June 30, 2017

2Q17

Longleaf Partners Fund Commentary

Longleaf Partners Fund gained 3.91% in the second quarter, exceeding both our absolute return goal of inflation plus 10% and the S&P 500 Index's 3.09%. These returns built on our strong results in 2016. Our year-to-date (YTD) return of 7.97% meaningfully exceeded our absolute goal but fell short of the index's 9.34% largely due to our cash position's impact. Much like the first quarter, performance was driven by positive returns and notable value growth at some of the portfolio's larger holdings. Our two energy companies were the primary detractors in the quarter. We closed the Fund to new investors on June 9, as we have done three other times in our history. While this is a comment on the relative lack of new ideas and higher-than-usual cash levels, we remain confident we can produce positive absolute and relative returns over the next 3-5 years.

The Fund's outperformance is notable given our high cash weight and minimal exposure to what drove the index — a reminder that successful stock selection in a concentrated portfolio with high Active Share is a winning formula. Health Care and Information Technology were the largest contributors to the index performance by a wide margin, even after Technology's retreat at the end of the period. The Fund had limited Information Technology investments and no Health Care, as we feel that the vast majority of companies in these two sectors, which make up over 35% of the S&P 500, are exhibiting dangerous signs of overvaluation. While cash held back the Fund's return, we feel that this bottom-up decision and long-held discipline will benefit the portfolio as we find new qualifying investment opportunities, either through individual company mispricing or when broader market sentiment turns.

One of the improvements that we have made to our process in recent years is being slower to part with long-term holdings that have performed well and qualify at a superior level on business and people. We will always maintain our discipline by trimming position weights of investments that have approached our conservative appraisal value. However, we do not want to overlook the ability of qualitatively superior companies with discernable but hard to quantify upside like FedEx, Level 3, Wynn Resorts and Alphabet, to grow their values in ways that do not necessarily fit easily into a spreadsheet.

We bought one new investment in the quarter and did not add to any of our existing holdings. We trimmed five securities. While our on-deck list remains smaller than usual, we do have a few prospects that we could own at the right price. We also are analyzing multiple avenues for taking advantage of the sell-off in all things retail related, but as of yet, have not found any that meet both our qualitative and quantitative criteria.

Contributors/Detractors

(2Q portfolio return; 2Q Fund contribution)

Wynn Resorts (+17%; +1.04%), the luxury gaming and hotel operator with prime properties in Las Vegas, Macau, and Boston, was the largest contributor this quarter, as it was in the first quarter. As Macau's rebound accelerated, Wynn's Palace property continued to ramp up strongly without cannibalizing the company's legacy Peninsula property nearly as much as the market previously feared. Wynn reported a solid quarter in Las Vegas and announced that phase one of its golf course redevelopment will be a much more prudent project than some had anticipated, once again illustrating the great partner CEO Steve Wynn has been since we invested. Construction is on track for the Boston property to open in 2019. Our appraisal grew in the quarter, but we trimmed the stock to a more normal weight as the gap between price and value narrowed

FedEx (+12%; +1.00%), one of the world's largest package delivery networks, contributed in the quarter. The company continued its excellent earnings momentum, driven currently by revenue strength and margin gains in the Express segment. The Ground segment revenues stayed incredibly strong, although margins were down as the company invested heavily in growth. We believe that the company is close to a point where Ground margins turn around and begin to grow as the large scale investment in new hubs slows. The company also communicated that the integration of its TNT acquisition from last year is going well, providing future earnings upside even though for now, TNT results are dilutive. Some of the investor panic around Amazon hurting FedEx as a competitor has also begun to subside, for logical reasons related to FedEx's physical scale and last mile density. FedEx is heavily weighted as the Fund's second largest position, reflecting our confidence in CEO Fred Smith and his team, as well as in FedEx's competitive strength and long-term value growth. We did trim our stake in the quarter, however, following the stock's appreciation.

Average Annual Total Returns (6/30/17): Since Inception (4/8/87): 10.52%, Ten Year: 2.96%, Five Year: 9.82%; One Year: 22.35%

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.

CNH Industrial (+19%; +0.92%), the maker of agricultural equipment, commercial vehicles and construction equipment, contributed again in the quarter. The core agricultural business reported its best results since 2013. This segment continued to see unit demand stabilize, and pricing power remained intact. The company expects margins to improve at all segments this year. The best news during the quarter was the earlier-than-expected upgrade of CNH to investment grade status, which is more meaningful for this company than most others we follow. The upgrade will increase the efficiency of the financing business while likely freeing up over $1 billion of now excess capital for more productive uses, including share repurchase. We are thankful for CEO Rich Tobin's efforts on the operational front and believe that he will work with CNH's significant owners at EXOR to continue to build value per share.

Cheung Kong Property (+19%; +0.86%), the Hong Kong and China real estate company, was another notable contributor. The company achieved strong volumes of residential property sales in both countries. In the first half of 2017, Cheung Kong Property was the largest seller of residential property in Hong Kong. Additionally, the value of Cheung Kong Property's commercial Hong Kong properties was highlighted with the sale by the government of the comparable Murray Road property across from Cheung Kong Property's Hutchison House. The transaction fetched a land premium that implied a price of HK$50k per square foot (psf) on a gross floor area (GFA) basis and a cap rate of less than 3%. Our appraisal of Hutchison House is around HK$16k psf, which reflects the 5% cap rate we use to appraise Cheung Kong Property's office properties in Central, Hong Kong. Cheung Kong Property will begin redevelopment of Hutchison House which will allow the company to substantially increase the plot ratio from the current 22 story building to 38 floors. Managing Director Victor Li built value on two fronts by selling residential properties into a high price/high demand market and aggressively buying in Cheung Kong Property's undervalued stock. YTD, Cheung Kong Property paid HK$6.9 billion to repurchase ~3.3% of outstanding shares at a substantial discount to our appraisal. In May the company closed its acquisition of Duet in Australia. In the same month, Cheung Kong Property took advantage of the low interest rate environment and issued US$1.5 billion 4.6% guaranteed senior perpetual capital securities, which are being used to repurchase additional shares.

