October 10, 2018

Longleaf Partners Shareholder Letter

3Q18

All four Longleaf Partners Funds posted positive gains in the third quarter. The International Fund exceeded both inflation plus 10% and the benchmark index. The Partners and Small-Cap Funds met our absolute goal of inflation plus 10% while the Global Fund was slightly below that target. Returns across the Funds were in the low single-digit range, while the relevant indices posted a more disparate 1.36% (MSCI EAFE), 3.58% (Russell 2000), 4.98% (MSCI World) and 7.71% (S&P 500). Southeastern's similar absolute compounding rates were perceived vastly differently with a relative lens.

	3 Year	1 Year	3Q
Partners Fund	14.99%	7.13%	2.70%
S&P 500 Index	17.31	17.91	7.71
Small-Cap Fund	15.86	12.61	2.76
Russell 2000 Index	17.12	15.24	3.58
International Fund	14.28	2.81	3.19
MSCI EAFE Index	9.23	2.74	1.36
Global Fund	17.79	3.95	1.61
MSCI World Index	13.54	11.24	4.98

Past performance does not guarantee future results.

Likewise, over the last 3 years, all four Funds appreciated at mid-to-high teens annual rates – well above the 12%[1] absolute bogey of inflation plus 10% - while the indices had much wider variation. The indices ranged from 9.23% (MSCI EAFE), 13.54% (MSCI World),

[1] 2% inflation using US Consumer Price Index plus 10%.

Average Annual Total Returns (9/30/18) Partners Fund: Since Inception (4/8/87): 10.43%, Ten Year: 8.06%, Five Year: 6.15%, One Year: 7.13%. Small-Cap Fund: Since Inception (2/21/89): 11.11%, Ten Year: 12.64%, Five Year: 10.17%, One Year: 12.61%. International Fund: Since Inception (10/26/98): 7.74%, Ten Year: 4.80%, Five Year: 3.82%, One Year: 2.81%. Global Fund: Since Inception (12/27/12): 8.55%, Ten Year: na, Five Year: 6.41%, One Year: 3.95%. *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. The total expense ratio for the Partners Fund is 0.95% and 0.92% for the Small-Cap Fund. These expense ratios are subject to fee waiver to the extent a fund's normal annual operating expenses exceed 1.50% of average annual net assets. The total expense ratio for the International Fund is 1.19% (gross) and 1.15% (net). This expense ratio is subject to fee waiver to the extent the fund's normal annual operating expenses exceed the 1.15%. The total expense ratio for the Global Fund is 1.48% (gross) and 1.20% (net). This expense ratio is subject to fee waiver to the extent normal annual operating expenses exceed 1.20%*

17.12% (Russell 2000) and 17.31% (S&P 500). As the largest owners of the Funds, we are pleased to have compounded our capital at real, double-digit rates over 3 years, a feat even more noteworthy given headwinds of growth stocks dominating value stocks, our higher-than-normal cash balances and, aside from the International Fund, lower portfolio weights in U.S. stocks than the indices.

Focusing on delivering solid real returns, while seeking to minimize risk of capital loss, has always been our primary objective. We have not moved the goal post simply because the Index was higher than our strong absolute numbers in the Partners and Small-Cap Funds. With similar 3-year compounding rates, the Global and International Funds outperformed their benchmark indices. Over most longer-term periods, absolute returns of 10% over inflation will exceed index returns.

Payoff Patterns

Southeastern's long-term, concentrated, engaged value approach has been rewarding over multiple market cycles. Following our investment discipline has positioned us and our clients to benefit when payoffs occur, which is rarely in steady, even increments. Studies have shown that broader market returns have been generated over a small number of days. Not only has our performance often come in big moves over short periods, but because we own a limited number of businesses, each selected for its fundamental, company-specific merits, our idiosyncratic payoff patterns often have little to do with the broader stock market or returns within the company's industry. In the third quarter and over the course of 2018, our biggest performance contributors, including CenturyLink[2], OCI[3], Belmond[4] and Sonic[5], demonstrated how quickly and unexpectedly negative sentiment can turn.

