June 30, 2017

2Q17

Longleaf Partners Small-Cap Fund Commentary

Longleaf Partners Small-Cap Fund gained 0.98% in the second quarter. While a positive return, it trailed both our absolute return goal of inflation plus 10% and the Russell 2000 Index's 2.46%. These results caused the Fund's year-to-date (YTD) performance to fall barely below the index at 4.95% versus 4.99%. Most holdings grew their value, some that the market realized and some it did not.

Holding cash in a rising market held back the Fund's relative returns, but 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 sentiment turns. Our energy exposure was also a detractor. The main reason for the Fund's relative underperformance, however, was errors of omission from areas that drove the index but we see as overvalued. Information Technology and Health Care were by far the largest contributors to the index performance both this quarter and YTD, comprising the majority of the benchmark's return for the two periods and these sectors also accounted for the majority of the Fund's relative underperformance. The excesses of the later stages of a bull market often can be seen most in the more speculative parts of the market, and we feel that the vast majority of small cap companies in these two sectors, which make up over 30% of the Russell 2000, are exhibiting dangerous signs of overvaluation. As evidence, the Information Technology sector of the Russell 2000 is trading at a Price/Earnings (PE) multiple of 22, and Health Care is trading at 25.

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 Level 3, Wynn Resorts and Formula One, to grow their values in ways that do not necessarily fit easily into a spreadsheet.

We began buying one new investment in the quarter and added to two of our existing holdings. We sold one company and trimmed three 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%, +1.03%), 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.

OCI (+14%; +0.75%), 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.

Level 3 Communications (+14%, +0.29%), 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

Average Annual Total Returns (6/30/17): Since Inception (2/21/89): 11.08%, Ten Year: 7.56%, Five Year: 13.63%, One Year: 14.78%

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 ratios for the Longleaf Partners Small-Cap Fund is 0.91% The expense ratio is subject to fee waiver to the extent normal annual operating expenses exceed 1.50% of average annual net assets.

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%; -0.55%), 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.

Portfolio Changes

We added one new company in the quarter that we have chosen not to disclose because we are still building our position. During the quarter, **SEACOR Holdings**, the provider of marine transportation services, split into two companies – SEACOR Holdings and SEACOR Marine Holdings. We sold SEACOR Holdings, since it traded at our value post-spin. We still held SEACOR Marine Holdings at quarter end, since it traded at a large discount to our value. Our relatively short SEACOR history thus far illustrates the importance of the margin of safety. In spite of reducing our appraisal after being wrong on how much lower oil and agriculture prices would impact operations, we have avoided a loss because of the deep discount we initially paid. SEACOR also highlights another improvement in our process over the last five years — we now have much higher hurdles to clear before adding to a position if the value is declining, even if the discount looks compelling. SEACOR remained a small holding over the last year because we did not add to it as the case and our appraisal changed.

Outlook

The Fund's P/V ratio is higher than usual in the mid-70s%, as is our cash level at 28%. 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.

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 Small-Cap 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. Smaller company stocks may be more volatile with less financial resources than those of larger companies.

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. 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.

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

"Margin of Safety" is a reference to the difference between a stock's market price and Southeastern's calculated appraisal value. It is not a guarantee of investment performance or returns.

As of June 30,2017, the holdings discussed represented the following percentages of the Longleaf Partners Small-Cap Fund: Wynn, 5.1%; Formula One, 4.9%; OCI, 5.8%; CONSOL, 4.4%; Level 3, 8.1%; SEACOR, 0.3%. 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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