September 30, 2017

3Q17

Longleaf Partners Small-Cap Fund Commentary

Longleaf Partners Small-Cap Fund gained 2.08% in the third quarter versus the Russell 2000 Index's 5.67% return. Not owning the index's biggest performers and a high cash position were the primary reasons for the Fund's shortfall rather than declines at portfolio holdings. Among the Fund's stronger performers, the common thread was corporate actions aimed at building and gaining recognition for value per share.

We exited two investments - Scripps and Everest Re - that reached our appraisal over the last three months. We also trimmed Wynn Resorts, the Fund's best performer YTD. We initiated a new position (still undisclosed) late in the quarter and added to three other holdings.

The Fund's high cash and limited purchases do not properly reflect the activity level of our analyst team or the opportunity set we are seeing. Our on-deck list of companies that meet our qualitative criteria and are within 10-15% of our required discount grew over the quarter. Our team has assessed numerous companies whose stocks reflect uncertainty, including a variety of businesses that may be impacted by Amazon's retail model, the development of ride sharing and electric vehicles, continued low energy prices, and the multitude of viewing options for media content. Additionally, investors' manic search for yield and dividend stability has created opportunities where companies have cut or are at risk of cutting their dividends.

Almost all of the difference between Fund and index returns occurred in September when the Russell 2000 rose over 6% as optimism over the prospect of corporate tax cuts fueled a small cap rally. A similar surge occurred in late 2016 following the election. Both times, the Small-Cap Fund rose well above inflation plus 10%, but not as much as the index. Those two brief periods accounted for essentially all of the Fund's relative shortfall in the last year. Because the global scope of most larger companies leads to lower tax rates than smaller U.S. based firms pay, smaller caps are assumed to be a bigger beneficiary of a tax cut. Within the Fund's portfolio, a number of our companies already enjoy a tax rate below 35% because of offshore profits (Wynn, OCI, Formula One, and Actuant) and net operating losses (Level 3, Kodak, CONSOL, and ViaSat), or they are real estate firms for whom this debate is less meaningful (Hopewell, Park, and Deltic). As we model the impact of a tax cut on smaller businesses beyond what we own, the size of any benefit is much less than the index's jump. Most smaller companies have weaker competitive moats, and we believe the money saved in taxes would likely to be spent fighting for share. Customers of these companies would be the beneficiaries with lower prices or better services, but shareholders would not necessarily see profits increase in line with the tax decrease.

The Fund's long-term potential to outperform will be due largely to our concentrated, bottom up approach that makes the portfolio and performance drivers dramatically different from the index (as evidenced by the historic 95+ active share). We believe the Small-Cap Fund is currently more attractively positioned than the Russell 2000, which sells well above average historic multiples and at a record high level. Health Care and Financials, two areas whose future outlooks are generally difficult to assess, constitute one-third of the index and were two of its main return drivers in the quarter. Because of our higher hurdle for companies in these sectors and our belief that they currently trade at elevated valuations, the Fund has no exposure to Health Care or Financials (we sold our only position in the quarter). Because of the Fund's flexibility to own companies outside of the index such as foreign domiciled businesses and REITs, a large portion of the Fund's holdings, including two of the top three performance drivers in the quarter, are not part of the inflated Russell 2000 Index. The Fund's cash is also an advantage, providing liquidity when we find new qualifiers, but also acting as a buffer in the event that the 9+ year bull market reverses course.

Contributors/Detractors

(3Q portfolio return; 3Q Fund contribution)

Scripps Networks, (+29%,+0.92%) the owner of leading cable channels including HGTV, The Food Network, and the Travel Channel, was the Fund's leading contributor after Discovery offered to acquire the company for $90 per share in cash and stock. The price was above our appraisal, and we sold the position. When we first purchased Scripps in 2011, a brief ratings drop and international investments obscured the sustained profitability of Scripps's unique content. Over our holding period, Scripps added new viewers and grew advertising revenue, but industrywide pay TV subscribers declined more quickly than we anticipated. We consequently

Average Annual Total Returns (9/30/17): Since Inception (2/21/89): 11.05%, Ten Year: 7.57%, Five Year: 12.99%, One Year: 11.29%

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 ratios for the Longleaf Partners Small-Cap Fund is 0.91% The expense ratio is subject to fee waiver to the extent normal annual operating expenses exceed 1.50% of average annual net assets.

lowered our multiple on the business. The margin of safety in our initial purchase price combined with the company's conservative balance sheet helped preserve capital and book a 135% gain in spite of the industry challenges that developed.

Deltic Timber (+19%,+.062), a natural resource company with timber assets, mills and development property in Arkansas and northern Louisiana, was another contributor. Southeastern amended our 13-D noting that Deltic had received at least one proposal from an interested acquirer and stating dissatisfaction with the company's response as well as various actions of management and the Board. In response, the company acknowledged being approached by interested parties and said it is evaluating external and internal strategic alternatives. The stock market has recognized the merits of our engagement with management and the Board, and we are hopeful that the value of Deltic's assets will be unlocked soon.

