April 12, 2018

Longleaf Partners Small-Cap Fund Commentary

1Q18

Longleaf Partners Small-Cap Fund declined 1.05% in the first quarter, and the Russell 2000 Index fell slightly, 0.08%. Concerns over U.S. tariffs plus renewed U.S. inflation concerns offset optimism around lower tax rates and helped create long overdue volatility. The Fund's cash was a positive in the market's decline, and half of our holdings posted positive results. The Small-Cap Fund fell, however, primarily due to double-digit declines at two holdings. Relative results were impacted by the Fund's minimal exposure to the index's only three positive sectors in the quarter – Healthcare (0 holdings), Information Technology (2 non-internet related holdings), and Financials (0 holdings). Momentum has propelled those areas for an extended period and also explains the Fund's relative results over the last 12 months.

In the increased market volatility, smaller cap companies did not experience as much of a pullback as larger or foreign stocks. We added to two of the Fund's most recent investments during the quarter but did not purchase any new companies. These transactions reduced the Fund's cash position even following the sale of Wynn Resorts in January. Our on-deck list of prospective qualifiers grew. We are hopeful that

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Average Annual Total Returns (3/31/18): Since Inception (2/21/89): 10.88%, Ten Year: 10.02%, Five Year: 9.83%, One Year: 3.77%.

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.

As reported in the Prospectus dated May 1, 2017, the total expense ratios for the Longleaf Partners Small-Cap Fund is 0.91%. The expense ratio is subject to fee waiver to the extent a fund's normal annual operating expenses exceed1.50% of average net assets.

additional volatility will generate more opportunities to own discounted, dominant businesses with strong corporate leaders.

Contributors/Detractors

(Q1 Investment return; Q1 Fund contribution)

Neiman Marcus (+16%,+0.69%), the luxury retailer whose bonds we own, contributed to the Fund's performance as the company exceeded low market expectations during the very important holiday period and delivered a second consecutive quarter of positive comps. Texas stores, which represent 20% of sales, showed notable improvements, and the growth of online sales to over one-third of revenues contradicted a commonly held image of dying retailers. Neiman Marcus is generating enough cash to service the interest payments and has ample liquidity via its revolving credit facility to continue investing in the business.

Graham Holdings (+8%, +0.49%), the media, education, and services company that is the Fund's largest position, contributed with strong quarterly performance. Television margins improved - the Graham family has been one of the very best operators in the business for several decades and continued to improve here. Kaplan Education received regulatory approval for its groundbreaking online deal with Purdue University. Additionally, CEO Tim O'Shaughnessy repurchased the company's discounted shares.

ViaSat (-12%,-0.94%), the satellite company, detracted from the Fund's performance despite solid operating results and the start of full commercial service on its recently launched, technically superior ViaSat-2 satellite. ViaSat's government business, primarily a secure communications channel for militaries, grew earnings before interest, tax, depreciation and amortization (EBITDA) by 20% year-over-year, a number only slightly ahead of the segment's growth rate over the last twenty years. ViaSat's consumer broadband business lost subscribers while transitioning to new service plans, but we believe this was a temporary drop rather than a sign of long-term weakness. InFlight should install Wifi service on over 150 planes this year, and its backlog continued to expand.

Mattel (-15%,-0.73%), the global toy company that we bought in late 2017, negatively impacted the Fund's results. Although retailer Toys R Us has appeared near insolvency for years, its March announcement that the almost 800 remaining stores are going out of business hammered the stocks of toy manufacturers. Toys R Us represents about

8% of Mattel sales. The liquidation is expected to be complete by the end of June, impacting Mattel's and other toy companies' short-term distribution, which will be replaced by healthier online and physical merchants over time. The industry grows mid-single digits globally with international sales expanding faster than in the U.S. Increasing demand for dolls, vehicles and infant toys – which surprises some who assume all toy industry growth goes to electronic devices – plays to Mattel's core Barbie, Hot Wheels and Fisher-Price brands and should help the company increase share. Since becoming CEO in early 2017, Margo Georgiadis has cut costs, improved advertising, and released promising new toys. Additionally, the board has improved with several new members, including Todd Bradley, a supply chain and China markets expert, whom we have known through several other investments over the last decade.

