October 12, 2018

Longleaf Partners International Fund Commentary

3Q18

Longleaf Partners International Fund gained 3.19% in the third quarter, on pace to exceed our absolute goal of inflation plus 10%, as well as the MSCI EAFE Index's 1.36% return. The Fund's last 3 months comprised all the Fund's 3.13% year-to-date (YTD) rise, which exceeded the Index decline of -1.43%. Over the last 9 months, the Fund maintained positive results, in spite of the headwinds of a rising U.S. dollar, trade war fears, Emerging Market weakness and uncertainty over Brexit's unwinding next year. European and Asian markets were broadly negative, declining -2.5 to -2.9%, and Emerging Markets fell more than -7.5%.

With around twenty holdings, performance usually comes from just a few stocks. Company-specific events and management-led outcomes drive the Fund's investment results, which generally have little to do with what drives the broader index. Stock prices often move up in a short number of days as sentiment quickly changes. For example, Belmond was the Fund's largest contributor for the quarter and YTD, as management announced the company would do a strategic review to consider selling some or all of its luxury hotels, and the stock gained 43% in just 4 days. Hikma rose sharply following several positive earnings reports. OCI had several meaningful step-ups in its price over the last year, as its new plants ramped up production and nitrogen

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Average Annual Total Returns (9/30/18): Since Inception (10/26/98): 7.74%, Ten Year: 4.80%, Five Year: 3.82%, One Year: 2.81%.

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 Longleaf Partners International Fund is 1.19% (gross) and 1.15% (net). The expense ratio is subject to fee waiver to the extent normal annual operating expenses exceed 1.15% of average annual net assets.

fertilizer prices rose. Within just a few months of purchase, Televisa and Vocus each gained approximately 30%.

Living patiently with idiosyncratic payoff patterns can be difficult but is necessary. More often investors make decisions based on stock price performance without regard to the direction of a company's underlying business value. Chasing performance puts capital at risk, with the danger usually realized too late. We usually do not know when payoffs among our portfolio companies will occur, but most values are appreciating, and many current holdings offer significant upside potential with our management partners pursuing restructuring, substantial repurchases at deep discounts and sales of assets or entire businesses.

The juxtaposition of rapid, large payoffs in some of the Fund's companies against broader market declines resulted in quite a bit of portfolio activity in the quarter. Trims and four exits funded three new companies, plus additions to five other positions. We have a robust on-deck list of qualifiers, including stocks declining in the broad Asian correction and companies trading at a discount because of geopolitical concerns in countries such as the U.K. and Italy. Conglomerates are a current common source of undervaluation. Companies such as EXOR, the Fund's second largest position, CK Hutchison and Thyssenkrupp trade for substantial discounts to our sum-of-the-parts appraisals. We continue to consider which names can be sources of cash for purchases with a view toward minimizing risk of loss and maximizing portfolio return.

Contributors/Detractors

(Q3 Investment return; Q3 Fund contribution)

Belmond, (64%, 2.85%) a collection of iconic luxury hotels located mostly in Europe, was the Fund's largest contributor in the quarter. Owned Hotels are over 85% of the asset value, with Hotel Management fees another 5-10%. In August, management announced a strategic review of the Hotel Portfolio, which could result in a possible sale of some (or all) of the properties. Operationally, management confirmed guidance of \$140-150 million for this year and the EBITDA target of \$240 million by 2020. Group bookings for 2019 were up 70%, which should strengthen transient pricing. The company also announced that following last year's Caribbean hurricane, Cap Juluca and La Samanna will re-open by the end of the year. Belmond is a good example of several important Southeastern traits. First, the payoff came swiftly, driven by the unanticipated news of a strategic review, which did not change the value of the assets but made value recognition more likely. Second, our engagement with management was positive and collaborative, and we are pleased our partners decided to seek maximum value via outside bidders. Third, Belmond illustrates how our global research team benefits from being a single unit, as opposed to geographic or industry silos. The Fund's Co-Manager Staley Cates surfaced the idea from the U.S.; our hotel CEO partners and board members from investments past and present helped confirm our case; and our London analysts handled the local engagement with CEO Roeland Vos, as well as the assessment of the company's primary properties.

OCI (18%,1.33%), a leading producer of nitrogen fertilizers and natural gas-based chemicals, was a strong contributor this quarter, as new projects continued to ramp up and commodity price strength came through. The methanol market should remain strong for the coming 4 to 5 years due to lack of supply and increasing demand. In the quarter, OCI completed its tender for the remaining shares of OCI Partners, the master limited partnership primarily made up of a single integrated methanol and ammonia facility on the U.S. Gulf coast. The price paid is already looking good as methanol's price has continued to increase since the deal was announced. CEO Nassef Sawiris delivered value growth through this transaction as well as the successful completion and ramp up of major plants in Iowa and Texas in the last few years. With large capital expenditure (capex) projects complete, free cash flow should grow meaningfully.

