4Q17

December 31, 2017

Longleaf Partners Fund Commentary

Longleaf Partners Fund delivered a strong absolute return of 15.51% in 2017 and 3.62% in the fourth quarter, exceeding our annual goal of inflation plus 10% for both periods and for the second consecutive year. Our discipline, which requires a material margin of safety between stock price and intrinsic worth, kept the Fund with high cash levels and out of most of the Information Technology (IT) sector that powered the index's 6.65% return in the quarter and 21.83% for the year. Cash, which faced no risk of capital loss, and the Fund's limited IT exposure accounted for almost all of the shortfall versus the index. The long-running bull market became more reminiscent of the late 1990s as IT dominated and started to leave other high quality companies with attractive discounts.

Most of our businesses contributed to the Fund's solid absolute results. Investments that our management partners made in the last few years began to show anticipated returns including Wynn's Palace Resort in Macau, new Ground distribution facilities at FedEx, Pratt and Whitney's geared turbofan engines within United Technologies, and Fairfax's investments in Asia. Substantial multi-year cost cutting programs also yielded results, moving margins up at CNH and FedEx's Express unit. Our management partners pursued transactions to further entrench their competitive positions or capture value recognition. Scripps Networks sold at a solid price to Discovery Communications, United Technologies announced a plan to buy Rockwell Collins in September, and in the fourth quarter, CK Asset sold The Center, Hong Kong's fifth tallest office building for an almost 2% capitalization rate — well above our carrying value. At the end of November, CONSOL Energy completed the split of its coal and gas businesses.

The absence of many detractors added to the Fund's performance for the year and the fourth quarter. In the first half, Chesapeake declined along with other Exploration and Production companies as natural gas prices fell. Level 3, now CenturyLink (CTL), spent most of the year under price pressure with uncertainty over the deal's outcome and skepticism over CTL's dividend sustainability, but following the merger's close and management's renewed commitment to the dividend, the stock rebounded over 22% from its November low.

We focus on the fundamentals of the businesses we own rather than the stock market. In 2017, however, a few broad drivers had enough impact on the index strength that they are worth highlighting. As noted above, IT drove much of the S&P 500's results. The sector far surpassed all others with a 38% gain and more than doubled any other sector's contribution to performance. IT momentum chasing contributed to stocks that others define as "growth" far surpassing those categorized as "value," 27% versus 15%. In the last four months, renewed optimism around the tax bill pushed up stocks. Companies in the index with current tax rates over 25% rose an average 12% since the end of August, whereas those with rates already lower gained just 6%.

We spent a good deal of time looking at the impact of the tax changes on our companies as well as how lower rates might affect other investment opportunities. In some cases, lower rates will benefit shareholders, but we believe the widespread earnings optimism is overblown. Companies in more competitive industries likely will give up any tax savings to customers through better pricing and/or to employees via higher wages and benefits, which was already demonstrated late in the year. The S&P 500's multi-year run has resulted in our owning more qualifiers domiciled outside of the U.S. in the Partners Fund. We therefore did not participate as much in the tax rally because a number of our companies already pay lower rates or, in the case of CenturyLink, have net operating losses (NOLs) that offset taxes.

Portfolio activity ramped up in the latter half of the year. We sold three successful investments as the stocks reached our appraisals of their business values including T. Rowe Price in the fourth quarter, and exited one investment following a management change. More surprisingly, even as the market hit new highs, we bought four new companies — two in the last quarter. As a result, the Fund's cash position ended the year at 23%, slightly lower than the balance held for most of 2017. Additionally, as fewer companies participated in the market's new highs, our on-deck list of qualifiers grew.

Contributors/Detractors

(2017 Investment return; 2017 Fund contribution; Q4 Investment return; Q4 Fund contribution)

Wynn Resorts (+98%, +4.21%, +14%, +0.44%), the U.S. and Macau gaming company, was the largest contributor to the Fund's 2017 performance with strong earnings growth in Macau and Las Vegas. Industry gross gaming revenues (GGR) in Macau accelerated in the second half of 2017 well beyond full year GGR growth expectations. With major infrastructure

Average Annual Total Returns (12/31/17): Since Inception (4/8/87): 10.58%, Ten Year: 4.74%, Five Year: 9.43%; One Year: 15.51%

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 normal annual operating expenses exceed 1.50% of average annual net assets.

projects moving closer to completion, mass visits and spending increasing, and VIPs returning, concerns about potential over-supply from significant capacity additions in Macau turned into confidence that additional hotel and gaming properties will be well absorbed by the market. Steve Wynn continued to create future value with the Boston resort expected to open in 2019, new development around the Las Vegas golf course, and the chance to pursue casino development in Japan. After the stock more than tripled from its lows two years ago and moved closer to our assessment of the company's value, we reduced the Fund's position.

