April 12, 2018

Longleaf Partners International Fund Commentary 1Q18

Longleaf Partners Funds

Longleaf Partners International Fund returned 0% in the first quarter versus the -1.53% performance of the MSCI EAFE Index. EXOR, the Fund's largest position, had the most substantial impact by far. The absence of any meaningful performance detractors also benefitted results. Even with flat results thus far in 2018, over the last 12 months the International Fund's 14.18% return substantially outpaced our absolute goal of inflation plus 10%.

During the quarter, markets outside the U.S. fell for various reasons including the threat of global trade wars in response to U.S. tariffs, anticipation of where Brexit negotiations will lead and concerns around the impact of U.S. inflation on higher interest rates and a weaker U.S. dollar. EAFE's dollar-denominated return understated the amount of selling pressure overseas. In local currency, the index fell an additional 2.75%. (Because of the Fund's significantly different country weights and cash, it gained only 60 basis points from the translation to USD implying company specific factors were more responsible for the relative results.) Over time currency fluctuations should broadly cancel out, but the company specific outperformance can endure.

Average Annual Total Returns (3/31/18): Since Inception (10/26/98): 7.78%, Ten Year: 2.61%, Five Year: 5.51%, One Year: 14.18%.

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

At March 31, 2018 the total expense ratio for the Longleaf Partners International Fund was 1.33%. Effective April 1, 2018, the total gross expense ratio for the Longleaf Partners International Fund is 1.19% with a total net expense ratio of 1.15%. The expense ratio is subject to fee waiver to the extent a fund's normal annual operating expenses exceed the following percentages of average annual net assets International Fund 1.15%.

During the 22 month period since the Fund's cash exceeded 10%, we have patiently adhered to our Business/People/Price criteria, knowing that qualifiers would emerge with or without a market crash. The first quarter illustrated that increased volatility and only a minor market pullback could create enough dislocations for us to be productive. We bought stakes in five new companies and sold one fully valued company – substantial progress over three months for a portfolio that normally contains 20 companies and has low turnover. Cash reserves fell to 13%. Our on-deck list of prospective investments grew, an encouraging sign for further cash deployment.

The Fund's new holdings came from around the globe with two in Japan, two in Mexico, and one based in Europe. These opportunities were mostly company or industry specific, rather than due to a broad turndown, although the Mexican stock market's decline of over 6% in the quarter helped. Japan actually rose slightly, but opportunities there have expanded over time with improving governance and limited analyst coverage. In spite of progress, the governance standards in Japan and across Asia generally remain behind the West, where engagement can be more productive. Our cumulative network across the region after 20 years with offices on the ground, combined with the backgrounds of our Asian analyst team, gives us an important advantage in assessing corporate managements and understanding how generational change among controlling families might play out. We believe we will continue to find hidden gems in Asia and, as importantly, avoid those companies where managements are not focused on building shareholder value. Similarly, our long-time local presence and large contact network in Europe has enhanced our decision making and successful engagement in that region.

In another positive development, the Longleaf Trustees approved a fee reduction effective April 1 that will lower the cost of owning the Fund by at least 18 basis points per year. Assets in Southeastern's regional strategies that help feed ideas to the Fund have grown over the last three years while International Fund assets have remained steady. Southeastern proposed sharing the economies of scale across all non-U.S. investors by reducing the Fund's management fee to 1.10% on the first $500 million and 0.90% on the balance and capping total expenses at 1.15% (versus a 1.33% expense ratio in the first quarter). As the largest investors in the Fund, the employees at Southeastern pay the same fees as our clients and are committed to one share class where all investors are treated fairly and equally.

Contributors/Detractors

(Q1 Investment return; Q1 Fund contribution)

EXOR (+16%, +1.49%), one of Europe's leading investment holding companies, was the Fund's largest position and most substantial contributor in the quarter. The main component pieces of our appraisal are Fiat Chrysler Automobiles (FCA) (35%), PartnerRe (24%), CNH Industrial (19%), and Ferrari (17%). FCA's profits increased, and takeover speculation also pushed its stock up. PartnerRe's value was affirmed by two acquisitions of reinsurers, XL and Validus, at around 1.5X book value, well above both what EXOR paid for PartnerRe and our appraisal multiple. EXOR trades at a large discount to the market values of its component pieces. We believe the discount is unwarranted, as CEO John Elkann and his management team can produce additional double-digit value growth organically and via transactions, such as the planned spin out of Magneti Morelli from FCA later this year.

Hikma (+11%, +0.69%), a multinational, family owned and operated generic pharmaceutical company that we bought in October 2017 positively impacted results. The company has three divisions: Branded Generics with products sold primarily in the Middle East and North Africa (MENA), Injectable Generics (U.S., MENA and Europe) and U.S. Oral Generics. Brexit uncertainty and the challenging outlook for the U.S. generics industry provided Hikma at a discount. Disruptions in the least important segment, U.S. Oral Generics, overshadowed strong Injectables and Branded Generics businesses with high barriers to entry, which comprise 75% of our appraisal value. In the quarter the company brought in a new CEO in well-respected industry verteran Siggi Olafsson. Former CEO, now Executive Chairman Said Darwazah, vacated the operating position to focus on strategy and capital allocation. The Darwazah family owns 25% of the company through a family holding vehicle fully aligning them with other shareholder interests, as evidenced by this significant hire.

