January 21, 2019

Longleaf Partners Fund Commentary

4Q18

Longleaf Partners Fund declined -20.67% in the fourth quarter, taking its 2018 return to -17.98%. The S&P 500 Index fell -13.52% in the final three months and ended the year down -4.38%. Four primary challenges impacted the Fund's absolute and relative returns in 2018. First, our investment in companies based outside of the U.S. hurt performance, even though many of them have significant U.S. segments. The strong dollar was a headwind, and U.S. stocks outperformed those based elsewhere, despite the large fourth quarter U.S. decline. Second, we were too early investing in several of the Fund's more recent purchases. While we averaged into General Electric (GE), Mattel and Affiliated Managers Group (AMG), these stocks are currently trading well below our average costs. Third, we owned five companies externally categorized in the Industrials sector. These are diverse businesses with very different factors driving results, but they collectively impacted the Fund's return as the Industrials sector was among the worst performing areas of the market. Fourth, the strong investor preference for momentum-driven growth stocks, where we have limited exposure, continued to negatively impact undervalued businesses' prices.

We periodically experience a year where either our geographic or sector exposure penalizes returns, our newer investments hit bottom after initial purchase or our

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Average Annual Total Returns for the Longleaf Partners Fund (12/31/18): Since Inception (4/8/87): 9.54%, Ten Year: 10.19%, Five Year: -0.52%, One Year: -17.98%. Average Annual Total Returns for the S&P 500 (12/31/18): Since Inception (4/8/87): 9.43%, Ten Year: 13.12%, Five Year: 8.49%, One Year: -4.38%.

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 ratio for the Longleaf Partners Fund is 0.95%.***

approach is out of favor. In 2018, the Fund suffered from all of these. Companies that missed short-term expectations generated the largest declines, with the market severely punishing those that disappointed in the fourth quarter. On the other hand, stock prices largely ignored the progress that our companies and management partners made. CEOs whom we view as stronger were secured at CenturyLink, GE, CNHI and Mattel. Businesses sold assets for attractive prices, including Allergan, Fairfax, CK Asset, LafargeHolcim, United Technologies and GE. United Technologies and GE announced company breakup/simplification plans. Importantly, the primary business segments at most of our core holdings grew – Enterprise at Centuryink, Cable at Comcast, Search and YouTube at Alphabet, Aesthetics (Botox) at Allergan, Ground at FedEx, Agriculture at CNHI, North American Cement at LafargeHolcim, Aviation and Healthcare at GE, and Barbie and Hot Wheels at Mattel.

During the year, we sold three investments, added five new qualifiers and increased the Fund's stake in three others. Cash started the year at 23% but was below 5% by the end of December. Portfolio repositioning and value growth amid stock price declines helped the price-to-value (P/V) ratio move into the mid-50s%, a somewhat rare level that has historically preceded strong absolute and relative returns*.

Taking a longer term view, 2018 marked the end point of a ten-year period when the Fund earned over 10% annual returns but did not meet inflation plus 10% or outperform the Index. The Fund was challenged as momentum stocks dominated and were pushed to greater heights with massive inflows into cap-weighted passive indices at the expense of active managers. In the last few years, larger technology-related stocks were the driving force. The Value/Growth disparity, tech-driven market and Index outperformance in the five years ended December 1999 were similar. Importantly, following 1999, the Fund delivered four years of outperformance – a cumulative 8000 basis points – that far exceeded the previous five years' shortfall.

We are highly confident that the Fund may outperform the Index and deliver even better absolute results than the last decade for four main reasons:

1. As holdings reached full value in the extended bull market of the last decade, qualifying replacements for those sales were elusive. The consequential high cash levels over extended periods created the single largest driver of the Fund's underperformance. Today, however, the Fund is fully invested after increased price volatility in 2018 created new, compelling investment opportunities.