Buying companies at a material discount normally requires a long-term time horizon and a willingness to invest in something that most will not buy because a stock usually becomes significantly undervalued when the business faces a current challenge with no obvious, near-term resolution. For example, when CenturyLink acquired Level 3 on November 1, 2017, analysts focused on the declining legacy landline business and its risk to the dividend. At OCI, after the proposed acquisition by CF Industries fell through in May 2016, the stock remained undervalued, as two massive plants were months from

[2] CenturyLink was held in Partners, Global and Small-Cap Funds.
[3] OCI was held in Global, International and Small-Cap Funds.
[4] Belmond was held in International Fund.
[5] Sonic was held in Small-Cap Fund.

completion, and uncertainty in product prices created more pessimism. In May 2017, we bought the luxury hotel company Belmond well into a strong hotel cycle and with a previous leader who had prioritized management ahead of shareholder value. When we bought Sonic in the third quarter of 2016, investors feared a reinvigorated McDonald's and preferred higher-yielding quick service restaurant peers, especially after weather issues negatively impacted Sonic's drive-in restaurant earnings. Our appraisals of each of these companies incorporated the short-term concerns and were well above their stock prices. We believed value per share would grow over our investment horizon of multiple years.

In our research process, finding a stock selling at a steep discount is only the first step. We must do the in-depth analytical work to understand the current issues weighing on the stock and determine the likelihood of higher cash flow and a stronger competitive position going forward. Additionally, we engage with the company's leaders to determine how they intend to pursue growth in value per share. For a company to qualify for investment, we must believe in a high probability of double-digit value gains over the next 5 years, even though the exact timing is uncertain. At CenturyLink, we knew that, under the leadership of Jeff Storey, costs could be reduced, the Enterprise fiber business could grow at high margins that would make up for declining landline earnings and that the combined company's projected cash flow could cover the dividend. Similarly, we believed OCI's new plants would have a low-cost advantage when completed, the outlook for supply and demand made commodity price recovery likely and CEO Nassef Sawiris was committed to driving higher value through operations, company structure and opportunistic asset sales. In Belmond's case, relatively new CEO Roeland Vos, Chairman Roland Hernandez, whom we knew from our previous successful investment in Vail Resorts, and diminished influence from the company founder made us confident that capital discipline and margin improvement at the company's trophy properties were highly likely. At Sonic, we believed that CEO Cliff Hudson and his team would continue to sell stores to franchisees, the number of store locations would increase and the unique menu and drive-in format provided a longer-term competitive advantage. We were happy to own these out-of-favor companies because we believed their competitive strengths and capable managements meant a high probability of attractive value growth.

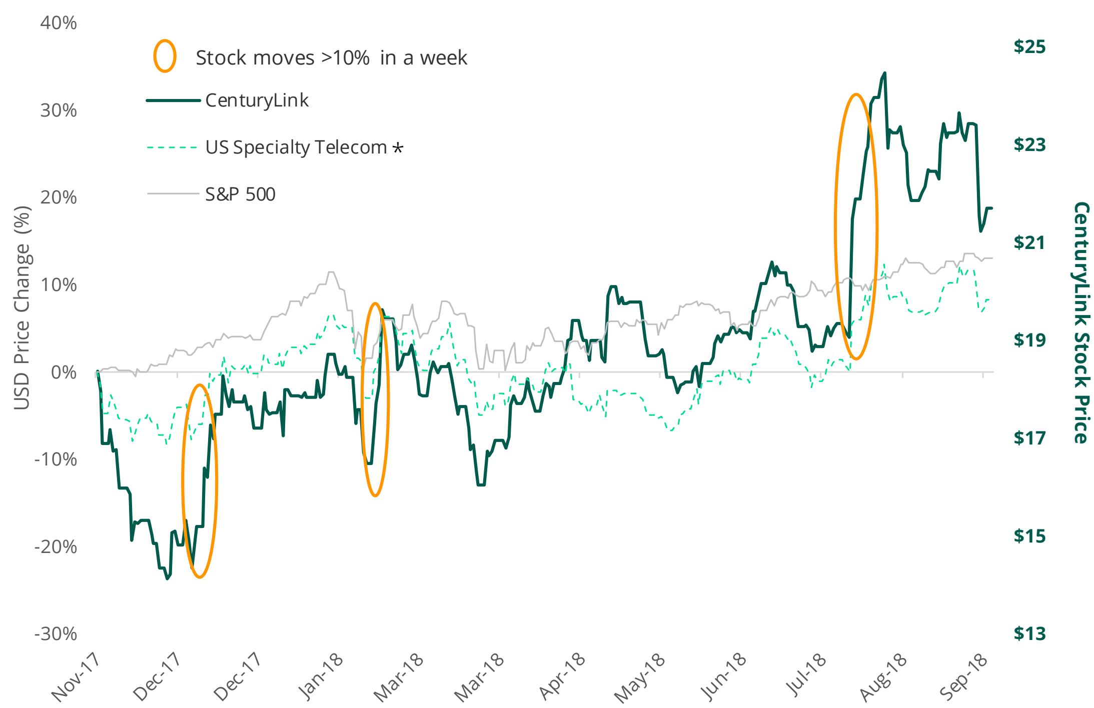
Once we invest in a company, we continue to engage with management and track the business's progress. If the case remains intact with increasing value per share, we patiently wait for the stock price to reflect intrinsic worth, knowing that the timing is unpredictable. The wait, however, can be frustrating if one focuses on daily stock price movement, and we can look wrong in the short term. None of these four stocks moved up in a steady, straight line, and each declined at various points. But, sentiment turned quickly. The total 2018 year to date returns for these top contributors were created in just 3 to 7 days – less than 4% of the 188 trading days this year.

