June 30, 2017
2Q17

Longleaf Partners International Fund Commentary

Longleaf Partners International Fund returned 8.42% for the quarter, outperforming the MSCI EAFE Index's 6.12% gain and meaningfully exceeding our annualized absolute goal of inflation plus 10%. The Fund's year-to-date (YTD) results were a substantial 17.96% versus 13.81% for the index. Continued strength in our Asian holdings drove much of the Fund's outperformance, as did the fact that most of the stocks in the portfolio posted gains, and there were no material detractors. The Fund's large absolute and relative results were driven by very different factors than the index and came in spite of higher-than-normal cash level — a reminder that successful stock selection in a concentrated portfolio with high Active Share can be a winning formula.

Asian markets continued to make notable gains, heavily fueled by the pricey Information Technology sector (particularly in China) that propelled many markets worldwide. EAFE's largest country contribution came from heavily weighted Japan. The International Fund outperformed with no Japanese investments and minimal exposure to technology. We own a handful of Asian companies whose business results began to confirm our longer term investment cases for Macau gaming, Hong Kong real estate, and the newly spun out Yum China. Asia remains the most discounted market around the world, but stocks are no longer broadly cheap, particularly compared to twelve months ago. We trimmed several core Asian holdings but had limited opportunities to reallocate to in the region.

European equities represent over a 60% weight in EAFE, and this area produced over 75% of the index's return. The U.S. dollar's large decline against European currencies meant that over 50% of EAFE's total return was due to currency conversion. By contrast, the Fund's one-third weight in Europe and almost one-quarter exposure to Hong Kong, whose currency is pegged to the U.S. dollar, meant that currency translation added approximately 25% to the International Fund's results. The second largest country contribution to EAFE's return came from France, where the International Fund had no investments. The country's performance, appreciation of the Euro, and gains in broader Europe, were influenced in large part by politics, which have had a disproportionate impact on markets over the last year. Going into the first round of French elections on April 23rd, there was considerable angst over the potential impact of a far left or far right candidate taking the presidency of Europe's second largest economy. The resounding success of Emmanuel Macron in the first round, and his subsequent election in the second, lifted this cloud. European indices rallied to new twelve month highs. Our European universe became more overvalued, and several companies that were close to qualifying as new investments moved out of price range. In the last several weeks of the quarter, Europe retrenched a bit, which could bode well for new investments in the back half of the year.

Continuing the trend from the first quarter, market strength over the last three months led to more portfolio sales than purchases in a challenging environment in which to deploy capital. We exited two positions that reached fair value and trimmed five stronger performers. We bought one new company and added to Fairfax Financial. This activity resulted in cash at 29%, the highest level since summer of 2004. The normal recycling process was slow as our long on-deck list of potential investments did a lot more price appreciating than depreciating in the quarter.

We are not discouraged by the limited new opportunities and are confident our patience and discipline will pay off. Our on-deck list 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 market correction could help us put cash to work. Despite elevated market levels, dispersion remains broad, and we are investigating numerous prospective investments

Contributors/Detractors

(2Q portfolio return; 2Q Fund contribution)

Melco International (+52%; +2.83%), 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

Average Annual Total Returns (6/30/17): Since Inception (10/26/98): 7.81%, Ten Year: 0.88%, Five Year: 9.81%, One Year: 32.35%

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 International Fund is 1.33%. The expense ratio is subject to fee waiver to the extent normal annual operating expenses exceed 1.75% of average annual net assets.

stock price remains discounted, we trimmed our stake to maintain a more normal portfolio weight.

Yum China (+45%, +2.17%), 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 gains, we reduced YUM China's portfolio weight, but we believe management will continue to drive attractive value growth.

Cheung Kong Property (+19%, +0.87%), 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.

OCI (+14%; +0.83%), the global nitrogen fertilizer and methanol producer, contributed positively to results in the quarter. Improved prices and volumes for related commodities led to greatly increased cash flow year-over-year. The company's Iowa fertilizer plant began operating in April, which showed the market that this formerly non-earning asset is now about to produce significant earnings. OCI also made progress bringing its new methanol plant ("Natgasoline") closer to its fourth quarter completion date. Late in the quarter, OCI's stock price responded positively to rumors of private equity interest in the company. We are confident that our proven, aligned partner, Chairman Nassef Sawiris, will navigate any strategic outcome in a way that maximizes shareholder value.

There were no material detractors in the quarter.

Portfolio Changes

We bought one new company which is undisclosed as we hope to build a more meaningful stake. We increased the Fund's position in **Fairfax Financial**, a Canadian based insurance and reinsurance operator that we began buying in the first quarter. The Fund previously owned the company for over a decade with a successful outcome. CEO and Founder Prem Watsa has continued to increase Fairfax's value since we sold the stock in 2012. 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 exited STADA Arzneimittel, the German maker of numerous over-the-counter medicine brands as well as generic drugs. Price reached our appraisal when the Board of Directors recommended a purchase offer from a private equity consortium. This investment is a good example of the difference that good partners make. For 20 years STADA was a serial underperformer with entrenched management poorly allocating capital and running the company as a personal fiefdom. We followed the company and liked its strong brands and discounted price but could not get comfortable with the people. In 2016, a German activist group got involved and changed management and most of the board. We started our position in November of 2016; private equity obviously was seeing the same opportunity. The company's new board and executives oversaw a disciplined, rational process that resulted in a good sale price and a nearly 50% gain for the Fund in less than 6 months. We also 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 earnings before interest, taxes, depreciation and amortization (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 billion of perpetual securities which would save almost S$120 million in interest costs. In our 19 month holding period, Genting Singapore generated a 52% return.

Outlook

The P/V of the Fund in the mid-70s% is higher than usual, as is the 29% 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, deep global research team, and available firepower.

We are pleased to announce that Josh Shores will become a co-manager on the International Fund effective July 10 in recognition of his successful investment contributions during his 10-year Southeastern tenure. Josh has covered investments in Europe, South America, and Asia, and has resided both in Memphis and London. Scott Cobb will step away from co-managing the International Fund to allow him the time and focus required to engage more deeply with corporate managements in his role as Managing Partner on our concentrated, engaged European strategy. Scott will continue to lead our research efforts in Europe, and his work remains an important source of potential investments for Longleaf International.

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 International 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 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. 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 International Fund:Melco, 5.0%; Yum China, 4.4%; Cheung Kong, 5.0%; OCI, 6.0%; Fairfax, 5.0%; STADA, 0%; Genting Berhad, 0.9%; 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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