2. The second largest performance challenge over the last decade, including in 2018, was the Fund's collective investment in companies based outside of the U.S., which averaged approximately 20% of the portfolio. U.S. stocks in the Partners Fund actually outperformed the S&P for the ten years. But, the S&P 500's cumulative return (+243%) dominated the international MSCI EAFE Index's (+85%), making international companies more compelling investments today but also a relative headwind looking backward. Today, 28% of the portfolio is in stocks domiciled outside of the U.S. Not only does each company have compelling prospects, but international stocks are much more attractive overall with the price/earnings (P/E) multiple for EAFE at 12.5X versus 15.6X for the S&P. While U.S. and international stocks have performed at a similar annual rate of 8.4% (EAFE) to 9.3% (S&P) over almost sixty years, we believe the recent ten-year huge disparity (EAFE at 6.3% v. S&P at 13.1%) and large divergence from each index's own average bode well for the Fund's stocks based outside of the U.S.

3. Individual investments where our assessments of the people or the companies were wrong also hurt the Fund's ten-year relative results. Each case was unique, but our analysis showed that holding mistakes for too long and increasing their weighting at the wrong time turned normal errors into performance killers. We have made adjustments accordingly. We build positions in new companies more slowly while getting to know the company and management more deeply. We limit exposure to businesses with less control of their own outcomes, either because they are closely tied to a commodity price or they have financial obligations that restrict flexibility. We also limit ownership of businesses closely linked in the same industry to less than 15% of the portfolio. We overweight few positions and only where the qualitative and quantitative characteristics are equally compelling, with the maximum investment at purchase generally being 10%. We also sell and move on more quickly if the qualitative case changes meaningfully, even if the stock remains statistically cheap. We focus more on declines in intrinsic value as a sign that we mis-assessed the company and take a deeper dive before adding to the holding. We systematically conduct an 18-month review of any new investment that is underperforming, as our data shows this to be a key time to decide whether to maintain an investment. Understanding our errors and making related adjustments in our execution will

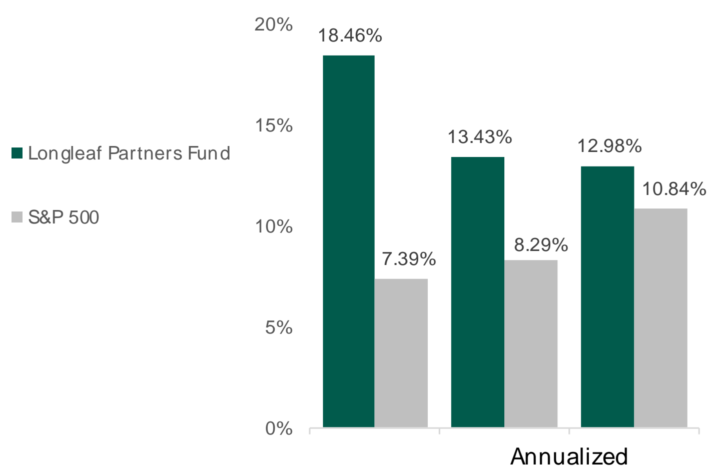
not eliminate company-specific mistakes, but we believe they are less likely to compound as they should be shorter-lived and lower impact going forward.

4. Although the Fund posted double-digit annualized gains, the last 10 years were an abnormally long period of relative underperformance for our investment approach. Momentum, rather than fundamentals, fed the long-running bull market where many stocks sold for multiples far higher than we could justify, particularly biotech and technology-related areas whose long-term competitive advantages we find difficult to assess with confidence. More discounted stocks that did meet our criteria remained out-of-favor with their payoffs delayed. The S&P 500 Growth Index outperformed the S&P 500 Value by approximately 3.5% per year over the last ten years. We believe this disparity awaits a meaningful reversal, given the 30+ years prior, where Value outperformed Growth by approximately 2% annually. We were encouraged by early signs of Value making up ground in late 2018/early 2019.

