and Ukraine. And they're historically low multiple stocks. They should be low multiple stocks. They still look low because now we're capitalizing a $100-something oil instead of $60 oil. But again, a lot of that is already in those prices, and they're very hard to understand black boxes, again, often not great owners on the case. We like more targeted looks in those industries.

Ross Glotzbach:	03:44	Then consumer staples, which we do think that is often a very good business, often some good partners as well, but it's a different dynamic than it was in '99, 2000 when we got to own companies like this, or 10 years ago, we were doing more of that as well. These companies have just become more bond proxies, where they trade at a high multiple because of this perceived stability or perceived dividend growth. And we would grant that they are often more stable and their dividends probably should go up from here, but on a DCF that doesn't make them worth high teens or 20 times what could be some peakish earnings, as this industry doesn't grow as much as it used to. So, we'll get to own more of these in the future and we can find places where we get unique shots at them, but that's been something that's done better in the market and we haven't owned much of it.
Ross Glotzbach:	04:38	Where we have found value instead, so far, unsatisfyingly, in certain cases, from an absolute return basis, is in complexity and companies that are misunderstood, but extremely high quality on both the business, the industry dynamics and the people running them. And what we were originally getting to pay 10 times free cash flow power for often has gone down to 8 to 6 to 7 times. That only makes it more attractive. And we just went through this few-month period where people kind of got punched in the face by the stock market, and now, as our partners who are in positions to be on offense are shifting even more into offense mode because they're not happy with their stock prices either. That's when you start seeing idiosyncratic winners coming down the pipe for reasons that are within their control.
Ross Glotzbach:	05:36	And that's what we see more of happening as this year goes on, and as the next few years goes on and it becomes more of an environment where money isn't free and you have to make your own moves to get paid. And we've got the right people, the right businesses to thrive in that world.
Question:		Can you discuss the three newer holdings that drove performance in the quarter?

Staley Cates:	05:56	So this is both a talk about some of our distractors, but it’s also kind of thematic commonality. And that would be especially with Oscar and Vimeo. So, part of the tech damage that’s been done in the overall market has been this flavor of company that was technically, incredibly proficient with great organic revenue case and very high gross margins but making no money currently and kind of a promise to make money later. That's a vast overgeneralization, but basically, for that kind of sales pitch to the market, Mr. Market believed all those companies, and now it's almost as if Mr. Market believes none of them. And the truth is probably somewhere in between. But there are a couple of these VC superstar companies, and I say that because their roster of funding all the way through their private rounds to when they came public does get to this dynamic.
Staley Cates:	06:53	And in these two companies, which we'll explain company by company, we very much believe in that case. But starting with Oscar, this company came out at $39 with a hall of fame roster both already in the company and putting in fresh capital at 39. And it's four and a half. It does seem to fit this pattern of incredibly huge revenue growth, like 40 to 50% kind of numbers, but losing EBITDA as they grew, which is what has turned it into very unfashionable territory. But on this one, we think it's very simple and straightforward because those losses were about building scale in managed care, and they have done that. So not only are we at a point where the EBITDA losses go away soon, but those values of managed care plan per member, that is a portable value that if they wanted to sell it, we believe they could.
Staley Cates:	07:46	We believe the per member math is very straightforward, unlike, say, a software company doing this. Now, having said that, they have a great software company, which is not yet making money, but the revenue growth is explosive. That's serving both their own platform and others. And that's where the tech strength of this company does come in. And we will see that make money also sooner than later, but that's just

its own asset. It's currently being integrated with the health plan, but that also could be viewed as a separate value. And our partners are great. They have been from start to finish. They're huge owners. We like their comp program. And we're in good shape there.

Ross Glotzbach:	08:31	Just thinking of these three that we added at the end of last year, Staley already talked about Oscar. Vimeo has been the other detractor out of these three so far. We would say this continues to be a good way to do online video. It continues to be misunderstood as a consumer company, when actually a large portion of the value and the growth comes from their shift to being more of an enterprise company, doing business with larger customers instead of mom-and-pop restaurant or exercise store. But it's also true probably that this transition has been taking longer than they thought it would. And some of the COVID boost that they got has been tougher to lap than they thought it would. And then there's also been some internal people things they've had to work through.
Ross Glotzbach:	09:25	We think with IAC and others on the case at the board level, they will get through these issues, but the value growth has not been what we would've liked to see, so that's why you see this as a smaller weight to end the quarter. We contrast that to a very different company over at White Mountains, which is an insurance conglomerate that we've added that you'll see is one of the larger weights at the end of the quarter, where these people who we've known in different ways for decades are really delivering. They sold their most important business for a very good price to private equity in the quarter. That will give them a lot of financial firepower to go on offense at a great time. And it makes the leverage adjusted price to value almost even more attractive than when we were first buying shares. So, the value has grown, the waiting has grown for the right kind of reasons. And that's why we're still very excited about that one.

Question:		Can you talk about the Fund’s exposure to Real Estate, which was the largest absolute and relative detractor in the quarter?
Staley Cates:	10:33	The one category that definitely hurt an underperforming industry that also was very specifically hurtful to our performance was real estate. We had a couple of different pieces of that, but I'll talk about the housing part in the form of Anywhere, which used to be called Realogy. But that was the biggest damage because the panic in housing is probably more dramatic than the other parts of real estate damage. But we've talked about Realogy turned Anywhere for a while. In the market, the main thing there is the market misses that this is a franchisor, and that these franchise fees are tied to a great dynamic, which is long-term housing in the US, and that's more existing housing than new home. But on baby with bathwater, because of the spike in mortgage rates, anything related to new housing has just been completely crushed. That's really just a small part of Anywhere - it's going to take me a while to get used to saying Anywhere instead of Realogy.
Staley Cates:	11:33	But that is a small part of their business, if you will. It's really more driven by existing homes. And that has this tradeoff between affordability, between house pricing and house units. So basically, there is a huge demand surge coming from millennials over the next 5 and 10 years, it's actually already begun. That is a very powerful demand driver, as is just the overall housing shortage in the US. So, the fundamentals, regardless of this short-term panic over the mortgage rates, are incredibly solid. And whether the prices hold up, whether the units surge, whether it's a combo, all that nominal top line growth is what they will capture, not all of it, but a percentage of that top line growth is what Anywhere will capture in these franchise fees.
Staley Cates:	12:25	One other side note, they do own some realtor firms, but if possible, they would look to refranchise some of that as we lived through with hotel companies and fast food companies. And the goal would be to get this to a