Company-specific events that are not closely correlated to broader stock markets, or even a company's industry group, usually create our payoffs. In CenturyLink's case, Jeff Storey became the CEO ahead of schedule, and the company's strong results reflected cost reductions and the ability to maintain the dividend. At OCI, the successful completion and ramp up of the Iowa nitrogen plant in 2017 and the Texas methanol plant in 2018 were two discrete events that drove stock surges and contributed to a longer, ongoing price gain as the market digested them. At Belmond, the board announced it had hired bankers to review "strategic options" for the company. After Sonic's substantial share repurchases, owned store conversions to franchisees and improving sales helped increase earnings, Inspire Brands offered to buy the company at our appraisal price.

The charts below illustrate the sudden and uncorrelated payoffs at each company, highlighting cases where the stock rose more than 10% in a week. The graphs show the company's stock price movement versus its broader index and its industry group performance.

CenturyLink Price Chart

Since Level 3 acquisition (11/1/2017 to 9/30/2018)

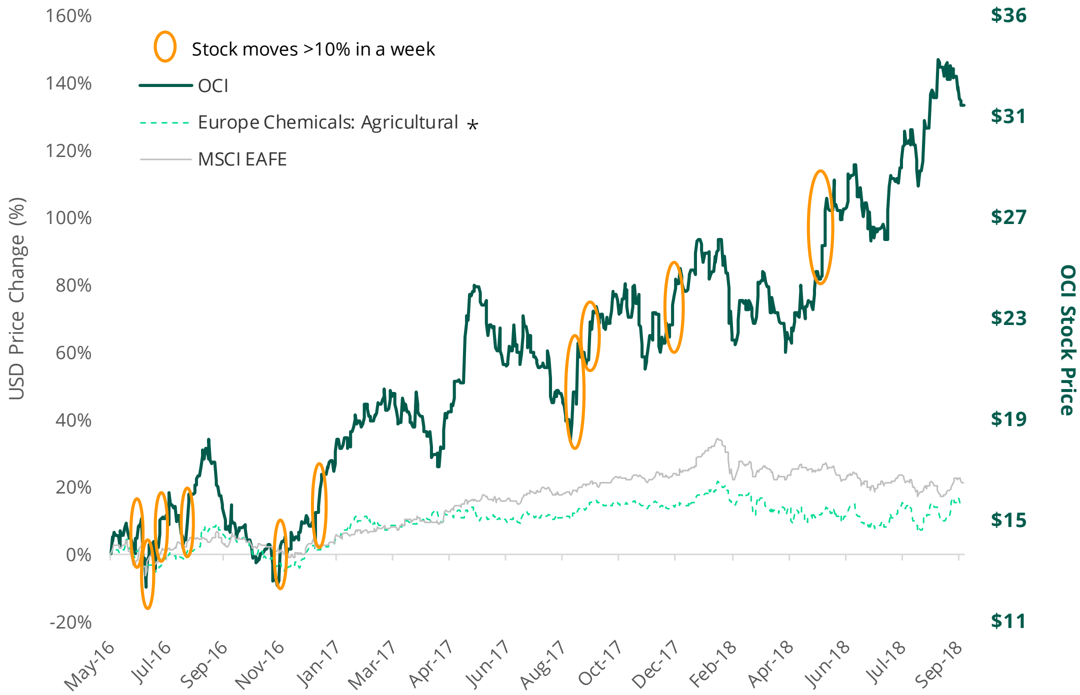


Source FactSet

** FactSet Market Index*

OCI Price Chart

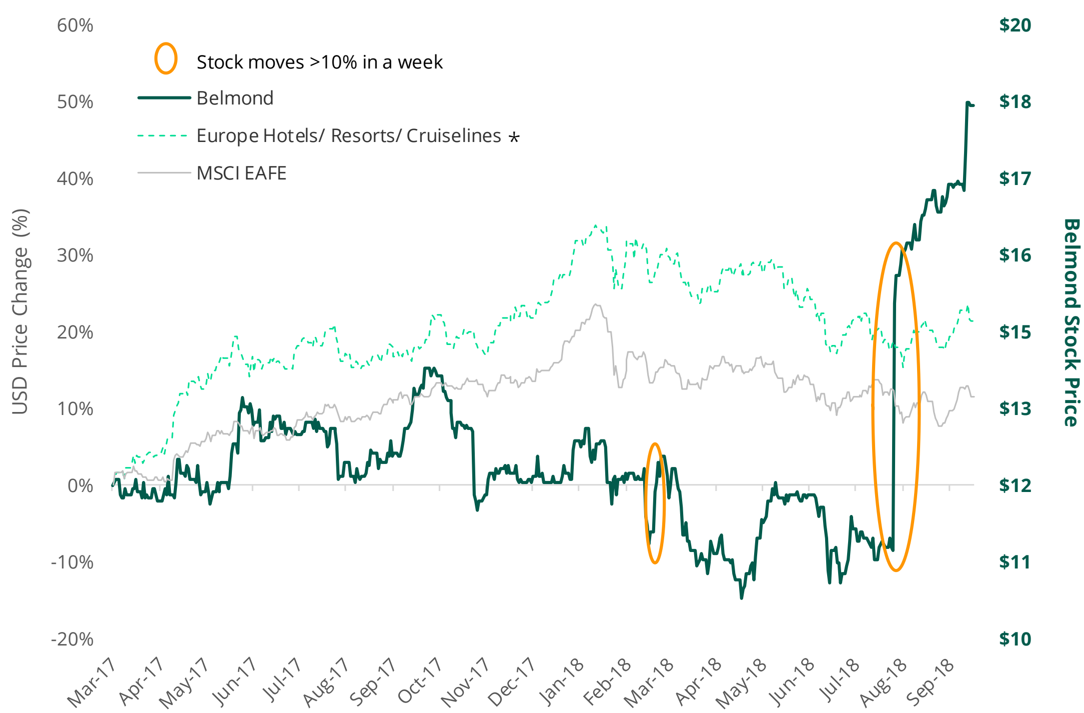
Since failed CF acquisition (5/23/2016 to 9/30/2018)



Source FactSet
** FactSet Market Index*

Belmond Price Chart

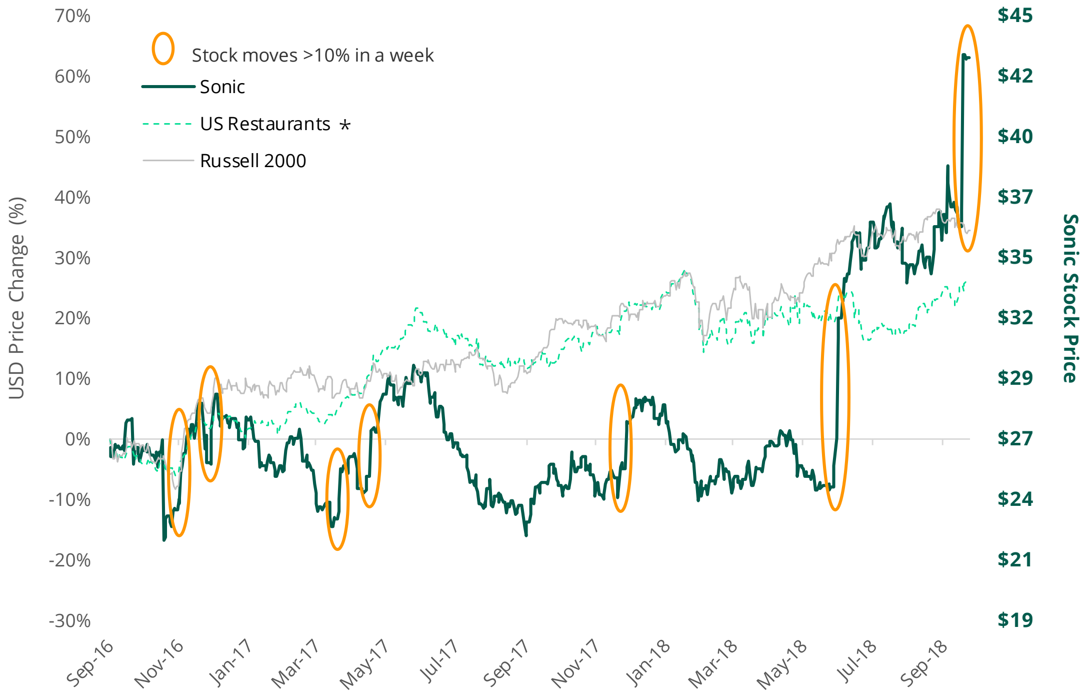
Since Southeastern purchase (3/15/2017 to 9/30/2018)