The current positioning of the Partners Fund, along with improvements in our execution, make us confident in future return potential The Fund is fully invested in businesses that meet our qualitative criteria and are selling at a rarely seen deep discount that can yield far greater-than-average upside. The chart shows that following other periods when the P/V was below 60%, the Fund averaged substantially higher returns than the Index at real rates in excess of 10%.*

Partners Fund

Average Annual Total Return Following P/V less than 60%*



	1 Year	3 Year	5 Year
+/- Index	**11.07%**	**5.14%**	**2.14%**
# of Quarterly Observations	19	19	19

Contributors/Detractors

(2018 Investment return; 2018 Fund contribution; Q4 Investment return; Q4 Fund contribution)

Park Hotels (10%, 0.43%, -18%, -0.78%), the owner of Hawaiian Village and other Hilton properties, was the primary positive contributor in 2018 after our first quarter purchase of the stock. The business delivered mid-single-digit comparable revenue per available room (RevPAR) growth despite hurricanes near its Florida and Hawaiian hotels. Early in the year, CEO Tom Baltimore sold multiple properties above our appraisal, and the company has additional opportunity to realize more value out of the portfolio's assets. Recent transactions for top-tier luxury properties support significantly larger multiples than the stock price implies for Park's trophy properties like the Hawaiian Village. Despite good results in its second year as a stand-alone company, Park still trades at a meaningful discount to peers with what we view as inferior properties.

General Electric (-54%, -3.14%, -32%, -1.93%), the aviation, healthcare and power company, fell throughout the year, making it the Fund's largest detractor. GE's former leadership and business model are dramatically different from what is in place today. The management team is new, plus the board has been reduced in size and upgraded in quality. The “business” and “price” parts of our investment case boil down to three main assumptions:

1) The best-in-class Aviation and Healthcare businesses continue to deliver strong profit growth, could be severed from the rest of GE and, we believe, are worth a combined $16+/share.

2) GE's holdings in transportation and industrial services businesses Wabtec and Baker Hughes GE are solid, liquid and have self-help ability to grow earnings. Other smaller businesses like Renewables have demonstrably positive value. This group of assets is worth more than the net industrial debt/share of GE.

3) We believe the currently struggling Power business should recover over several years as the company and the industry rightsize capacity and headwinds abate. GE Capital's issues will continue to be addressed aggressively and will be smaller in the

years to come. Even a negative value for GE Capital gets to an appraisal for the company that is over 2X the current stock price.

We slowly initiated our position in GE in late 2017 and bought most shares in the first seven months of 2018, after the unexpected increase in reserves for long-term care insurance at GE Capital. Nonetheless, we were too early, with an average cost basis in the low teens. Our adjusted appraisal approaches three times the current stock price, leaving ample margin of safety for a solid return even if some of our investment case assumptions above are wrong. Larry Culp, a legend given his record at Danaher, took the GE CEO job in September after doing deep diligence into the company's challenges and prospects as a new board member earlier in 2018. GE stock must return to the high teens within four years for half of Culp's long-term incentive shares to vest and generate the kind of CEO-level pay he could have easily secured elsewhere, and he receives additional shares only if the stock reaches $31 in that period. This degree of out-of-the-money alignment is both extremely rare and highly encouraging.

Mattel (-35%, -2.32%, -36%, -2.42%), the classic toy company, fell in the fourth quarter, making it a detractor for the year after the company lowered full-year revenue guidance by 3%. The primary challenge was sorting through the retail disruption caused by the Toys "R" Us bankruptcy, combined with self-inflicted Chinese inventory problems. The weaker revenue number ignores CEO Ynon Kreiz's solid progress towards cutting $650m in operating costs. For the first nine months of 2018, the company's two most important brands, Barbie and Hot Wheels, grew gross sales 15% and 6%, respectively. Fisher-Price, Thomas and American Girl all declined, but each brand has strong, unique drivers for future growth. To invest in high-return growth projects, Kreiz is creating new businesses using Mattel's deep well of brands and intellectual property. The stock ended the year trading at less than half the 2017 rumored acquisition offer and has already rebounded strongly in the first two weeks of 2019.

