December 31, 2016

4Q16

Longleaf Partners Funds Shareholder Letter

We are pleased to report that 2016 was a great year for the shareholders of the Longleaf Partners Funds. All four Funds delivered strong absolute results, three outperformed their indices by a wide margin, and each Fund ended the year well-positioned for the future. We produced good returns because: the competitive advantages of our businesses built organic value growth; our corporate leaders made intelligent capital allocation decisions that meaningfully augmented value; the market began to recognize our companies' higher intrinsic worth; and, we positioned the Funds' portfolios to maximize returns while limiting downside. We are highly confident the Funds will continue delivering excess returns because the quality and leadership of our investees should drive additional value accretion and because of market factors that appear more favorable to our bottom-up, valuation based investment approach.

	One Year	4Q
Partners Fund	**20.72%**	**2.03%**
S&P 500 Index	11.96	3.82
Small-Cap Fund	**20.48**	**3.88**
Russell 2000 Index	21.31	8.83
International Fund	**12.20**	**-0.31**
MSCI EAFE Index	1.00	-0.71
Global Fund	**20.43**	**1.60**
MSCI World Index	7.51	1.86

Past performance does not guarantee future results

Our most widely held and more heavily weighted holdings across the Funds are uniquely long-term investments that we know very well. These companies[1], like Level 3 Communications, FedEx, CK Hutchison, Cheung Kong Property, EXOR, CNH Industrial, Graham Holdings, LafargeHolcim, and Liberty Media, all have growing competitive advantages, highly capable management partners, and cash-generative businesses that should continue to grow their values per share. This group trades at a very attractive average multiple of 11 to 12 times our calculated 2017–18 earnings power versus the S&P 500's 16 to 17 times and MSCI EAFE's 14 to 15 times current price-earnings (P/E) multiple based on next twelve month estimates.

This time last year, the energy and gaming investments in the Funds were a source of disappointment, even though we felt that our management partners were making smart moves. In 2016, as a whole these investments posted substantial returns that outperformed their industries. Going into 2017, these companies have strengthened their balance sheets through accretive actions while focusing and improving their operations. Their industries now have tailwinds, as commodity prices have returned to more reasonable, yet still low, levels, and Macau gaming has shown early signs of renewed growth. This group is now on offense

Most of our remaining investments in the Funds fall into a third group of diverse businesses. We have not held them as long as most of the companies mentioned above, but they qualify strongly on business, people, and price. We expect their values to grow at an above-average level. Our management partners are exceptional, and these companies could remain core holdings for many years. They include businesses[1] such as Alphabet, Ralph Lauren, United Technologies, and ViaSat in the U.S., European-based C&C and an undisclosed new addition that we successfully owned in the last Eurozone crisis, and Asian-based Great Eagle and Yum China (a fourth quarter addition that we

1 To reference which funds hold the investments discussed, please see page 3.

Average Annual Total Returns (12/31/16) Partners Fund: Since Inception (4/8/87): 10.42%, Ten Year: 3.20%, Five Year: 9.63%, One Year: 20.72%. Small-Cap Fund: Since Inception (2/21/89): 11.09%, Ten Year: 8.15%, Five Year: 15.35%, One Year: 20.48%. International Fund: Since Inception (10/26/98): 7.05%, Ten Year: 0.62%, Five Year: 6.47, One Year: 12.20%. Global Fund: Since Inception (12/27/12): 5.80%, Ten Year: na, Five Year: na, One Year: 20.43%.

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. 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, 2016, the total expense ratios for the Longleaf Partners Funds are: Partners Fund 0.93%, Small-Cap Fund 0.91%, International Fund 1.28%, and Global Fund 1.54%. The expense ratios are subject to fee waiver to the extent a fund's normal annual operating expenses exceed the following percentages of average annual net assets: Partners Fund 1.50%, Small-Cap Fund 1.50%, International Fund 1.75%, and Global Fund 1.65%. Effective May 1, 2016, Southeastern agreed to voluntarily reduce the expense limit to 1.20%. The voluntary fee waiver for the Global Fund may be discontinued at any time.

have known well for many years).

A final point on the Funds' portfolios is that our on-deck list—while shorter than usual—does have strong candidates. After another up year, the U.S. is less compelling than other world markets. Still, we have found new qualifiers in both the large and small-cap areas and continue to search. In Europe, dispersion among stocks is greater, but the lower-than-U.S. market P/E multiple is dragged down by lesser quality businesses that are not attractive to us. However, we have several exceptions on deck. Asia remains the most discounted region, although the most undervalued industries of real estate and gaming are already well represented in our portfolios. We have looked at a number of Japanese prospects in the last year, but most either were away from our price limit or had limited liquidity.