pure franchise fee company. But this sells at a mid-single digit multiple of free after-tax, free cash flow, which is crazy regardless of the situation on near-term new housing. I'll kick to Ross to talk about Empire State, also within real estate.

Ross Glotzbach: 12:58 Empire State has a few different sources of value, so it's not quite a direct pure play on either office or their observatory business, which is almost more like a Disney World type theme park economics. So, on the observatory part, that will continue to come back as there is more travel in the wake of COVID. And lost in all the news last quarter was that it's become kind of back to how it was. You don't need a COVID test to come back into the US. Over 60% of the Empire State Building observatory's visitors are international. So that should be another good tailwind that should keep coming its way. Now, the New York office market remains unsteady and uncertain, and some of the return to the office has been slower, and it doesn't help that there are new COVID variants out there.

Ross Glotzbach: 13:57 And this, though, gets to the people, where if you checked out what Tony Malkin, the CEO of Empire State, and his team said last quarter on the call, it was that it's time to put points on the board. And they are shifting much more into value realization mode, where they can look to monetize assets, they can look to continue their share repurchase program. So, we think this kind of environment, with their great balance sheet, is an interesting place to be, as competitors might be more stuck and less flexible, less willing to make bold moves than Empire State would.

Question: What new investment opportunities are the team finding in the current environment?

Staley Cates: 14:43 One that's, to me, super interesting, because we talked even as recently as last year about SPAC world being crazy, but that enough real companies and enough great managers were coming to the market through SPACs that we thought there would be some opportunity for us there someday when prices came down. So interestingly, we're taking a position in what will be Westrock Coffee, but for now is Riverview Acquisition Corp, because it is a SPAC turning into this coffee company. So as we run through our template of business, people, price, this one's kind of interesting to start on the people part instead of the business, because I can't remember a name that we've had... we talk about recycles, which we love, because we know them the best, but this is one where the Chairman and the CEO were previous very successful investees of ours at combined three different companies.

Staley Cates: 15:35

But that's Brad Martin, as Chairman of this company going forward, and Scott Ford will be CEO. Scott was at Alltel, if you remember, if our long-term clients remember, and was a great partner there. We think it's a gift that these guys show up together in this new company. So, what Westrock does is really kind of two pieces. One is, as they've put it, the brand behind the brand on the coffee that you would see, and basically every retailer other than Starbucks. They are teamed up with people like McDonald's to provide the coffee that you would get on premise. They would make that for the customer like McDonald's in every package size, every flavor, every different kind of coffee. And so you may not see the name on that, but whenever you're getting basically a non-Starbucks, the odds are very high you're getting their product. Maybe more valuable though, is they have an extract and flavoring business.

Staley Cates: 16:31

Now, that's very big in the coffee world because coffee is moving from the hot cup in the morning to all these flavors and cold and throughout the day, and just different beverage varieties. That takes a lot of extracts and flavorings and they're pretty big in that. So that's a little bit less than half of EBITDA, but it's a much higher multiple business and it's therefore the most valuable part. So, when we put these together, as this company essentially comes public, we're paying a moderately attractive multiple as is. But the whole thing is the growth runway, which is why they need capital in the first place to come public. And that is, they have basically all the demand they can fulfill in the extracts and flavorings, because as you can just see as a consumer, this stuff continues to proliferate, and the new types of coffee continue to displace the old style. So, they have a lot of tailwinds, they have a lot of pent-up demand, and they just needed the capital for expansion, which is what we're providing. And our partners there are great.

Ross Glotzbach: 17:35 So where we're finding new opportunities would be a few places. Number one, which is often our most obvious way to find things are just things that are left behind for unique reasons, and we've got some of those in the pipe and some of those that we could be close on. But the two broader categories would be fallen growth favorites. Now, there were a lot of things in that world that were 300 cent dollars, and other 100 cent dollars, but there were certainly some good companies, and we've been spending a lot of time on sorting through all of those, from big to small and from well-known to very off the radar. So, it's been a lot of work there and stay tuned what we've been finding. Then over on the other side of things, I'd say kind of building products related, from housing starts, mortgage rates going up, other things in that world, where again, we've been surfing through a lot of them, meeting, talking with a lot of these companies, their competitors, their suppliers, others in their industry, and finding some interesting ones.

Ross Glotzbach: 18:48 Now, we've got to make sure we're capitalizing the right trend line earnings and coming on in at the right time. But we think we've found some interesting things to do there as well. So, our on-deck list is really quite nice. When you look at it compared to relative historical times and just in good absolute terms, we feel like there will continue to be some new ones coming on into the portfolio and other things that we look forward to talking more about.

Gwin Myerberg: 19:18 Thanks, Ross and Staley for the discussion, and many thanks for joining us. We look forward to discussing more next quarter. Please feel free to email us at info@SEasset.com if there are any questions you would like to see us cover on the next quarter.

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Southeastern Asset Management
6410 Poplar Avenue, Suite 900
Memphis, TN 38119
+1 (901) 761-2474

southeasternasset.com