FedEx (+35%, +2.66%,+11%,+0.75%), the world-leading transportation and logistics company, added to the Fund's strong fourth quarter and 2017 results. Express margins jumped to the company's long-held goal of double-digit levels due to strong pricing and utilization of lower cost passenger plane space. Ground yield and volumes were strong, and margins seem to have finally bottomed after recent years of rapid expansion and investment. FedEx moved quickly to integrate acquired TNT into its global network as it deftly handled the effects of a significant TNT cyberattack. CEO Fred Smith continued to think far ahead and prioritize the business's long-term competitive position, reinvesting most earnings into high-return expansions and improvements. We trimmed the Fund's stake as the discount to intrinsic worth shrunk.

CNH Industrial (+57%,+2.49%,+12%,+0.55%), the maker of Case and New Holland agriculture equipment (Ag) and Iveco trucks (CV), helped the Fund's fourth quarter and full year results. After declining for three years, Ag staged a turnaround with Q3 sales growing 12% year-over-year and operating profit margin expanding by 130 basis points. Accordingly, fiscal year 2017 sales and earnings guidance saw meaningful upgrades. The Ag cycle in the U.S. seems to have hit an inflection point in 2017 after peaking in 2013. CNHI management successfully balanced channel inventory while taking costs out during the decline. When U.S. Ag volumes (especially for high horsepower tractors and combines) recover from the current trough levels, the operating leverage on incremental sales will be highly margin accretive. In addition, CNHI was upgraded to an investment grade rating by S&P and Fitch, an important milestone that should allow the company to tap the commercial paper market, lower interest expense, extend the debt maturity profile and potentially release over $1 billion of excess capital in time, which our management partners could return to shareholders in the form of dividends and buybacks. We cut the Fund's exposure to CNH as the gap between price and value narrowed following the positive company developments and stock's more than doubling since its bottom almost two years ago.

Alphabet (+36%,+2.23%,+10%,+0.56%), the diversified internet company with strong positions worldwide in search (Google), video (YouTube), mobile (Android), and more, was among the largest Fund contributors for the fourth quarter and the year. As the discount to intrinsic worth closed, we trimmed, although the Fund maintained a full position because of the company's strong value growth. Revenues in the U.S. and Europe grew in excess of 20% and over 30% around the rest of the world as the search moat widened. Google still has significant opportunities to expand its share of advertisers' total spend beyond its current level. The company made significant progress towards monetizing the fifth of the world's population who watch YouTube every month by improving advertising interactions and separating brands from the site's worst content after a minor scandal. Despite the stock's outperformance during our almost three years of ownership, frightening "FAANG" (Facebook, Apple, Amazon, Netflix, Google) hype and frothy IT valuations, Alphabet still sells below our conservative appraisal, which does not give credit for significant additional upside. Transformative work in 2017 could become future sources of value, including Artificial Intelligence applications for Photos and Cloud, Waymo autonomous cars, world-leading map software, emerging-market Android mobile penetration, and Verily Life Sciences' global partnerships and expansion.

CK Asset (+46%,+2.08%,+6%+0.33%), the Hong Kong based asset holding company, was one of the top contributors for the fourth quarter and year. The company achieved strong volumes of residential property sales in both Hong Kong and mainland China, and in the first half of 2017, sold the highest volume of residential property in Hong Kong. Rather than pay elevated prices for land, CK Asset (CKA) diverted sales proceeds to value accretive share buybacks at prices substantially below our appraisal. CKA spent HK$6.9 billion to buy over 3.3% of its shares, making it one of the top three repurchasers on the Hong Kong stock exchange for the year. To mitigate the cyclical nature of cash flows associated with property development, CKA diversified into stable infrastructure type assets around the globe, including gas pipeline and electric distribution company DUET in Australia, building equipment services provider Reliance Home Comfort in Canada, and fully integrated sub-metering company Ista International GmbH in Germany. To reflect this strategy, the company changed its name from Cheung Kong Property to CK Asset. In November, CKA sold The Center, a prime office building in HK for HK$33,000 per square foot and a capitalization rate of less than 2.5%. This price far exceeded our appraisal of the property and confirmed what great partners we have in Li Ka-shing, his son Victor Li and their team.

