Longleaf Partners Small-Cap Fund

Quarterly Summary Report

For the Quarter Ended
December 31, 2018

Longleaf Partners Funds

January 8, 2019

Longleaf Partners Shareholder Letter

4Q18

Longleaf Partners Funds

Widespread market declines hurt investors in public equities in 2018. As the year progressed, trade wars, U.S. interest rate increases, geopolitical unrest, fears of economic slowdowns in multiple countries, including China, and falling oil prices were among the primary headlines pressuring equity prices around the world. The U.S. significantly outperformed other regions in the first nine months of the year, particularly with the strengthening dollar, but the worldwide downturn in the fourth quarter most impacted the U.S. market. By the end of the year, broad indices around the world were in negative territory, but U.S. large caps outperformed once again, further increasing the value disparity in which the S&P 500 has almost tripled the EAFE Index over the last decade.[1] Even so, 2018 was a big deviation from the 16 percent average annual returns for the S&P 500 that U.S. large cap investors had become accustomed to over the prior five years.

	1 Year	4Q
Partners Fund	-17.98%	-20.67%
S&P 500 Index	-4.38	-13.52
Small-Cap Fund	-6.52	-15.55
Russell 2000 Index	-11.01	-20.20
International Fund	-7.08	-9.90
MSCI EAFE Index	-13.79	-12.54
Global Fund	-16.16	-17.22
MSCI World Index	-8.71	-13.42

Past performance does not guarantee future results.

[1] 10-Year cumulative return for S&P 500 was 243% and for MSCI EAFE was 85%. The S&P 500 outperformed the MSCI EAFE Index on an annual basis in seven out the past ten years.

Average Annual Total Returns (12/31/18) Partners Fund: Since Inception (4/8/87): 9.54%, Ten Year: 10.19%, Five Year: -0.52%, One Year: -17.98%. Small-Cap Fund: Since Inception (2/21/89): 10.38%, Ten Year: 14.49%, Five Year: 5.34%, One Year: -6.52%. International Fund: Since Inception (10/26/98): 7.09%, Ten Year: 5.83%, Five Year: 0.33%, One Year: -7.08%. Global Fund: Since Inception (12/27/12): 4.83%, Ten Year: na, Five Year: 0.68%, One Year: -16.16%. *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%.*

The Longleaf Funds were not immune to the broad price declines. Strong stock performance at several portfolio companies was not enough to offset negative pressures, and all four Funds were down for the year. The International Fund and Small Cap Fund performed significantly better than their respective indices' double-digit retreats, partially due to portfolio companies being acquired. The Partners and Global Funds underperformed the single-digit declines of their benchmarks, in part because of more exposure to stocks outside the U.S. The Funds continued to battle the longstanding challenges of passive inflows at the expense of active managers, growth outperforming value and U.S. stocks overshadowing those offshore. The biggest performance detractors were those companies that missed expectations and/or lowered guidance, which the market punished particularly severely in the fourth quarter. Among the causes for disappointments were revenues associated with emerging markets, particularly China, companies undergoing some type of corporate or industry structural change and industrial businesses. The commentary for each Fund provides a more robust discussion of specific performance drivers.

2018 results did not reflect the progress within our portfolios, where we put cash to work and repositioned into more heavily discounted and/or qualitatively attractive opportunities over the course of the year. Early in the year, we locked in gains at several investments that successfully reached our appraisals - Wynn, CONSOL Energy, Sonic and Forest City in the U.S. and Yum China overseas. In the second half, we sold additional non-U.S. winners, including Hikma, Ferrovial, Vocus and Televisa. We deployed cash on hand and proceeds from sales into new investment opportunities that emerged as world uncertainty increased and into existing holdings that became more discounted. We purchased five new companies in the Partners Fund, all of which are "recycled" businesses that we previously owned, five in Small-Cap (two recycles), four in Global (two recycles) and an unusually high thirteen in International (two recycles). We believe these new investments across the Funds add to the foundation for future compounding. Cash ended the year below 5% in Partners, International and Global, and down from 23% to under 9% in Small-Cap. Additionally, portfolio repositioning and value growth amid stock price declines helped the price-to-value (P/V) ratio move into the low-60s% for the International Fund and the 50s% for Partners, Small-Cap and Global, a somewhat rare level that has historically preceded strong returns.

Just as performance did not reflect portfolio enhancements, we believe the stock prices of most companies in the Funds did not indicate the positive progress that our companies and management partners made throughout the year. Stronger CEOs were secured at CenturyLink, GE, CNH and Mattel. Several businesses sold assets for attractive prices, including Allergan, Park Hotels, Kodak, Fairfax, CK Asset, CK Hutchison, EXOR, LafargeHolcim, United Technologies, Baidu and GE. United Technologies, Belmond, thyssenkrupp, Bharti Infratel and GE announced company breakup/simplification plans, while Forest City, Sonic and Belmond were acquired near our appraisal values. Importantly, the primary business segments at most of our core holdings

grew – Enterprise at CenturyLink, Cable at Comcast, Search and YouTube at Alphabet, Retail at CK Hutchison, Barbie and Hot Wheels at Mattel, Broadcasting and Kaplan International at Graham Holdings, Botox at Allergan, Ground at FedEx, Core Search at Baidu, Agriculture at CNH, Bearings at MinebeaMitsumi, North American Cement at LafargeHolcim, Aviation and Healthcare at GE, Partner Re at EXOR, North American Fertilizer at OCI and Mass Gaming at Melco. As their stock prices became more discounted, numerous companies we own repurchased shares, thereby increasing the remaining value per share. We believe growing free cash flow and earnings per share eventually should translate into stock prices that properly reflect value, whether by investor re-rating, much higher earnings than currently being delivered or corporate partners taking action to gain value recognition.