CONSOL Energy (+13%,+0.60%), experienced significant price volatility over the last three months, but ended the quarter as a top contributor, in spite of reduced production and operating cash flow guidance for 2017 and forward gas prices remaining weak. To the positive, not only did CONSOL reiterate its 2018 gas production guidance, but management announced several beneficial transactions that investors welcomed. First, the company reached its target range for 2017 asset sales and intends to close more in the remaining four months. Second, the planned separation of the coal business should be completed via a spin off before year-end. Third, the board authorized a share buyback equivalent to 6% of the company. Because of the lower long-term pricing for gas, we reduced our appraisal of the company, but CONSOL remains among the most discounted businesses we own, selling below its peers and building value through its free cash flow coupon and management's capital allocation.

Level 3 Communications (-10%,-0.84%), the global fiber and integrated communications network company, was the only notable detractor from the Fund's return in the quarter. In anticipation of the close of CenturyLink's (CTL) purchase of the company, we maintained an overweight 8% position which magnified the impact of the stock's decline. Because we will receive approximately half of the transaction in cash, the combined company will become a more normal 4-5% position. In the quarter, Level 3's price reflected concerns about final deal approvals and a potential CTL dividend cut post-deal (as inferior competitors have cut dividends this year). On the first day of the fourth quarter, the Department of Justice gave a key approval to the merger. The prospective cash flow from the combination with Level 3 should easily cover CTL's current dividend which was otherwise in question given its declining legacy land line business. The dividend is irrelevant to the company's underlying value and has taken on undue importance in this environment of intense yield chasing. We anticipate that the deal will close and believe the new CTL will be the preeminent global fiber network solutions company with an extraordinarily capable management team, including Level 3 CEO Jeff Storey.

Portfolio Changes

During the quarter, sales exceeded purchases. In addition to selling Scripps, we exited Everest Re, the Bermuda-based reinsurer, when it reached our appraisal in late July – fortuitously before the season's hurricanes struck. This investment gained over 180% over our 13 year holding period in spite of the Global Financial Crisis, a historically unprecedented decline in interest rates, and new competitors flooding the industry with capital. The resulting lower bond returns and softer pricing caused us to reduce our appraisal multiple on book value. In spite of the challenges, our partners, Chairman Joe Taranto and CEO Dom Addesso, used their operating and capital allocation expertise to consistently grow book value with intelligent underwriting and opportunistically reduce the share count by over 25%.

We trimmed Wynn Resorts to keep it a more normal weight after being the strongest performer by far year-to-date, up 74%, and gaining 61% over the last 18 months. Wynn was one of the Fund's worst performers in 2015 and early 2016. Wynn exemplifies how Southeastern uses our 3-5 year time horizon as an advantage when near-term fears dominate a stock's price. In early 2016, Wynn Macau drove Wynn's stock price as Macau experienced a substantial drop in VIP revenue following China's anticorruption campaign. The price ignored the longer term increase in much more profitable mass gamblers and the growth in visitors that construction of the new Wynn Palace and infrastructure would bring. Less than two years later, the Palace has averaged over 95% occupancy in 2017, and mass gaming revenue has grown double digits. VIP visitors also have increased from their low levels. Wynn remains below our appraisal because of the value growth at its operating properties both in Macau and Las Vegas, and because of the time horizon arbitrage opportunity we now have between earnings over the next twelve months and higher profits over 3+ years as the current construction in progress (Boston area casino and Vegas golf course redevelopment) starts to generate revenues.

We added to several of our most discounted companies, including Park Hotels, Neiman Marcus bonds, and ViaSat. We initiated one new, undisclosed position. The company reached our requisite discount because of previous management's missteps over the last several years, dividend uncertainty, and Amazon-related fears. This new investment illustrates some of the ways we can find quality businesses at deep discounts even as the broader market climbs to new highs.

Outlook

The Fund's flexibility to look different from the index and our bottom up, valuation driven discipline should allow the Longleaf Partners Small-Cap Fund to earn strong absolute returns that we believe can outperform the index over the long term as it has for most of the Fund's 28 year history. The companies we currently own offer additional attractive upside given their P/V in the mid-70%s and the value growth that our management partners are capable of delivering. The 28% cash position does not anticipate a market correction, nor do we require a downturn to find qualifiers. Our edge comes in identifying the best stock-specific opportunities rather than in investing in broadly discounted markets. Our growing on-deck list contains a number of prospective investments simply waiting on prices to move in our favour, which could happen if individual companies disappoint investors, dispersion within the market leaves areas of undervaluation, or a broad pullback occurs. Whatever way discounts emerge, we believe each new investment can provide the Fund additional foundation for successful future compounding.

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.

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

Operating Cash Flow (OCF) measures cash generated by a company's normal business operations

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.

A 13D filing is generally required for any beneficial owner of more than 5% of any class of registered equity securities, and who are not able to claim an exemption for more limited filings due to an intent to change or influence control of the issuer.

The Global Financial Crisis (GFC) is a reference to the financial crisis of 2007-2008.

As of September 30, 2017, the top ten holdings for the Longleaf Partners Small-Cap Fund: Wynn, 5.1%; Formula One, 4.9%; OCI, 5.8%; CONSOL, 4.4%; Level 3, 8.1%; SEACOR, 0.3%. 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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