OCI (-8%,-0.51%), a leading producer of nitrogen fertilizers and natural gas-based chemicals, was another 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.

Formula One (-10%,-0.50%), the global sports and media company, detracted. Its investment in LiveNation stock declined following a weaker than expected quarter. Additionally, Formula One had several one-time costs in the transition under its new leadership which is investing heavily for improvements in 2020 and beyond with a new OTT streaming service and improved schedule of races. Formula One is an example of a business that quantitative models miss because of the upside in its transformative acquisition by John Malone and Greg Maffei's Liberty group and the abilities of new CEO Chase Carey, who is among our most respected partners for his prior work at DirecTV .

Portfolio Activity

During the quarter, we increased our stakes in Park Hotels and Realogy, both new purchases in 2017, but did not purchase any other companies. In January, we sold Wynn Resorts, which, after a large return over the last two years had no margin of safety left. Our timing was lucky. Days after our exit, revelations about Steve Wynn's alleged sexual harassment history and his subsequent resignation occurred. We bought Wynn Resorts in mid-2015, following the Chinese anti-corruption campaign that drastically reduced Wynn Macau's VIP business. Our appraisal incorporated a longer view, emphasizing the company's growing mass gaming earnings in Macau, successful Vegas resort and significant non-earning assets: properties under construction in Cotai (Macau) and Boston, as well as rare open acreage on the Las Vegas strip. Similar to some of our current newer investments, the stock price fell after our initial purchase as sentiment turned from bad to worse, and we increased the position at even more discounted prices, when Steve Wynn purchased cheap shares alongside us. As earnings rebounded with the growth of mass visitors and the Palace opening in Cotai in late 2016, the stock rose sharply. Our 124% gain over the Fund's 2.5 year holding period is an example of how our longer time horizon can drive investment opportunity when a stock is priced for temporary short-term disruptions.

Outlook

The first quarter return did not reflect the progress that the Small-Cap Fund made over the last three months. We sold a fully priced, successful investment (Wynn) and used some of the non-earning cash to increase stakes in market leading businesses at deep discounts. Our on-deck list of prospective qualifiers grew. Notable leadership changes also improved the long-term outlook at several companies where we have been engaged. In addition to Mattel's adding Todd Bradley to its board as mentioned above, Actuant appointed two new directors suggested by Southeastern because of their relevant industry and transactional backgrounds. We applauded the announcement that Jeff Storey would take over as CEO of CenturyLink six months ahead of plan. Many of the companies we own have the qualitative strength and pricing power to help mitigate some inflationary pressures, particularly versus peers. Given the quality of our companies and our motivated management partners, a number of holdings have strong prospects over the next few years not only for organic growth but also for being attractive businesses to other companies.

The market remains elevated in our opinion, with some industries particularly richly priced. Additional volatility and short-term mispricing would enable us to put more of the Fund's 25% cash to work in investments that meet our Business/People/Price criteria and further reduce the high-60%s price to value (P/V). As large shareholders 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 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, which represents approximately 10% of the total market capitalization of the Russell 3000 Index. 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.

Free Cash Flow (FCF) is a measure of a company's ability to generate the cash flow necessary to maintain operations. Generally, it is calculated as operating cash flow minus capital expenditures.

As of March 31, 2018, the top ten holdings for the Longleaf Partners Small-Cap Fund: Graham Holdings, 6.9%; ViaSat, 6.6%; CenturyLink, 6.5%; Park Hotels, 6.5%; OCI, 6.0%; Hopewell Holdings, 5.4%; Neiman Marcus, 4.8%; CNX Resources, 4.8%; Realogy Holdings, 4.7%, Kodak, 4.6%. 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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