Longleaf Partners Fund Commentary

Longleaf Partners Fund meaningfully outperformed the S&P 500 Index in the first half of 2016, rising 6.53% versus the index's gain of 3.84%. In the second quarter, the Fund returned 2.10% versus 2.46% for the index. Our energy investments were again the largest contributors following similar strength in the first quarter. Both Chesapeake Energy and CONSOL Energy benefitted from managements monetizing assets and succeeding in reaffirming credit lines, as well as from improving commodity prices. CK Hutchison detracted most from performance in the quarter; European regulators denied approval of the company's acquisition of U.K. mobile company O2, and weeks later, the Brexit vote weighed on CK Hutchison's stock given its large footprint in European retail, ports, infrastructure, and telecom. Since the S&P is comprised of U.S. stocks which held up better than European shares following Brexit, the Fund's three European-domiciled businesses weighed on relative returns, due in part to the dollar's quick rise. However, the Fund's relative performance benefitted from our limited investment in information technology, which was the index's biggest detractor as its largest and worst performing sector.

The long-term effects of the United Kingdom's decision to leave the European Union will not be known for some time, but with the exception of CK Hutchison, the companies in the Partners Fund generate less than 10% of revenues from the U.K. Even our European-based holdings, CNH Industrial, Philips, and LafargeHolcim, have the majority of their values outside of Europe. The strength of our businesses with European exposure should help them weather the eventual changes from Brexit, and our management partners have the skills, incentives, and balance sheets to take advantage of opportunities that the upheaval may create.

The second quarter illustrated the benefits of Southeastern's distinct approach—intelligent, concentrated, engaged, long-term, partnership investing. Our management partners with whom we have engaged constructively over time helped drive long-term value growth through transactions, including at Chesapeake and CONSOL noted above; Philips, which split out the lighting segment via a partial initial public offering (IPO); FedEx, which purchased TNT to efficiently expand its European ground business; and LafargeHolcim, which is soliciting bids to sell its Indian assets.

Intelligent, long-term investing also was relevant in the fearful environment that developed following the Brexit vote. With our long time horizon, we hoped the reaction would provide more opportunities to buy strong companies with growing intrinsic values at deep discounts based on conservative appraisals of free cash flow and assets. With ample cash, including proceeds from trimming Wynn Resorts and Scripps Networks after their meaningful gains this year, we were able to build our stake in one new position initiated in the quarter.

Contributors/Detractors

(2Q portfolio return; 2Q Fund contribution)

As stated earlier, **Chesapeake** (+73%;+3.6%), one of the largest U.S. producers of natural gas, oil, and natural gas liquids, was the Fund's largest contributor during the quarter. Earlier in the year, we swapped our equity for preferred stock and also added to our Chesapeake position via very discounted bonds and convertible bonds. This repositioning paid off in the quarter; the bonds appreciated more quickly than the stock as the company continued to lower its overall debt through purchases below par and debt for equity swaps. Additionally, in April, Chesapeake had its $4 billion revolving credit facility reaffirmed (90%+ untapped), with the next scheduled redetermination pushed out until June 2017. The company increased liquidity with the sale of about half of its mid-continent STACK (Sooner Trend Anadarko Basin Canadian and Kingfisher Counties) acreage to Newfield at a fair price of over $400 million. In total, net debt has declined by over 10% or $1 billion in 2016. Management projects additional asset sales this year and continues to renegotiate pipeline commitments toward better rates. The company has put on hedges that help mitigate its downside. We remain confident that CEO Doug Lawler and Chesapeake's board will successfully navigate the company through this particularly challenging commodity price environment.

Also a top contributor, **CONSOL** (+43%; +1.7%), the natural gas and Appalachian coal company, continued its positive momentum from the first quarter which saw the addition of new directors, the elevation of Will Thorndike to Chairman, and the sale of the metallurgical coal assets at a price accretive to our value. In the first quarter numbers reported in April, CONSOL reduced its coal and gas operating costs greater than expected, delivered free cash flow and guided for positive free cash flow, the remainder of the year. The company also had its borrowing base reaffirmed at $2 billion. Recent transactions confirmed the value of CONSOL's high quality natural gas

Average Annual Total Returns (06/30/16): Since Inception (4/8/87): 10.13%, Ten Year: 3.04%, Five Year: 4.26, One Year: -9.87%

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.

The total expense ratio for the Longleaf Partners Fund at 12/31/15 is 0.93%. The Fund's expense ratio is subject to fee waiver to the extent normal annual operating expenses exceed 1.5% of average annual net assets.

reserves and acreage. Our capable management partners continue to focus the company on its core natural gas assets while pursuing the monetization of non-core assets, with the goal of separating its coal company from its exploration and production business.

CK Hutchison (-14%; -1.2%), a global conglomerate comprised of five core businesses (retail, telecommunications, infrastructure, ports, and energy), was the primary performance detractor for the quarter. Referenced earlier, CK Hutchison's plan for its Three mobile phone network to acquire U.K. telecom company O2 was denied by the European regulator. While CK Hutchison is Hong Kong-based, the stock also fell with the Brexit vote because of fears of the impact on its European and U.K. operations which generated over half of its pre-tax earnings last year. However, Chairman Li Ka-shing and his son, Victor, have demonstrated a compelling long-term record of building businesses, compounding net asset value at double-digit rates, and buying and selling assets at attractive prices, and their history includes intelligent capital allocation during previous market dislocations. We are confident our management partners will continue to grow and unlock value.

Portfolio Changes

During the quarter, we initiated a position in **Ralph Lauren**, a leading global apparel and retail company. The U.S. apparel industry has suffered with uncertainty around the future of department stores versus e-commerce and concerns about brands that are not either very high end or part of the current "athleisure" trend. Amidst these broader pressures, margins at Ralph Lauren have declined in the last few years. Yet, the company's brands remain strong. We believe new CEO Stefan Larsson will materially bolster the company's operating performance. He has an exemplary history of improving margins and reducing lead times in his previous jobs at H&M and Old Navy. His operating prowess, the creative abilities of owner-founder Ralph Lauren, and the strong balance sheet plus smart capital allocation position the company to deliver improved returns.

Outlook

The Partners Fund sells for an attractive price-to-value ratio in the mid-60s%. We own companies whose leaders are building long-term value and pursuing ways to drive prices closer to intrinsic worth. While cash stands at 14%, we believe we will continue to find new qualifiers, whether through choppy markets or company-specific opportunities. Over the long run, we and our fellow shareholders have been rewarded for patiently adhering to our investment discipline, and we believe our distinct, advantaged approach will continue to deliver strong results.

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.

Brexit ("British exit") refers to the June 23, 2016 referendum by British voters to leave the European Union.

As of June 30 2016, the holdings discussed represented the following percentages of the Longleaf Partners Fund: Chesapeake Energy, 7.3%; CONSOL, 5.5%;CK Hutchison, 7.6%; CNH Industrial, 4.9%; Philips, 4.7%; LafargeHolcim, 4.5%; FedEx, 7.9%; Wynn Resorts, 6.2%; Scripps, 4.9%; Ralph Lauren 3.1%. 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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