September 30, 2017

3Q17

Longleaf Partners Fund Commentary

Longleaf Partners Fund gained 3.25% in the third quarter. This return exceeded our annual absolute goal of inflation plus 10% in spite of the Fund's high cash level, which accounted for most of the performance shortfall versus the S&P 500 Index's 4.48% rise. Most of the businesses we own had positive returns in the quarter with six stocks posting double-digit gains. The common thread across the Fund's top performers was corporate partners who are pursuing transactions aimed at building and seeking recognition for value per share.

Discovery's purchase of Scripps resulted in the Fund's only exit over the last three months. We also trimmed four investments after strong price appreciation throughout 2017. We initiated a new position (still undisclosed) late in the quarter and increased our stake in Level 3 as the stock's discount to value grew.

The high cash and limited purchases do not properly reflect the activity level of our analyst team or the opportunity set we are seeing. Our on-deck list of companies that meet our qualitative criteria and are within 10-15% of our required discount grew over the quarter. Dispersion created by the market's increasing performance concentration in IT has opened up pockets of undervaluation in other areas. Our team has assessed numerous companies whose stocks reflect uncertainty, including a variety of businesses that may be impacted by Amazon's retail model, the development of ride sharing and electric vehicles, continued low energy prices, the future of healthcare, and the multitude of viewing options for media content. Additionally, investors' manic search for yield and dividend stability has created opportunities where companies have cut or are at risk of cutting their dividends.

The Fund's long-term potential to outperform will be due largely to our concentrated, bottom up approach that makes the portfolio and performance drivers dramatically different from the index (as evidenced by the historic 95+ active share). We believe the Partners Fund is currently more attractively positioned than the S&P, which sells above average historic multiples and at record high levels. Information Technology (IT), where the Fund owns just one investment, has become over 20% of the index and accounted for almost half of its return in the quarter. By contrast, almost half of the Fund's holdings, including two of the top three performance drivers in the quarter, are not components in the inflated S&P 500. The Fund's cash is also an advantage, providing liquidity when we find new qualifiers, but also acting as a buffer in the event that the 9+ year bull market reverses course.

Contributors/Detractors

(3Q portfolio return; 3Q Fund contribution)

Scripps Networks, (+29%,+0.97%) the owner of leading cable channels including HGTV, The Food Network, and the Travel Channel, was the Fund's leading contributor after Discovery offered to acquire the company for $90 per share in cash and stock. The price was above our appraisal, and we sold the position. We added Scripps in 2014 after a potential Discovery combination fell apart and when international investments obscured the sustained profitability of Scripps's unique content. Over our holding period, Scripps added new viewers and grew advertising revenue, but industry wide pay TV subscribers declined more quickly than we anticipated. We consequently lowered our multiple on the business. The margin of safety in our initial purchase price combined with the company's conservative balance sheet helped preserve our capital, and we booked an 18% gain in spite of the industry challenges that developed.

Fairfax Financial Holdings (+20%, +0.94%), the Canadian based property and casualty (P&C) insurer and reinsurer, was among the largest performance contributors in the third quarter. As one of two new holdings in 2017, Fairfax illustrates that "recycled names," businesses that we previously have owned directly or as part of another company, are a good source of new investments. Our level of conviction in recycled names is usually higher because we know the businesses and management teams more intimately after being owners. Fairfax's quick appreciation occurred when several material corporate actions helped bring clarity to pieces of hidden value that CEO Prem Watsa had built. In India, Fairfax sold a portion of its stake in ICICI Lombard through an IPO and a private market transaction, producing a combined $950 million gain. In Singapore, Fairfax sold its subsidiary, First Capital, to Mitsui Somitomo, one of Japan's largest insurers, at a price more than three times book value. This multiple, which was much higher than traditional U.S. P&C companies receive, highlighted the inherent value in some of Fairfax's international insurance subsidiaries. The First Capital transaction not only generated a $900 million after-tax gain, but also provided Fairfax with a continuing 25% quota share in First Capital's underwriting and with the potential

Average Annual Total Returns (9/30/17): Since Inception (4/8/87): 10.54%, Ten Year: 3.44%, Five Year: 9.33%; One Year: 13.74%

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 ratio for the Longleaf Partners Fund is 0.95%. The expense ratio is subject to fee waiver to the extent normal annual operating expenses exceed 1.50% of average annual net assets.

to participate in the difficult to access Japanese reinsurance market through Mitsui Sumitomo. The proceeds from these transactions will help fund Fairfax's newly announced share repurchase program and will also replenish capital from recent hurricane losses, putting Fairfax in an excellent capital position to take advantage of a potentially hardening P&C market after these multiple catastrophes.