Alphabet, (+10%; +0.74%), the diversified internet company with strong positions worldwide in search (Google), video (YouTube), mobile (Android) and more, was another contributor in the quarter. Revenue growth accelerated, and margins were better than expected. The company bought back shares and continued to simplify its Other Bets segment while growing its lead in driverless cars. The $2.7 billion European Union (EU) fine levied at the end of the quarter was a negative, but it remains to be seen exactly how the EU ruling will play out. Alphabet has been one of Southeastern's best value-growers in recent years. While we trimmed the position slightly, we believe that the company's core business growth will continue, YouTube and Other Bets offer additional harder-to-quantify upside, and the strong balance sheet with substantial cash provides attractive downside mitigation.

Level 3 Communications (+4%, +0.37%), the multinational telecommunications and Internet service provider, did not have a significant impact on the Fund's performance but made a major announcement during the quarter. CEO Jeff Storey was named the successor to CEO Glen Post at CenturyLink, whose acquisition of Level 3 should close in a few months. With this announcement, we are thrilled that Storey's stellar team, who created 182% in shareholder return since he took over in 2013, will be running operations at the new CenturyLink — a powerful combination of Level 3 with CenturyLink's fiber network, most of which came through its 2011 acquisition of Qwest. Level 3 is the Fund's largest position but will become a normal weight after the merger because at the current CenturyLink price, around 45% of the deal will be paid in cash.

CONSOL Energy (-11%, -0.64%), the Appalachian natural gas and coal company, was a detractor in the quarter. The operating items within the company's control – production, costs, and smaller asset sales – were generally positive. However, weaker gas prices weighed on the stock and its peers. The uncertainty around the details of how the company's announced plans to separate its gas and coal operations will play out likely also negatively impacted the stock. Two items highlighted the value in the company's assets. First, CONSOL's partner in the pipeline company Cone Midstream sold its interest at a price above where we carry CONSOL's identical assets. This both demonstrates what this asset is worth and likely brings in a new partner that will be more willing to grow Cone's value. Second, late in the quarter Rice Energy (an Appalachian gas company which is a good comparable for CONSOL's assets) sold to EQT Corporation at a price that implied a significantly higher value for CONSOL's gas operations than the current stock price. CEO Nick DeIuliis and Chairman Will Thorndike remain focused on delivering the unrecognized value within CONSOL, and 2017 likely will be a pivotal year for the company.

Chesapeake Energy (-16%, -0.63%), one of the largest U.S. producers of natural gas, oil, and natural gas liquids, was a detractor. Weak commodity prices impacted the oil and gas group overall, but what was most striking about Chesapeake was the stock price's extremely high correlation to oil prices instead of natural gas prices this quarter. Although Chesapeake's production is primarily weighted to gas, a meaningful percentage of the company's current earnings before interest, taxes, depreciation and amortization (EBITDA) comes from oil. Additionally, oil's importance to Chesapeake going forward has increased with much of current drilling focused on oil, especially in the Powder River Basin and Eagle Ford Shale. CEO Doug Lawler and his team will make prudent asset sales when the price and time are right, as they have done in the past, but the lack of such reported sales this quarter also weighed on the stock price.

Portfolio Activity

We added **Fairfax Financial**, a Canadian based insurance and reinsurance operator, to the portfolio in the quarter.

Southeastern previously owned the company for over a decade, and both the Longleaf International and Small-Cap Funds had positions. CEO and Founder Prem Watsa has continued to increase Fairfax's value since we sold three years ago, and the company has outgrown the small cap universe. Fairfax is underwriting more successfully than when we previously owned it, is about to complete a value-accretive merger with Allied World, and still has the investing prowess of Watsa and his team. Because the merger is on the come and Watsa is holding a large amount of cash that is not producing income, near-term reported earnings per share are well below the company's long run earnings power. We are excited to partner with Watsa at Fairfax again.

Outlook

The Fund's P/V ratio is higher than usual in the mid-70s%, as is our cash level at 26%. Our outlook remains much the same as last quarter. We believe that our current roster of companies has the ability to produce solid results, even in a potentially difficult environment. Our cash will turn into our next great investments, but we can never predict what they will be or when they will be bought. While the current elevated market can be frustrating, we take comfort in our long track record of patience and discipline eventually being rewarded. We are appreciative of the patience of our fellow shareholders as well.

We are pleased to announce that in recognition of his research productivity and successful investment contributions, Ross Glotzbach, who currently serves as a co-manager on Longleaf Partners Small-Cap Fund, joined Mason Hawkins and Staley Cates as a co-manager of the Partners Fund effective July 10.

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.

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

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

Cap rate (capitalization rate) is the rate of return on a real estate investment property based on expected income.

As of June 30 2017, the holdings discussed represented the following percentages of the Longleaf Partners Fund: Wynn, 4.7%; FedEx, 7.6%; CNH Industrial, 4.7%; Cheung Kong Property, 5.4%; Alphabet, 5.7%; CONSOL, 5.1%; Chesapeake Energy, 3.2%; Level 3, 10.4%; Fairfax, 4.6%. 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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LLP000656

Expires 10/31/17