FedEx (-35%, -2.22%, -33%, -2.17%), the transportation and logistics company, fell in the fourth quarter and for the year. Express revenues missed expectations after weakness in all the major Euro economies and what CEO Fred Smith called "bad political choices" weighed down international trade. These headwinds caused the company to lower earnings per share guidance by 8%. The stock's sharp decline

ignored that the Ground segment, the largest part of our appraisal, reported strong high-teens earnings growth. FedEx's Freight segment also performed very well with EBITDA (earnings before interest, taxes, depreciation, and amortization) up over 20% in 2018. If the weakness in international trade persists, Ground should still grow revenues and margins. Because Amazon, another perceived risk to FedEx, constitutes less than 5% of company revenue, Amazon's internal delivery development will have minimal effect on results. The company has a solid balance sheet and the potential to go on offense with share repurchase at these prices.

CK Hutchison (-21%, -1.53%, -17, -1.16%), a Hong Kong based conglomerate of telecommunications, health & beauty, infrastructure, global ports and energy, fell during the final quarter and the year. While a trade war between China and the U.S. will pressure less than 5% of its Ports business, concerns of this trade tension generated broad negative sentiment around Asian stocks. In Italy, the company's Telecommunications business struggled as a tough macro environment and increased competition from a new entrant pressured prices. In the second half of the year, declining oil prices impacted Husky Energy, the Canadian energy associate of CK Hutchison. These short-term headwinds negatively impacted sentiment, but the overall company's cash flow, as well as management's capital allocation decisions, helped our appraisal grow in the mid-single digits for the year. Chairman Victor Li sold CK Hutchison's interests in several infrastructure projects at 12X EBITDA and redeployed the proceeds to acquire the Italian telecom joint venture at 5x EBITDA. The company also repurchased its discounted shares for the first time in almost two years.

LafargeHolcim (-25%, -1.49%, -17%, -0.95), the largest global cement, aggregates and ready-mix concrete producer, was a 2018 detractor after a notable decline in the fourth quarter. Weaker cement demand in Latin America, the Middle East and Africa, as well as higher energy and transportation costs, globally impacted profits. With two thirds of consolidated revenues (but a smaller % of the net value) tied to emerging markets, broader EM concerns heavily contributed to the stock price weakness. CEO Jan Jenisch believes efficiency gains and pricing will offset cost inflation. The cost savings program is ahead of target, and Aggregates and Ready-Mix margins are improving. The company's North American business, which represents over one quarter of our appraisal, grew profits during the year. The company announced the sale of its Indonesian assets at an attractive price, and management plans for additional divestments over the next two years, providing meaningful cash proceeds to reinvest.

Affiliated Managers Group (-32%, -1.37%, -28%, -1.16%), the owner of diverse investment firms, declined following our third quarter purchase and was among the Fund's notable 2018 detractors. We purchased AMG, which we previously owned, in the third quarter. Asset-manager stocks fell as indices went down in the fourth quarter. AMG's intrinsic value is not tied to index performance, but instead to the differentiated outcomes at concentrated value managers (like ValueAct and Yacktman), quantitative strategies (AQR and Winton), international stock pickers (Tweedy Browne and Harding Loevner) and several other strong funds not directly correlated with public equities or fixed income. The various managers within AMG have long-term records of outperforming the S&P 500 that should drive asset growth, as should expanded international distribution. We have solid partners in CEO Nate Dalton and CFO Jay Horgen, a business that can grow with minimal capital and a deeply discounted stock.

CNX (-22%, -1.35%, -20%, -1.30%), the Appalachian natural gas company, detracted for the year. The stock declined after reporting an 8.5% increase in capital expenditure guidance during the second quarter. Additionally, nearly all energy stocks had a sharp selloff following the fourth quarter's commodity price volatility. CEO Nick DeIuliis took advantage of the dislocation by repurchasing over 16% of CNX's outstanding shares in the 12 months ended in October. Our appraisal increased with the company's growth in cash flow. In June, CNX sold its Ohio Utica acreage for a good price. The company has other non-core assets to monetize in coming years. Most production is hedged several years out, helping to insulate the business's value from declines in the gas strip. The stock trades at below half of our appraisal.

