July 13, 2018

Longleaf Partners Funds

Longleaf Partners Small-Cap Fund Commentary

2Q18

Longleaf Partners Small-Cap Fund gained 8.86% in the last three months, far surpassing our annual inflation plus 10% absolute goal and outperforming the Russell 2000's 7.75%. The Fund's year-to-date (YTD) return of 7.72% was ahead of the Index's 7.66% in spite of the portfolio's significant cash holdings. The Fund's strong results were achieved with less equity risk than the index, due to the cash reserves, which we expect to convert into future long-term compounders as we find qualifying investments.

The Small-Cap Fund and the Index both generated large returns, but the sources of those differed a great deal. Health Care and Information Technology (IT) comprised one-third of the Index and were its largest contributors. The Fund had no Health Care, and its two IT investments were slight detractors from performance, making the relative outperformance even more noteworthy.

Even as the Index rose, we found two new qualifiers in the quarter and added to three existing investments. We did not exit any of the Fund's holdings but trimmed certain

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Average Annual Total Returns (6/30/18): Since Inception (2/21/89): 11.10%, Ten Year: 10.93%, Five Year: 11.15%, One Year: 11.87%.

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, 2018, the total expense ratios for the Longleaf Partners Small-Cap Fund is 0.92%. The expense ratio is subject to fee waiver to the extent a fund's normal annual operating expenses exceed1.50% of average net assets.

positions. Cash declined from 25% to 18% in the quarter, and a number of prospective investments are on the on-deck list.

Contributors/Detractors

(Q2 Investment return; Q2 Fund contribution)

Sonic (+37%, +1.54%), the quick serve restaurant (QSR) franchise, was the Fund's largest contributor in the quarter, after beating the market's negative expectations, reporting flat comparable sales for the quarter and growth in May. Low-single-digit growth projections for the fourth quarter also encouraged investors. Management converted more owned stores to franchised, and the board substantially increased the share repurchase authorization to $500 million, roughly half of the market cap at the time of announcement. The stock went up over 30% in a single week, a good example of how our ultimate outcomes are uncorrelated with market trends. The value should grow from here with the repurchase of undervalued shares, the successful implementation of their mobile app, and new franchise store openings. Over the last several years, CEO Cliff Hudson recognized the value of the business when others did not and repurchased over a third of outstanding shares at discounted prices below where Sonic trades today. In the quarter, we signed a non-disclosure agreement to further our positive engagement with Hudson and his team.

Mattel (+25%, +1.19%), the toy company, added to the Fund's return following a strong first quarter. In April, Chairman Ynon Kreiz became CEO. Kreiz arrives with an excellent track record of building and monetizing brands for children and has a strong plan to put Mattel's intellectual property to best use. He has a big opportunity to restore margins by focusing on the company's core brands and rationalizing the supply chain. Sales stabilized following the Toys "R" Us bankruptcy, with Barbie up 24% this quarter in her fifty-ninth year. Rumors of interested buyers continued, and we believe the company is worth significantly more than its current price, with additional upside as Kreiz and his team execute.

CenturyLink (+17%, +1.14%), the global fiber telecommunications company, made notable gains in the quarter and was the largest contributor for 2018, although the stock still sells for less than half of our appraisal. The merger integration with Level 3 progressed, with synergies realized as planned, cost cutting initiatives at the legacy segments, and a focused reduction in capital spending. Earnings results confirmed

management's confidence in maintaining the substantial dividend. CenturyLink (CTL) is viewed more as a traditional landline business akin to overleveraged, lower-quality peers Frontier Communications and Windstream Holdings, but CTL's declining legacy landline business is becoming less relevant to the company's total value, as the mix shifts to the growing Enterprise services fiber segment. For decades, Southeastern has found opportunities in this kind of "good segment / bad segment" situation. CEO Jeff Storey and CFO Sunit Patel are focused on maximizing value in both parts of the business to benefit shareholders.

OCI (+17%, +1.07%), a leading producer of nitrogen fertilizers and natural gas-based chemicals in the U.S., Europe and the Middle East, made gains. The company refinanced its debt, pushing out maturities and lowering cost. OCI has reached a deleveraging phase, as free cash flow will ramp up materially with the methanol plant now online, the completion of major capital expenditure projects, and a positive pricing environment. The Iowa plant benefited from fertilizer pricing's "Midwest premium" to New Orleans (NOLA), which CEO Nassef Sawiris indicated is likely to increase, given the logistics of getting product to the Corn Belt. Methanol's 2Q contract prices were strong at $490 (vs. mid-$300s last year). Global demand for both nitrogen and methanol is increasing. The pricing outlook is strong for the foreseeable future with no new capacity coming online in the next 4-5 years and Chinese exports down 80% with the possibility of going away completely, given their cost disadvantage to U.S. natural gas and the Chinese government's shutdown of higher polluting coal plants. In the quarter, OCI tendered for the remaining shares of OCI Partners, the master limited partnership that is majority owned by OCI, primarily made up of a single integrated methanol and ammonia facility on the U.S. Gulf coast. OCI sells for well below the replacement cost of its assets. Sawiris is an owner-operator focused on value creation and recognition, as well as optimizing the capital structure and generating significant free cash flow.