AIN Holdings (+30%, +0.62%), the largest prescription pharmacy chain in Japan, was a new investment in the quarter and quickly contributed. Japan's prescription dispensing pharmacy industry is highly fragmented among 58,000 pharmacies, mostly run by single-store operators. AIN, with roughly 1,000 stores and 3% market share, is the largest and most profitable chain. Despite the government's downward drug price revisions, the pharmacy market is expected to grow 3-5% annually, as prescriptions increase with an aging population and fulfilment moves from hospitals to pharmacies.

Japan's most recent price revision for April 2018 penalizes large chains, which gave us the opportunity to buy the stock at a discount. CEO Kiichi Otani, who owns over 9% of the company, remains confident that AIN can repeat its historic success at overcoming the impact of price controls. The company's net cash balance sheet should give AIN an advantage in both ramping up organic growth via on-site hospital pharmacies and acquiring under-performing pharmacies at single-digit earnings before interest, taxes and amortization (EBITDA) multiples. During the quarter, the company reported increased sales and margins and continued to close unprofitable stores while opening new stores that have a rapid payback.

OCI (-8%,-0.46%), a leading producer of nitrogen fertilizers and natural gas-based chemicals, was the largest detractor in the quarter. The stock declined in spite of higher methanol prices and debt refinancing that will reduce interest costs. A main source of short-term price pressure in the quarter was that a relatively large holder (Abraaj Capital) had to sell in order to raise capital for its other businesses. OCI has six production facilities located in the Netherlands, United States, Egypt and Algeria, and its new U.S. methanol plant in Texas will ramp up in 2018. As major capital expenditure projects come to completion, cash flow will accelerate meaningfully. The company sells for well below the replacement cost of its assets. CEO Nassef Sawiris is an owner-operator who remains focused on value creation and recognition, as well as optimising the capital structure and generating significant free cash flow.

Portfolio Activity

In addition to buying AIN discussed above, we purchased four other companies in the quarter, three of which remain undisclosed. Vestas is a global leader in onshore wind equipment and a provider of aftermarket services to the wind industry. Historically, rapid market evolution, low barriers to entry and government subsidies characterized industry economics. We have no competence in evaluating such a situation. However, we began investigating this business as the levelized cost of energy for new onshore wind (at good locations) reached parity with traditional power providers, reducing the reliance on subsidies and moving the industry more towards traditional, industrial company characteristics that we can understand. Competitive advantages from economies of scale, accumulated know-how and a global service network should drive future success. The market's pullback, along with lower-than-expected results at the company provided enough of a discount for us to purchase. Since coming aboard in

2013, our corporate partners have fixed the balance sheet and transformed the company into a stable, net cash, dividend paying, share repurchasing company.

The new undisclosed Japanese company is a classic Southeastern opportunity of an entire business getting discounted because of potential headwinds at one segment that is of limited importance to the company's long-term success. The most meaningful segment has 60% global market share in a growing business with barriers to entry and an owner operator at the helm. The uncertainty around NAFTA hit Mexican securities broadly, providing the opportunity to purchase both undisclosed Mexican companies, one of which has unusually strong pricing power around the world and the other with a dominant position within Mexico as well as attractive growth potential.

We exited Yum China (YUMC), the operator of KFC and Pizza Hut restaurants in China. YUMC was spun off from YUM Brands! in November 2016. The timing coincided with Asian markets being rocked by Donald Trump's election. Because YUMC was not in an index and did not pay dividends, we were able to buy this franchise at a significant discount. Under the leadership of Micky Pant, YUMC delivered strong results in 2017. Total revenue rose 8% year-over-year and operating profits gained 23%. Same store sales recovered to +4% after three years of decline. On the capital allocation front, YUMC initiated a cash dividend, repurchased stock and expanded its buyback program. The gap between share price and our appraisal of the business quickly closed. In our 14 month holding period, Yum China generated a substantial 60% return.

Outlook

With the new purchases in the quarter, the Fund's cash reserves declined to 13%, and we hope to add to several positions plus have a few more of our on-deck prospects qualify. The low-70%s price to value (P/V) also became more attractive with both the addition of companies selling for 30+% discounts to appraisal and the value growth at the businesses we already owned. For the last decade, global equity markets have been paced by USD assets with a growth bias. Today, we believe that a non-U.S., non-USD, concentrated value driven approach is well positioned for attractive risk adjusted returns.

We believe the Fund can outpace the index because of the rigor of our discipline and the flexibility to invest opportunistically, rather than based on momentum-weighted

country or sector allocations. Our local contacts and context should enable us to find attractive investments that we believe can compound at long-term double-digit rates. As the largest shareholder group in the Fund and long-term investors, we welcome the volatility and the investment opportunities it can bring.

See following page for important disclosures.

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

RISKS
The Longleaf Partners International 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. Investing in non-U.S. securities may entail risk due to non-US economic and political developments, exposure to non-US currencies, and different accounting and financial standards. These risks may be higher when investing in emerging markets.

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

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.

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

Capex or Capital expenditure, are funds used by a company to acquire, upgrade, and maintain physical assets such as property, industrial buildings, or equipment.

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

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

As of March 31, 2018, the top ten holdings for the Longleaf Partners International Fund: EXOR, 8.3%; LafargeHolcim, 7.2%; Hikma Pharmaceuticals, 6.6%; CK Hutchison, 6.3%; Fairfax, 5.9%; OCI, 5.7%; CK Asset, 5.2%; Ferrovial, 4.6%; Great Eagle, 4.6%; Melco, 4.5%. Fund holdings are subject to change and holding discussions are not recommendations to buy or sell any security. Current and future holdings are subject to risk.

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