April 12, 2018

Longleaf Partners Fund Commentary

1Q18

Longleaf Partners Funds

Longleaf Partners Fund declined 2.61% in the first quarter, and the S&P 500 Index lost 0.76%. The threat of global trade wars in the face of U.S. tariffs, plus renewed U.S. inflation concerns offset optimism around lower tax rates and helped create long overdue volatility. Cash was a positive in the market's decline, and one-third of our holdings posted positive results. The Partners Fund fell, however, primarily due to pullbacks in several newer holdings and in businesses domiciled outside the U.S. In the last seven months, we have added five companies to the portfolio, two in 2018. All five are near or below our initial cost. Purchasing a new name at the very bottom is difficult, especially after stocks have had such large declines from peak to trough over a somewhat short timeframe - GE fell from $32 to under $13, Mattel from $48 to $13, Allergan from $339 to $144, Comcast from $43 to $33, and Park Hotels from $31.00 to $24. Because the long-term investment cases did not change from our initial entry (far below the peak prices shown), the pullbacks in the first quarter provided an opportunity to build several positions at lower cost.

International stocks, as measured by the MSCI EAFE Index, fell more than the S&P 500. The Partners Fund holds an abnormal number of companies based outside of the U.S. because over the past few years, as the U.S. market became increasingly expensive, we

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Average Annual Total Returns (3/31/18): Since Inception (4/8/87): 10.40%, Ten Year: 5.68%, Five Year: 6.49%, One Year: 8.27%.

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 a fund's normal annual operating expenses exceed1.50% of average net assets.

bought world-leading global businesses domiciled elsewhere at attractive valuations. Although no single foreign company was a large performance detractor, as a whole, non-U.S. holdings hurt returns in the quarter.

The Fund's limited investment in technology stocks impacted relative returns as it has for 15 months. Tech was one of only two positive S&P sectors in the quarter, even after technology stocks lost steam in the last weeks of March. The other, Consumer Discretionary, would have been negative without online companies Netflix and Amazon. Related to Tech strength, growth stocks continued to far outpace value stocks.

The volatility that we had hoped for enabled us to purchase two "recycled" companies that we know well from our previous ownership and to increase our stakes in businesses we started buying in the latter part of 2017. These transactions reduced the Fund's cash position, even after two exits in early January. Our on-deck list of prospective qualifiers also grew. We are hopeful that additional volatility will generate more opportunities to own discounted, dominant businesses with strong corporate leaders.

Contributors/Detractors

(Q1 Investment return; Q1 Fund contribution)

Wynn Resorts (+17%, +0.35%), the U.S. based luxury gaming operator, contributed positively to the Fund's performance. Given the stock's strong return over the last two years, we had begun trimming in late 2017, as the price moved closer to our appraisal. In January, we sold the Fund's remaining shares when no margin of safety was left. Our timing was lucky. Days after our exit, revelations about Steve Wynn's alleged sexual harassment history and his subsequent resignation occurred. We bought Wynn Resorts in early 2015, following the Chinese anti-corruption campaign that drastically reduced Wynn Macau's VIP business. Our appraisal incorporated a longer view, emphasizing the company's growing mass gaming earnings in Macau, successful Vegas resort and significant non-earning assets: properties under construction in Cotai (Macau) and Boston, as well as rare open acreage on the Las Vegas strip. Similar to some of our current newer investments, the stock price fell after our initial purchase as sentiment turned from bad to worse, and we increased the position at even more discounted prices, when Steve Wynn purchased cheap shares alongside us. As earnings rebounded with the growth of mass visitors and the Palace opening in Cotai

in late 2016, the stock rose sharply. Our 59% gain over the Fund's less than three year holding period is an example of how our longer time horizon can drive investment opportunity when a stock is priced for temporary short-term disruptions.

CNX Resources (+5%, +0.33%), the Appalachian natural gas company, was among the larger positive contributors. Following the company's becoming a pure-play gas company after its split from CONSOL Energy in late November, CNX bought back its extremely discounted shares at a 10%+ annualized pace, which CEO Nick DeIuliis and Chairman Will Thorndike intend to maintain into the 2020s. CNX bought out joint-venture partner Noble Energy to regain full operational control of its pipeline general partner at a favorable valuation. Additionally, hedges and a conservative balance sheet should help protect the company from natural gas price volatility for at least the next several years. Today, adjusting for salable assets (but not the company's roughly one million noncore net acres), CNX trades at a mid-single-digit free cash flow (FCF) multiple, and earnings should grow above 10% annually in almost any commodity price environment.

Mattel (-15%, -0.74%), the global toy company that we bought in late 2017, negatively impacted the Fund's results. Although retailer Toys R Us has appeared near insolvency for years, its March announcement that the almost 800 remaining stores are going out of business hammered the stocks of toy manufacturers. Toys R Us represents about 8% of Mattel sales. The liquidation is expected to be complete by the end of June, impacting Mattel's and other toy companies' short-term distribution, which will be replaced by healthier online and physical merchants over time. The industry grows mid-single digits globally with international sales expanding faster than in the U.S. Increasing demand for dolls, vehicles and infant toys – which surprises some who assume all toy industry growth goes to electronic devices – plays to Mattel's core Barbie, Hot Wheels and Fisher-Price brands and should help the company increase share. Since becoming CEO in early 2017, Margo Georgiadis has cut costs, improved advertising, and released promising new toys. Additionally, the board has improved with several new members, including Todd Bradley, a supply chain and China markets expert, whom we have known through several other investments over the last decade.