Realogy (-16%, -0.81%), the U.S.'s top real-estate brokerage, was the only notable detractor in the quarter. Rising interest rates created concerns over slower housing sales, and the company had a terrible first quarter due to what Realogy hopes is the last catchup quarter in paying realtors a higher cut of commissions in the owned brokerage segment. (This is not a factor in its larger, more valuable franchised brokerage segment.) CEO Ryan Schneider responded wisely to the decline by repurchasing shares. Schneider, a recent arrival from Capital One, has focused on

organizing Realogy's powerful internal data to improve its lucrative franchise business. Beyond having the industry's most trusted brands, Realogy will increasingly offer top brokers the best proprietary data. The company has excellent franchise economics and should benefit long-term from favorable demographics, as an increasing percentage of millennials purchase homes. The other macro fear pushing Realogy to an incredibly low multiple of free cash flow relates to the capital flowing into various concepts that seek to disintermediate realtors from the home transaction equation. We believe that the need for realtors may decline in areas where properties are extremely similar. But, we see a continued important role for realtors in the great percentage of the country where homes, streets and neighborhoods are disparate enough to not lend themselves to formulaic buying and selling of the vast majority of families' most valuable asset. At Berkshire Hathaway's annual meeting, Warren Buffett, whose Berkshire Home Services is the #2 competitor to Realogy, made interesting comments that also signal a belief in the long-term viability of the industry.

Portfolio Activity

We added two new positions – an undisclosed communications company and Forest City Realty Trust. Both stocks present excellent time arbitrage opportunities, with several uncertain quarters overshadowing substantial payouts likely to materialize in the years ahead. Both have multiple segments and complexity that requires more work to arrive at an appraisal. Forest City, a REIT, owns various types of properties across the U.S., including apartments, office buildings, retail and land developments in various stages. Included in the mix is highly demanded Life Sciences lab space in Cambridge, MA. The stock pulled back when the company announced that its strategic review did not result in a sale. Management is building value and structuring the company in attractive ways with a new board, discounted repurchases, land development and joint venture and ground lease buy-ins. At the start of 2021, after the company has been a REIT for five years, Forest City will be free to sell assets or the entire company without any tax penalty.

In the last year, we have found several new opportunities in real estate related companies, a sector that has been under pressure in the higher interest rate environment. We believe the three real estate related holdings added since 2017, as well as existing holding Hopewell, have quite different return drivers over the next 3-5 years. Hopewell, whose management recently monetized its Highway investment, owns

Hong Kong commercial real estate and has a large non-earning asset in its current remodel of one of its primary properties. Park Hotels owns hotels, primarily the trophy Hawaiian Village and a handful of convention center properties in major cities. The company's two San Francisco hotels should see a boost in revenues when the neighboring Moscone Center in San Francisco re-opens in 2019 after major renovations. Realogy is a fee business tied to residential home sales, which we think will grow, as the millennial population moves from renters to owners. The most recent purchase, Forest City, is more diversified across different types of properties. In fewer than three years, the company will be even more valuable to interested buyers after the expiration of the tax penalty related to transactions post-REIT conversion. We do not focus on the Fund's sector weight versus the Index, but we are mindful of our collective real estate exposure. We believe the returns for each investment will be predominantly determined by each company's specific attributes.

Outlook

The Small-Cap Fund has the potential to deliver above average long-term returns with less risk because the Fund owns good businesses that sell materially below their values. The price-to-value ratio in the mid-70s% offers excess return opportunity. At Park Hotels, CNX, Mattel, ViaSat, OCI, Graham Holdings, Hopewell and Forest City we expect under-earning or non-earning assets to contribute substantial additional earnings. Successful acquisition integration should help produce higher earnings at CTL and Liberty Media/Formula One. Additionally, the values of CTL's and Kodak's wonderful businesses are dwarfing their poorer segments that created the misperceptions for us to invest. Our patience, discipline and ability can produce additional qualifiers for the Fund's liquidity, as volatility and a narrower market have helped grow our list of prospective opportunities. We are confident that our companies' increased earnings generation over the next couple of years in combination with the market's more appropriate weighing of our investees' values can yield important excess returns.

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.

"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.

Capital Expenditure (capex) is the amount spent to acquire or upgrade productive assets in order to increase the capacity or efficiency of a company for more than one accounting period.

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.

REIT is a real estate investment trust.

As of June 30, 2018, the top ten holdings for the Longleaf Partners Small-Cap Fund: CenturyLink, 6.9%; Park Hotels, 6.9%; OCI, 6.6%; Liberty Media, 6.4%; Graham Holdings, 6.3%; Sonic, 5.5%; Mattel, 5.4%; ViaSat, 4.9%; CNX Resources, 4.8%, Neiman Marcus, 4.7%. 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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