CNHI (-31%, -1.32%, -25%, -1.12%), the maker of Case and New Holland agriculture equipment (AG) and Iveco trucks (CV), was a detractor in the quarter and for the year. The U.S.-China trade tension threatened tariffs that would impact AG purchases by U.S. farmers. Tariffs remain uncertain and if imposed, may have less impact than anticipated because of offsetting subsidies and current equipment demand from less discretionary replacement needs after a several year downturn. CNHI is in a solid position to withstand the potential challenge with an investment grade balance sheet, balanced channel inventory and positive pricing and product mix trends. New CEO Hubertus M. Mühlhäuser sees opportunities to improve margins. The company returned excess capital to shareholders in the form of dividends and buybacks. The company also has upside from streamlining its disparate non-AG assets via either sales or spin-offs.

CenturyLink (2%, -0.65%, -26%, -3.25%), the telecommunications company, was a fourth quarter detractor, but ended slightly up for the year after substantial gains earlier in 2018. The stock declined after third-quarter revenues came in below expectations, but our appraisal rose with 7% yearly EBITDA growth as higher margin revenue within the Enterprise segment increased and consolidated free cash flow (FCF) nearly doubled year-over-year. CenturyLink's FCF is more than $3.00 per share and growing, yet the stock trades around $15. Revenues declined in part because the company wisely exited unprofitable business lines, prioritizing capital efficiency and deleveraging over top line growth. The dividend moved back up to a mid-teens yield with minimal chance of any cut. We expect consolidated EBITDA to grow by a low-single digits percentage next year, but within that number we believe high-value Enterprise fiber revenues and cash flows will grow above that, making up for the low-quality legacy landline run off. CenturyLink remains an overweight position given its deep discount and the quality of both its management team, led by CEO Jeff Storey, and its fiber assets, which we believe are of high strategic value to numerous infrastructure investors

Portfolio Activity

Swings in stock prices generated portfolio activity in 2018, ultimately driving cash from 23% to 2%. We sold three investments – Wynn and Chesapeake in the first quarter and CONSOL Energy in the third – and trimmed seven other holdings that performed well during the first nine months. We bought Park and Comcast in the first quarter, AMG in the third, and two undisclosed companies in the fourth. All five new holdings are "recycles" that we successfully invested in previously. Recycles tend to have fewer surprises since we have closely followed the business as owners and have already deeply engaged with our management partners.

Outlook

As co-investors in the Fund, we are neither pleased nor complacent about the 2018 return, but we firmly believe that the portfolio is positioned well for future absolute and relative results. First, a P/V at this level is rare, and we think portends an exceptional next few years. Second, the Fund's cash position is below 5%, and our on-deck list of prospective qualifiers has more than a dozen possible opportunities. Third, numerous companies in the portfolio either have corporate transactions in process or are good candidates for prospective activity over the next few years, with capable

management partners who can control their own destiny in terms of value realization. We are working with boards and leaders at certain holdings to accelerate this realization.

The Partners Fund is a compelling opportunity, with more prospective investments than cash. Consequently, we re-opened the Fund to new investors effective January 30, 2019. We believe that partners who invest now could be greatly rewarded, as the best time to hire a manager with a good long-term record often is when their record looks the worst.

See following page for important disclosures.

**Quarter-ends since 1993 were identified where the Partners Fund's "price-to-value ratio" (P/V) was less than 60%. From each quarter end identified, the 1, 3, and 5 year cumulative returns for the Fund and the S&P 500 were calculated. Those returns were then averaged and the 3 and 5 year returns were annualized. Current circumstances may not be comparable.*

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.

The S&P 500 Growth Index represents the companies of the S&P 500 Index that are considered to have growth characteristics (e.g., using earnings per share growth rate and sales per share growth rate).

The S&P 500 Value Index represents the companies of the S&P 500 Index that are considered to have value characteristics (e.g., using book value to price and earnings to price).

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.

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

As of December 31, 2018, the top ten holdings for the Longleaf Partners Fund: CenturyLink, 10.8%; CK Hutchinson, 7.6%; GE, 6.9%; CNX Resources, 6.1%; LafargeHolcim, 5.9%; FedEx, 5.7%; Mattel, 5.7%; Affiliated Managers Group, 4.8%; Alphabet, 4.8%; Fairfax, 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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