The shift to indexing had been a headwind for the Funds for several years because it drove stocks to move in lockstep and favored momentum investing, as indexing is a strategy that buys more of what has been going up. Even though indexing remains in favor, 2016, and the second half of the year in particular, saw positive signs that this force is abating. Correlations between stocks declined, and the market began to weigh company-specific factors more, which rewards our skills as business appraisers. As contrarians we couldn't help but get excited by a classic headline in the October 17th edition of the *Wall Street Journal*—"The Dying Business of Picking Stocks."

Persistently low—and in some cases negative—interest rates stayed with us for most of 2016, but the fourth quarter saw a dramatic turn upward in rates after the U.S. election. While we do not claim to be macro forecasters, higher rates going forward now seem more likely than not. We have avoided higher yielding stocks that had become bond proxies and are now most at risk of a multiple re-rating. We believe we own companies with pricing power and intelligently structured balance sheets that will allow them to build value expeditiously in a higher rate world.

One final point on markets is that the fourth quarter of 2016 saw a return of potentially excessive optimism in certain market segments and geographies, especially in the U.S. We are seeing high readings of bullishness from market prognosticators, and the volatility index is approaching historically low levels—a dangerous mix of exuberant complacency. Should recent indexers get disappointed, their exit could catalyze a more serious market correction, and yield-seekers who switched out of bonds might regret that stocks don't have fixed maturity payoffs. The Funds' current above-average cash levels, which are a result of finding few qualifying investments, should provide a buffer for any market pullback. More importantly, they will allow us to purchase our next great investments.

While a discriminating market should favor the Funds, our current investments and what we purchase in the future will drive our returns going forward, just as they did in 2016. We have worked to intelligently build concentrated portfolios that should deliver over the long term, and we will remain engaged with our management partners to both help them and hold them accountable.

As we wrote in early 2016, we began shifting Southeastern's managerial responsibilities to maximize the time our most senior investors spend on research and portfolio management and to broaden the experience of other team members. Our Deputy Director of Research and co-manager of the Small-Cap Fund, Ross Glotzbach, who joined Southeastern in 2004, has increasingly coordinated our research process and helped us become more effective. As the logical next step to assuming more research management duties, Ross will become Head of Research in 2017.

We close this letter by thanking you for your investing partnership. As the largest investor group in the Funds, Southeastern employees are gratified we delivered the significant risk-adjusted excess returns you expect. At the end of 2000, another strong year following an out of favor period, we ended our letter "...with a word of thanks for being logical, disciplined partners who understood the difference between investment and speculation when the rational world seemed gone. Standing against conventional wisdom is never easy, but is often profitable. We are pleased that your patience was rewarded." Those words ring true today, and we are as excited about the future now as we were then.

See following page for important disclosures.

Past performance does not guarantee future results.

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 Funds are 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 Funds generally invest 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 Funds may be more volatile than those of larger companies. With respect to the Small-Cap Fund, smaller company stocks may be more volatile with less financial resources than those of larger companies. With respect to the International and Global Funds, 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.

The statements and opinions expressed are those of the author and are as of the date of this report.

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. 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. MSCI EAFE Index (Europe, Australasia, 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. MSCI World Index is a broad-based, unmanaged equity market index designed to measure the equity market performance of 24 developed markets, including the United States. An index cannot be invested in directly.

Price / Earnings (P/E) is the ratio of a company's share price compared to its earnings per share.

Earnings Power is Southeastern's estimated free cash flow per share that we expect the company is able to produce in the time-frame mentioned. Pro-forma for any one time items and/or mergers and acquisitions.

Free Cash Flow 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 December 31, 2016 the holdings discussed represented the following percentages of the Funds- Level 3: 9.7% Partners, 8.1% Small-Cap, 9.3% Global; FedEx: 9.5% Partners, 6.6% Global; CK Hutchison: 6.1% Partners, 7.0% International, 5.4% Global; Cheung Kong Property: 4.1% Partners, 4.7% International, 3.8% Global; EXOR: 8.9% International, 4.9% Global. CNH Industrial: 5.8% Partners, 3.1% Global; Graham Holdings: 5.5% Small-Cap; LafargeHolcim: 4.8% Partners, 8.2% International, 6.3% Global; Liberty Media: 6.9% Small-Cap; Alphabet: 6.4% Partners, 4.0% Global; Ralph Lauren: 3.5% Partners; United Technologies: 4.8% Partners, 4.5% Global; ViaSat: 5.7% Small-Cap; C&C: 4.8% International; Great Eagle: 6.0% International; Yum China: 4.5% International, 4.9% Global. 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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