



Longleaf Partners

Global Fund Commentary

Longleaf Partners Global Fund returned 9.92% for the quarter, meaningfully outperforming the MSCI World Index's 4.03% return as well as our annualized absolute goal of inflation plus 10%. The Fund's year-to-date (YTD) results were a substantial 19.48% versus 10.66% for the index. Most stocks in the portfolio posted gains with strength in our Asian holdings, particularly those with exposure to gaming, driving a large portion of the Fund's outperformance. The Fund's energy exposure provided the only notable headwind.

The Fund's outperformance came with minimal help from what drove the index — a reminder that successful stock selection in a concentrated portfolio with high Active Share can be a winning formula. Health Care and Information Technology were the largest contributors to the index YTD, though Financials and Health Care were the top contributors in the second quarter after Information Technology retreated at the end of the period. The Fund had limited exposure to Information Technology and none to Health Care, and is underweight Financials relative to the index, with no direct exposure to banks. We feel that the vast majority of companies in Information Technology and Health Care, which make up over 25% of the MSCI World Index, are exhibiting dangerous signs of overvaluation.

The Fund's geographic differentiation from the index also demonstrated that owning individual companies, rather than benchmark exposures, aided our substantial outperformance. Almost 60% of the index was invested in U.S. stocks which generated 40% of its second quarter return. By comparison, 20% of the Fund's return came from the U.S. where only about one-third of the portfolio was invested — a relatively small exposure that is not surprising given that we view this as the most overpriced region after over eight years of a bull market. As noted above, our Asian holdings, which were 23% of the portfolio, were the primary source of performance, generating over 60% of the Fund's return. Asia made up only 10% of the index (9% in Japan where we had no investments), and accounted for approximately 14% of its return. We have discussed this region's relative undervaluation for quite some time, and although it remained the most discounted area on a broad basis, valuations were notably higher than at the start of the year. Europe, where both the Fund and the benchmark had about one quarter of assets, drove almost half of the index's return but only 20% of the Fund's. Stocks in Europe rallied to new twelve month highs following the election of moderate

candidate Emmanuel Macron in France, the region's second largest economy.

The market strength around the world over the last three months led to more portfolio sales than purchases in a challenging environment in which to deploy capital, and our cash position ended higher-than-normal. We added to two positions and bought no new investments. We trimmed five stronger performers and exited one. One of the improvements that we have made to our process in recent years is being slower to part with longer 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 Melco, Yum China, Wynn Resorts, FedEx, Alphabet, and Level 3, to grow their values in ways that do not necessarily fit easily into a spreadsheet.

Our on-deck list of potential investments contains an ample number of companies around the world that meet our qualitative criteria and are not far from qualifying on price. A temporary setback or disappointment at any of these could put their stocks in buying range. Likewise, a more widespread moderate market correction could see cash quickly put to work. Despite elevated market levels, dispersion remains broad, and we are finding numerous prospective investments to investigate, including analyzing multiple avenues for taking advantage of the sell-off in all things retail related.

Contributors/Detractors (2Q portfolio return; 2Q Fund contribution)

Melco International (+52%, +2.77%), the Asian casino and resort holding company, was a primary contributor to performance as investors were encouraged by the accelerating recovery pace of industry gross gaming revenue (GGR) in Macau. GGR rose 17% in the first six months with May up 24% and June up 26%. Melco International's substantial holding company discount to the market value of its 51% stake in Melco Resorts, which operates the casinos, shrank considerably this year, as Melco International consolidated its control over Melco Resorts. The consolidation is an example of the solid stewardship of our partner, CEO Lawrence Ho. Although the stock price remains discounted, we trimmed our stake to

Average Annual Total Returns (6/30/17): Since Inception (12/27/12): 9.38%, Ten Year: na%, Five Year: na%, One Year: 42.89%

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 Global Fund is 1.52%. The expense ratio is subject to fee waiver to the extent normal annual operating expenses exceed 1.65% of average annual net assets. Effective May 1, 2016, Southeastern agreed to voluntarily reduce the expense limit to 1.20%. This voluntary fee waiver for the Global Fund may be discontinued at any time.

maintain a more normal portfolio weight

Yum China(+45%; +2.25%), the operator of KFC and Pizza Hut restaurants in China, also helped drive Fund performance. The company reported its first full quarter as a newly spun off independent company, and significantly exceeded expectations for operating margins. In addition to helping current results, this margin strength has ramifications for the future value of stores to be developed. Both the reported results and YUM China's acquisition of online food delivery service Daojia, helped investors begin to realize that the enormous amount of meal delivery in China could end up being an additive weapon instead of a competitive threat for the company's store base. With the stock's significant gain, we reduced YUM China's portfolio weight, but we believe management will continue to drive attractive value growth.

Wynn Resorts (+17%; +1.00%), the luxury gaming and hotel operator with prime properties in Las Vegas, Macau, and Boston, continued its strong gains from the first quarter. As Macau's GGR 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%; +0.76%), 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.

Cheung Kong Property (+19%; +0.74%), 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.

Level 3 Communications (+4%, +0.28%), 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 more normal weight after the merger because at the current CenturyLink price, around 45% of the deal will be paid in cash.

Chesapeake Energy (-16%; -0.55%), one of the largest U.S. producers of natural gas, oil, and natural gas liquids, was the Fund's primary 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 increased the Fund's position in **Fairfax Financial**, a Canadian based insurance and reinsurance operator that we began buying in the first 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 significant 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

We sold our stake in **Genting Singapore**, the casino company with a duopoly in Singapore and controlled by Genting Berhad. The stock reached our appraisal as the company reported a strong quarter. Hold-adjusted EBITDA rose around 45% year-over-year (YOY), beating market expectations by a wide margin. The company gained mass market share. Write-downs on VIP receivables fell over 80% YOY, and management's statements regarding the balance sheet implied a lower level of bad debt provisions going forward. The company also announced its intention to redeem S\$2.3 of billion perpetual securities which would save almost S\$120 million in interest costs. In our 19 month holding period, Genting Singapore generated a 58% return

Outlook

The P/V in the high-70s% is higher than usual, as is the 14% cash position. In spite of a more challenging market for investing in undervalued securities, we are confident that the businesses we own have the financial and competitive strength to produce solid results. Our management partners are building values through strong operations as well as prudent capital allocation. In addition, our productive research has built an attractive list of high quality prospective investments that we are positioned to buy as the market provides inevitable opportunities. We believe in the Fund's ability to generate long-term outperformance based on what we own and what we will own as a result of Southeastern's time-tested value discipline and deep global research team.

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 Global 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. 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.

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.

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.

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.

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

As of June 30, 2017, the holdings discussed represented the following percentages of the Longleaf Partners Global Fund: Melco, 4.1%; Yum China, 4.4%; Wynn, 5.0%; FedEx, 6.7%; Alphabet, 4.1%; Cheung Kong, 4.2%; Chesapeake, 2.6%; Level 3, 9.1%; Fairfax, 5.0%; Genting Berhad, 0.8%; Genting Singapore, 0.0%. 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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