CK Hutchison (10%, 0.71%), a conglomerate of telecommunications, health & beauty, infrastructure, global ports and energy, was a contributor in the quarter. CK Hutchison reported strong first half results, with (year over year) YOY revenue and EBITDA up +16% and +19%, respectively. Interim dividend per share grew by 11.5%, the first double-digit increase in the past decade. The company highlighted the strength of its Retail segment, which is the largest health and beauty retailer in the world with over 14,000 stores, 12 brands and 130 million loyalty members that contribute over 62% of sales. Oil price recovery added to Husky results. In the first half, revenue increased by 37% YOY and EBITDA by 47%. In the quarter, CK Hutchison announced the sale of its interests in several infrastructure projects at a 12X earnings and redeployed the proceeds to acquire an Italian telecom joint venture at 5x earnings. Management also repurchased the company's discounted shares in the quarter for the first time in almost 2 years.

Melco (-34%, -2.20%), the Macau based gaming company, was the only notable detractor in the quarter. Investor sentiment soured on Macau due to concerns that growth will decelerate with ongoing U.S.-China trade war issues, a slower Chinese economy and weakening Renminbi. Following analyst downgrades, stock prices for most Macau peers were down 40-50% in the last few months. While we agree that the decline in A-share markets and the slow-down in neighboring province Guangdong (export hub of China) will impact gross gaming revenues, we believe most of the impact will be on the lower-margin VIP business. Increased profits from the growth in the higher-margin Mass business should compensate for any VIP decline over time, as ongoing improvements in infrastructure (HK-Zhuhai-Macau bridge, high speed rail, etc.) and additional supply of hotel rooms make Macau more accessible. Melco is facing additional pressure, as the company looks to IPO its Studio City joint venture in this tough market to fund phase two of this property. On a more positive note, Melco's new Morpheus hotel tower near its City of Dreams casino opened in June this year and is ramping up in line with expectations.

Portfolio Activity

An increasing list of qualifiers created more activity in the quarter. We purchased three new companies, two of which remain undisclosed, as we are still building positions. We exited Genting Berhad because its value stagnated and the Malaysian political environment grew less certain. We sold three additional businesses as their stock prices neared our appraisals. Hikma, a multinational, family-owned and operated, generic pharmaceutical company with three divisions: Branded Generics with products sold primarily in the Middle East and North Africa (MENA), Injectable Generics (U.S., MENA and Europe) and U.S. Oral Generics, was a successful investment, gaining 55% in the 10 months that we owned the company. The Injectables and Branded Generics made up most of the value with high barriers to entry. Over our holding period, our appraisal grew double-digits with considerable progress made in Injectables operations and what turned out to be a more favourable Generics environment. Hikma is an example of not only two quality businesses being temporarily overshadowed by a more competitive one (Oral Generics), but also of the importance of aligned corporate leadership. Much of the turn in results occurred after Chairman Said Darwazah proved his long-term ownership mentality by standing down from the CEO role to bring on well-respected industry veteran Siggi Olafsson.

Vocus was both a new purchase and an exit in the quarter after a quick 27% gain. Vocus is a full-service telco operator providing fixed network services (data, fiber, internet, voice) to Enterprise, Wholesale and Retail customers in Australia and New Zealand. Vocus sold off due to repeated earnings downgrades, management turnover, balance sheet concerns and National Broadband Network related worries. We initiated a position when the stock fell below the replacement cost of its fiber network. Good

2018 fiscal year results, debt refinancing and the appointment of a new, proven CEO created a rapid payoff before we were able to purchase a meaningful position.

Televisa, the Mexican media and cable company that we purchased earlier in 2018, reported solid results with the Cable segment growing at double digits. The Content segment, a laggard in recent years, reported 9% growth in advertising sales, higher network subscription prices and a step-up in its Univision royalty stream. As in the case of Vocus, we got a small position of Televisa before the stock ran away from us, gaining 32% over our brief holding period.

Outlook

Fear-laden markets usually yield investment opportunities. In less than 15 months, the Fund went from a high 29% cash position to being almost fully invested. We are well-positioned to capitalize on the uncertain environment, as we reach the 20th anniversary of the International Fund. Our 15-person global research team is finding prospective qualifiers around the world, working together across offices in Memphis, Asia and Europe. Our analysts are locals who intend to remain in their regions, because we view understanding cultural differences and norms and building long-term networks as critical to our research quality. Additionally, our cumulative research and investments over two decades have built our network and credibility, giving us insights and opportunities to engage with managements.

The International Fund owns strong businesses with capable management partners, who are focused on growing value for shareholders and pursuing value recognition. The Fund's price-to-value ratio (P/V) is in the low 70%s, which does not account for any assets or companies that might be sold at higher take-out multiples. As we continue to swap some of our higher P/V investees for compelling on-deck opportunities, the Fund will become even more discounted. We believe it is an attractive time to add to the International Fund.

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, Australia, 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.

Brexit ("British exit") refers to the June 23, 2016 referendum by British voters to leave the European Union.

EBITDA is a company's earnings before interest, taxes, depreciation and amortization.

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

IPO is an initial public offer.

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.

As of September 30, 2018, the top ten holdings for the 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%. 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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