General Electric (-21%,-0.68%), the industrial conglomerate, was also a new investment late in 2017. The stock detracted from first quarter performance after disappointing results in the Power segment and an unexpectedly large long-term care insurance

write down at GE Capital. Most important to our investment case, however, Aviation orders grew 11%, and the segment's margins increased. In Healthcare, EBIT increased 13% with solid contributions from GE's Imaging and Life Sciences divisions. The Aviation and Healthcare businesses are global leaders that, along with sustainable corporate cost cuts - $1.7B in 2017 and another $2B this year, comprise the appealing long-term opportunity that is substantially discounted for understandable short-term reasons. Since becoming CEO six months ago, John Flannery has worked to restore transparency and taken positive steps, including transforming the board into a smaller size with qualified, independent new members, restructuring management incentives and selling noncore assets to focus on Aviation, Healthcare, Power and a cleaner balance sheet.

Portfolio Activity

We bought Comcast, the leading U.S. cable company, which became discounted on the announcement of its bid for Sky plc. Southeastern owned the company in the mid-2000's, and our engagement with CEO Brian Roberts, a substantial owner, gave us insight into his approach to capital allocation, which has earned superior returns for shareholders over time. While many analysts have compared Sky to Dish Networks to argue that Comcast is overpaying, our global investment team's first-hand knowledge of the quality and value of Sky gave us an advantage in determining that Sky is significantly different and a far superior business to Dish. Sky owns the rights to top sports and original shows (approximately 40% of viewing comes from exclusive content versus less than 1% at DISH), and has a European subscriber base of 23 million. Most of our Comcast appraisal comes from the company's existing 29 million U.S. customers. NBC's network, cable channels, film franchises, theme parks, hockey team and one-third of online video platform Hulu make up the rest of our sum-of-the-parts appraisal. We are pleased with the long-term prospects at Comcast, whether or not Sky ultimately becomes part of the company.

We also added a new position in Park Hotels, the Hilton spin-off with 67 U.S. properties that we have owned several times through investments in Hilton. One of the primary reasons Park traded at a discount was the 25% stake held by HNA Group, a distressed Chinese financial conglomerate. Fears of how HNA might monetize its stake ignored the high quality of Park's properties: the irreplaceable Hilton Hawaiian Village and a collection of top urban conference hotels. When HNA sold its shares in an

oversubscribed offering, we received a large allocation to build the Fund's position. The value of the business is growing steadily, and we were pleased that the company also bought shares from HNA. CEO Tom Baltimore leads Park Hotels after a successful record in hotels and real estate.

In addition to our successful sale of Wynn, we exited our remaining shares of Chesapeake Energy. Despite our mistakes in Chesapeake, which resulted in a 65% loss over our holding period, we sincerely appreciate the company's current leadership team, led by Doug Lawler and Chairman Brad Martin, for doing terrific work from a tough position to improve the company's balance sheet and operational efficiency. They grew value per share where they could control it, but the present and future impact of Permian associated gas production on the long-term natural gas futures price swamped their great efforts. Management's work enabled us to recover a meaningful portion of our losses, as we bought bonds and preferred shares for cents on the dollar during the maximum pessimism of the oil panic from 2015 to early 2016.

Outlook

The first quarter return did not reflect the progress that the Partners Fund made over the last three months. We traded a fully priced, successful investment (Wynn) and a levered company with limited value growth (Chesapeake) for the largest cable provider with a plethora of quality content (Comcast) and uniquely located hotel properties in difficult to build locations (Park). We also used some of our non-earning cash to increase stakes in market leading businesses (Allergan's aesthetics franchise and GE's Aviation and Healthcare) at deep discounts.

Our companies and management partners grew stronger. For example, CNX made important steps in growing the value of its superior pipeline business and increasing FCF per share. We also applauded the announcement that Jeff Storey would take over as CEO of CenturyLink six months ahead of plan. While inflationary pressures and tariff talk generated market concerns, broadly speaking we believe most of our businesses have the qualitative strength and pricing power to help mitigate higher costs, particularly versus peers. These types of external risks are one of the reasons that we insist on a large margin of safety in the price we pay for a stock.

The market remains elevated in our opinion, with some industries particularly richly priced. Additional volatility and short-term mispricing would enable us to put more of

the Fund's 17% cash to work in investments that meet our Business/People/Price criteria and further reduce the Fund's mid-60%s P/V. As the largest shareholder group in the Fund and long-term investors, we welcome the volatility and the investment opportunities it can bring.

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.

"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.

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.

As of March 31, 2018, the top ten holdings for the Longleaf Partners Fund: CenturyLink, 8.5%; CK Hutchinson, 7.2%; LafargeHolcim, 6.6%; FedEx, 5.8%; Allergan, 5.8%; CNX Resources, 5.4%; Park Hotels, 5.1%; Fairfax, 4.9%; United Technologies, 4.8%; Mattel, 4.7%. 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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