CONSOL Energy (+7%,+0.49%,+16%,+0.94%), the former natural gas and coal company based in Appalachia, was a contributor to the Fund's fourth quarter results. The company completed the long-awaited spin-off of its coal assets from its natural gas reserves, undrilled acreage, and pipelines — a move we had encouraged to enable others to fully appreciate the values of each business. The gas company now trades as CNX Resources Corporation (CNX), while the coal pure-play business retained the CONSOL Energy name. Our CNX appraisal assumes gas prices at today's depressed strip, yet the stock price implies much less value for its undrilled resources and midstream assets than comparable peers receive. The company reduced commodity risk by hedging the majority of next year's production above $3/mcf. CONSOL's Pennsylvania Mining Complex is the low-cost coal producer in the eastern

U.S. Both companies announced large buybacks to address their undervalued post-spin prices. We believe our management partners will continue to take action to gain value recognition at both companies. In spite of rampant coal divestment by institutional investors, CONSOL's stock jumped 84% after becoming a pure-play coal business.

United Technologies (+19%,+0.95%,+11%,+0.53%), the industrial conglomerate, reported gains across its segments, putting it among the Fund's top contributors in the fourth quarter. Pratt & Whitney won large Delta and Dassault contracts for its new geared turbofan engine – business that will pay off for decades with lucrative servicing revenues. The company's proposed acquisition of Rockwell Collins should boost its strong competitive position in fitting out and servicing the growing aerospace industry. Carrier benefitted from its leading position in air conditioning systems and ought to gain from digital Smart Home technological improvements over the next several decades. Otis Elevator, one of the most ubiquitous companies in the world's cities, showed solid organic growth. CEO Greg Hayes has positioned each part of United Technologies for long-term performance and the ability to stand-alone as separate companies in the future. Although we sold shares as the stock's discount decreased, the Fund kept a full position that reflected our longer term confidence in management and value growth.

Chesapeake Energy (-44%,-2.07%,-8%,-0.17%), one of the largest U.S. producers of natural gas and oil, was one of the Fund's few detractors in 2017 during a tough market for closing energy asset sales. Overshadowing strong operational performance by CEO Doug Lawler and his management team, domestic gas oversupply weighed down strip prices. Chesapeake made progress delineating some of its newer plays, but the market continued to underestimate the company's ability to sell meaningful assets, as it has done multiple times in the past. We reduced the position to reflect the broad range of outcomes dependent on commodity prices.

CenturyLink (formerly Level 3) (-10%,-1.12%, -5%,-0.52%), the global fiber and integrated communications network company, was the Fund's largest holding and declined during the year and fourth quarter, even though the stock rallied over 22% from its November low after CTL's purchase of Level 3 closed. Throughout, our investment case grew more compelling. The merger of Level 3's fiber network with Qwest's assets that CTL had previously acquired created a uniquely competitive global fiber network that has particular strengths in the higher margin, growing Enterprise segment. Level 3's CEO Jeff Storey becoming President and COO and eventual CEO of CTL and Sunit Patel maintaining the CFO position in the combined company were critical to our support for the deal. Their leadership makes us confident that CTL management will be able to drive mid single-digit Enterprise revenue growth at high contribution margins, cut costs substantially and deliver the projected $1 billion in deal synergies, much of which will be created by moving traffic onto the company's combined network from third parties. Despite CTL's stronger positioning, the stock price fell, in part because Level 3 customers delayed new purchases until it was clear who would lead the combined company. But, the primary price pressure was due to fears that CTL would not be able to sustain its double-digit dividend yield (a valid concern without the Level 3 acquisition). This worry heightened after the stocks of two mostly unrelated and massively overleveraged regional operators which were more closely aligned with CTL's legacy landline business than the fiber business, saw their stocks collapse after dividend cuts. Storey and Patel confirm that the dividend is safe based on the combined EBITDA of the Level 3 and CTL fiber networks, the synergies from the deal, and the use of Level 3's NOLs to reduce taxes. By our estimates, once the synergies are realized, the company should deliver over $3/share of Free Cash Flow (FCF) after capital expenditures (capex), which will amply cover the $2.16 dividend. We see material additional upside not built into our appraisal based on Patel's record of cost cutting after mergers and the multiple players that would benefit from owning this network. When the stock price dramatically disregarded the positive fundamentals and our assessment of CTL's intrinsic value, we bought more, including in the fourth quarter. Management and the board appeared to share our enthusiasm as demonstrated by significant December insider purchases as soon as the blackout period that prohibited purchases was lifted.