CONSOL Energy (+13%,+0.70%), experienced significant price volatility over the last three months, but ended the quarter as a top contributor, in spite of reduced production and operating cash flow guidance for 2017 and forward gas prices remaining weak. To the positive, not only did CONSOL reiterate its 2018 gas production guidance, but management announced several beneficial transactions that investors welcomed. First, the company reached its target range for 2017 asset sales and intends to close more in the remaining four months. Second, the planned separation of the coal business should be completed via a spin off before year-end. Third, the board authorized a share buyback equivalent to 6% of the company. Because of the lower long-term pricing for gas, we reduced our appraisal of the company, but CONSOL remains among the most discounted businesses we own, selling below its peers and building value through its free cash flow coupon and management's capital allocation.

Level 3 Communications (-10%,-1.08), the global fiber and integrated communications network company, was the only notable detractor from the Fund's return in the quarter. The size of the position magnified the impact of the stock's decline. We maintained a 10% weight and added in the quarter in anticipation of the close of CenturyLink's (CTL) purchase of the company. Because we will receive approximately half of the transaction in cash, the combined company will become a more normal 5% position. In the quarter, Level 3's price reflected concerns about final deal approvals and a potential CTL dividend cut post-deal (as inferior competitors have cut dividends this year). On the first day of the fourth quarter, the Department of Justice gave a key approval to the merger. The prospective cash flow from the combination with Level 3 should easily cover CTL's current dividend which was otherwise in question given its declining legacy land line business. The dividend is irrelevant to the company's underlying value and has taken on undue importance in this environment of intense yield chasing. We anticipate that the deal will close and believe the new CTL will be the preeminent global fiber network solutions company with an extraordinarily capable management team, including Level 3 CEO Jeff Storey.

Portfolio Activity

Cash grew during the quarter as sales exceeded purchases. In addition to selling Scripps, we trimmed some of the year's strongest performers, including Wynn, CNH, and FedEx, to keep them at more normal weights. We remain enthusiastic about the quality of each of these companies and our management partners' ability to drive value growth over the coming years. Wynn was the strongest performer by far year-to-date, up 74%, and gained 62% over the last 18 months after being one of the Fund's worst performers in 2015 and early 2016. Wynn exemplifies how Southeastern uses our 3-5 year time horizon as an advantage when near-term fears dominate a stock's price. In early 2016, Wynn Macau drove Wynn's stock price as Macau experienced a substantial drop in VIP revenue following China's anticorruption campaign. The price ignored the longer term increase in much more profitable mass gamblers and the growth in visitors that construction of the new Wynn Palace and infrastructure would bring. Less than two years later, the Palace has averaged over 95% occupancy in 2017, and mass gaming revenue has grown double digits. VIP visitors also have increased from their low levels. Wynn remains below our appraisal because of the value growth at its operating properties both in Macau and Las Vegas, and because of the time horizon arbitrage opportunity we now have between earnings over the next twelve months and higher profits over 3+ years as the current construction in progress (Boston area casino and Vegas golf course redevelopment) starts to generate revenues.

In addition to adding to Level 3, we initiated one new, undisclosed position. The company reached our requisite discount because of previous management's missteps over the last several years, dividend uncertainty, and Amazon-related fears. This new investment illustrates some of the ways we can find quality businesses at deep discounts even as the broader market climbs to new highs.

Outlook

The Fund's flexibility to look different from the index and our bottom up, valuation driven discipline should allow the Partners Fund to continue to earn strong absolute returns that we believe can outperform the index over the long term. The companies we currently own offer additional attractive upside given their P/V in the high-70%s combined with the value growth that our management partners are capable of delivering. The 28% cash position does not anticipate a market correction, nor do we require a downturn to find qualifiers. Our edge comes in identifying the best stock-specific opportunities rather than in investing in broadly discounted markets. Our growing on-deck list contains a number of prospective investments simply waiting on prices to move in our favour, which could happen if individual companies disappoint investors, dispersion within the market leaves areas of undervaluation, or a broad pullback occurs. Whatever way discounts emerge, we believe each new investment will provide the Fund additional foundation for successful future compounding.

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 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 by the Fund may be more volatile than those of larger companies.

The S&P 500 Index is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. 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.

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.

Active Share measures how much an equity portfolio's holdings differ from those of the benchmark index.

"Margin of Safety" is a reference to the difference between a stock's market price and Southeastern's calculated appraisal value. It is not a guarantee of investment performance or returns.

Operating Cash Flow (OCF) measures cash generated by a company's normal business operations.

IPO is an initial public offering.

As of September 30, 2017, the top ten holdings for the Longleaf Partners Fund: Level 3, 9.8%, CK Hutchinson, 7.0%, FedEx, 6.6%, Alphabet, 6.0%, CONSOL Energy, 5.8%, CK Asset, 5.6%, Fairfax, 5.5%, United Technologies, 4.8%, LafargeHolcim, 4.8%, CNH Industrial, 4.7%. 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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