Source FactSet
** FactSet Market Index*

Sonic Price Chart

Since Southeastern purchase (9/7/2016 to 9/30/2018)



Source FactSet
** FactSet Market Index*

The recent performance bursts at these companies indicate how quickly and unexpectedly prices can rise, but this year's payoffs are not necessarily a victory lap. Stock price moves can take longer than we would like. We owned CenturyLink's predecessor, Level 3, for a number of years while the company's founder reduced industry capacity through consolidation, before Jeff Storey became CEO and drove higher revenues over the fiber network. We must constantly reassess each investment to determine if, and when, value growth is no longer a high probability because payoffs ultimately follow the direction of corporate value. We sold Sonic because it is being purchased by a private company paying fair value. We still own the other three companies, since their prices remain below our appraisals, which are growing. Additionally, we believe each company has unique upside potential beyond our long-hand appraisal, and our management partners are capable of extracting that upside, regardless of what happens in broader stock markets.

Outlook

When we invested in the businesses responsible for the Funds' recent returns, we did not know when their overly discounted stock prices would rebound. We were buying competitively advantaged companies led by good stewards, who we felt had the potential to grow value per share over time. We believed that at some point, the intrinsic value of the company would be reflected in the stock price. Today, we have a similar view of our current holdings, which is why we are optimistic about our prospects for long-term future returns. We remain engaged with our management partners, who are properly focused on shareholders, and who, we believe, will play an important role in driving value recognition. We are confident the payoffs can come, albeit not in a pattern or timeframe we can predict or that looks like market indices.

We are further encouraged about future returns, as we continue to find more qualifying investments. In spite of rising indices in the U.S., select good businesses are discounted, even as their values increase. The EAFE Index's positive performers have been limited, and we have more opportunities than we have cash in the International and Global Funds. We believe we can compound at attractive rates in unexpected bursts over the next 5 years across the Longleaf Funds. Given the deeper discounts and broader opportunity set, the payoff patterns outside of the U.S. could be particularly compelling.

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 Funds are subject to stock market risk, meaning stocks in the Funds may fluctuate in response to developments at individual companies or due to general market and economic conditions. Also, because the Funds generally invest in 15 to 25 companies, share value could fluctuate more than if a greater number of securities were held. Mid-cap stocks held may be more volatile than those of larger companies. With respect to the Small-Cap Fund, smaller company stocks may be more volatile with less financial resources than those of larger companies. With respect to the International and Global Funds, 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.

There is no assurance the investment process discussed will consistently lead to successful investing. There is no assurance the Fund objectives will be met.

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.

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.

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.

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.

As of September 30, 2018, the top ten holdings for the Longleaf Partners Fund: CenturyLink, 11.8%; CK Hutchinson, 7.5%; LafargeHolcim, 6.5%; FedEx, 6.3%; Mattel, 6.1%; CNX Resources, 5.4%; GE, 5.3%; Park Hotels, 4.9%; Fairfax, 4.9%; Allergan, 4.8%. Longleaf Partners Small-Cap Fund: CenturyLink, 7.8%; OCI, 7.7%; Liberty Media, 6.3%; Graham Holdings, 6.2%; Mattel, 5.3%; Park Hotels, 5.2%; Realogy Holdings, 4.7%; ViaSat, 4.7%; Neiman Marcus, 4.7%; Hopewell, 4.3%. Longleaf Partners International Fund: OCI, 8.0%; EXOR, 8.0%; CK Hutchison, 7.3%; LafargeHolcim, 6.6%; Belmond, 5.5%. Melco, 5.1%, Thyssenkrupp, 5.1%; Baidu, 4.9%; Millicom, 4.7%; CK Asset, 4.7%. Longleaf Partners Global Fund: CenturyLink, 9.7%; EXOR, 7.7%; CK Hutchison, 6.5%; OCI, 6.1%; FedEx, 5.5%; Comcast, 5.3%; GE, 5.1%, Fairfax, 4.9%; Allergan, 4.8%; Vestas Wind Systems, 4.8%. 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.

The statements and opinions expressed are those of the author and are as of the date of this report.