Portfolio Activity

Activity within the portfolio increased during the year. It may seem odd that we made purchases given new market highs. We do not require a market correction to find qualifiers, just individual business value mispricing. And while the overall market had strikingly low volatility, a few good businesses' stocks declined enough to enable us to buy four new companies – Fairfax in the second quarter, and three others in the last four months of the year. Late in the third quarter, we began buying Mattel, one of the world's largest toy companies with iconic brands like Fisher-Price, Barbie and Hot Wheels. The stock had fallen almost 70% over the last few years as previous management made a number of mistakes. New CEO Margo Georgiadis, formerly President of Google Americas, took over with a plan to simplify a needlessly complex manufacturing process, focus on profitable core brands rather than dilutive growth, build a better global presence, and transform the company's digital marketing. She cut the dividend to free up cash to invest in the business, which immediately led to a sharp collapse in the stock price and gave us an opportunity to build the Fund's position. Shortly thereafter, the stock's rise on a rumored Hasbro takeover confirmed the discount, but Mattel's board appropriately dismissed any low ball offers. We are confident in management's plan to restore margins and do more with the company's leading franchises in a growing industry.

We purchased two undisclosed positions in the quarter. One, like Mattel, was a time horizon arbitrage opportunity where past mismanagement and a dividend cut obscured the longer term value and prospects for industry-leading businesses. The other was an example of how complexity often leads Southeastern to investments. A more traditionally associated segment of the company was under pressure industry-wide, taking the stock to a multiple similar to peers within that segment. In the case of this company, however, its most valuable segment consists of leading, protected brands that are growing in strength and demand.

We exited four positions during 2017 and trimmed some of the strongest performers whose discounts to intrinsic value had diminished. Earlier in the year we exited Ralph Lauren after the CEO departed. Mergers involving DuPont (Dow) and Scripps Networks (Discovery) drove prices to our appraisals, and we sold those investments in March and August respectively. During the fourth quarter, we sold investment firm T. Rowe Price as the stock approached our appraisal. Despite near-daily headlines on the death of active funds, T. Rowe grew assets under management and maintained its strong position in Target Date retirement funds. The stock gained 70% during our short 13 month holding period. We are grateful to CEO Bill Stromberg and Chairman Brian Rogers for driving strong performance during a challenging time for the industry.

Outlook

The Fund's last two years' 39% cumulative return outperformed the index and substantially beat our absolute goal of real double-digit returns. We believe we can continue to provide solid results even though the Fund's 2017 return was below the S&P 500 and prolonged the active management debate. Our return was less than that of the inflated index primarily due to two decisions to avoid risk of loss: the Fund held between 20-30% cash throughout the year, which accounted for over 70% of the relative shortfall versus the market; and we did not own more of the pricey IT sector.

We are confident we can outperform over the next 5+ years. First, as was true in 2017, what we own — acts of commission — will produce our returns going forward. The Fund's portfolio contains discounted strong businesses with growing values selling at an attractive P/V in the mid-70s% — a striking contrast to what we believe is an overvalued S&P 500 increasingly driven by momentum in a narrower group of companies. We expect our differentiation from the index (97% Active Share) to be a source of strength to relative results. Second, the Fund's cash is temporary until we find qualifiers, and with lower stock correlations and the prospect of more volatility among stocks, we expect undervaluation opportunities will increase, as they did in late 2017, providing us additional investments that will drive future compounding. Third, through our 42 years at Southeastern and in studying market history, we know that most broad trends come in cycles that can either turn quietly or with unexpected force. Most of our businesses remain in the out of favor bucket. We believe the recent dominance of momentum investing, which reflects speculation at elevated prices, will likely turn back to a favorable environment for undervalued stocks.

It is our strong view that after a nine year bull run and at high historic multiples, the inflated index is more vulnerable to downside surprises than likely to continue double-digit gains. Ben Graham's definition of an investment from *Security Analysis* written in 1934 has never been more relevant: "An **investment** operation is one which, upon thorough analysis, promises safety of principal and a satisfactory return." As the largest shareholder group in the Fund, we aim to preserve capital and compound at a real double-digit rate of return by owning a limited number of undervalued, high quality, competitively advantaged businesses where we are engaged with capable and aligned management partners. We have no doubt that we can deliver good performance because of our understanding of the drivers of each company's value growth versus the associated risks, our ongoing dialogue with management, and our discipline to hold cash when businesses do not meet our stringent criteria.

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.

Cap rate (capitalization rate) is the rate of return on a real estate investment property based on expected income.

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.

Active Share measures how much an equity portfolio's holdings differ from those of the benchmark index.

"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.

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

As of December 31, 2017, the top ten holdings for the Longleaf Partners Fund: CenturyLink, 8.1%; FedEx, 7.6%; CK Hutchinson, 7.0%; LafargeHolcim, 6.4%; CK Asset, 6.1%; Fairfax, 5.8%; Mattel, 5.2%; United Technologies, 4.9%; Alphabet, 4.8%; CNX Resources, 4.8%. 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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