Choppy markets and the economic uncertainty that feeds them could last for a while. While many CEOs we talk to are optimistic about revenue growth, they are cautious about rising labor and materials costs on a local level and general increases in barriers to trade and geopolitical friction potentially impacting revenue and margins. We believe the best way to manage against investment risk is to know what we own very well and incorporate conservative-to-skeptical assumptions about the future. Investing in a limited number of companies, having a broad and deep research network and engaging with managements are critical advantages in providing the knowledge that may prevent permanent losses over the long term. In our process we always consider external challenges that could deteriorate competitive positions, such as technology, government regulation, higher tariffs and general geopolitical tensions. Most importantly, we have partnered with management teams who, in our view, can control their own destiny in terms of value realization, and we are working with boards and leaders at certain holdings to accelerate this realization.

We are neither pleased nor complacent about 2018 returns. As your largest co-investors in the Longleaf Funds, it is our view that the momentum style and passive investing that have dominated for the past decade are overdue for a reversal. We believe that the attractive P/V of our portfolios, combined with the underlying strength of the businesses we own and the management teams leading them, can generate strong absolute and relative results going forward and the payoff for 2018 company-level and portfolio-level progress is deferred but not lost.

Enhancing Communications with Clients

Our Governing Principles state that we will “continue our efforts to enhance client and shareholder services” and “communicate with our investment partners as candidly as possible.” To that end, we are adjusting our communications to provide the most relevant information in a timely and convenient manner. Going forward, we will continue to provide a quarterly commentary with detailed discussion of each Fund’s strategy, individual positions and performance each period. We will move our more general quarterly shareholder letter to a year-

end review, providing an overview of the year that includes broader market, strategy and portfolio-wide observations.

In addition, we have launched The Price-to-Value Podcast, which is available on our website or wherever you download podcasts. We will produce monthly podcasts to discuss current topics that are top of mind for our clients. Please send any suggestions for topics to podcast@SEasset.com. For those who prefer to read, rather than listen, transcripts are available on our website.

Succession Planning

We have thought a great deal about and discussed Southeastern's management succession and the firm's future leadership for almost a decade. As part of our planning, we are pleased to announce that Ross Glotzbach transitioned from President to CEO of Southeastern, effective January 1, 2019. We have made this important decision now because we believe Ross is the right person to lead our company and because we have developed effective department leaders and officers in COO Steve Fracchia, CFO Jessica Pressgrove, CCO Mike Wittke, General Counsel Andy McCarroll, Head of Risk Management Jim Barton, Jr., Head of Client Relations Gwin Myerberg and Head of Trading Doug Schrank. This experienced team will allow Ross to focus on investing and continue leading our global research efforts.

Ross has been an important contributor to our investment process over the past fifteen years in his roles as an analyst, Co-PM on the Small-Cap Fund (since 2014) and Partners Fund (since 2017) and Head of Research (since 2016). Effective January 1, he also became a Co-PM on the Global Fund. Ross is greatly respected by all our associates, is a humble team builder, leads by asking wise questions and is quick to give credit to others, while immediately taking responsibility for challenges. Most importantly, we are confident that Ross will protect our partnership culture and improve the execution of our long-term, concentrated, engaged value investing disciplines.

We also believe it is important for Southeastern to remain independent, so we can continue to work for our clients without distraction and provide career opportunities for our team members. Ross is assuring the firm's independence by buying a more significant stake in the company from Mason Hawkins, who remains the Chairman and largest shareholder. Vice-Chairman Staley Cates will remain the second largest owner of Southeastern.

These changes and the competency of our department heads will give Mason and Staley more time to do what they love for many years to come - read, think, discuss investment opportunities and engage with our corporate partners. Both continue to serve as Co-PMs on all four Longleaf Partners Funds and sit on Southeastern's Executive Committee, along with Ross, Steve Fracchia and Josh Shores.

We encourage you to listen to the Price-to-Value Podcast Episode 5: Three Generations of Leadership (available on our website or wherever you listen to podcasts) for a more robust discussion with Mason, Staley and Ross about Southeastern's leadership succession and outlook.

It is rare for an investment firm to have three experienced generations of investment leaders actively engaged. Mason, Staley and Ross are committed to ensuring the next four-plus decades at Southeastern are as fruitful as our first 43 years. Our ownership and responsibility transitions enable Southeastern to remain independent. As the largest investors in the Longleaf Funds, it is our belief that the firm's continuity and stability will enable us to deliver superior results, both in the near term and over decades.

See following pages 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.

Information in this letter regarding market or economic trends, or the factors influencing historical or future performance, reflects the opinions of management as of the date of this report. These statements should not be relied upon for any other purpose. Past performance is no guarantee of future results, and there is no guarantee that the market forecasts discussed will be realized. 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.

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. For example, a ratio of 60% would indicate a stock price at 60% of Southeastern's appraisal. 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.

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.

Earnings per share (EPS) is the portion of a company's net income allocated to each share of common stock.

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%. Longleaf Partners Small-Cap Fund: Graham Holdings, 8.8%; Hopewell, 7.5%; CenturyLink, 7.2%; Liberty Media, 6.7%; OCI, 6.4%; Kodak, 5.1%; Summit, 5.1%; Lazard, 4.9%; Mattel, 4.8%; ViaSat, 4.7%. Longleaf Partners International Fund: EXOR, 7.8%; Melco, 7.2%; CK Hutchison, 6.9%; LafargeHolcim, 6.2%; MinebeaMitsumi, 6.1%; Millicom, 5.8%; Vestas, 5.7%; Belmond, 4.9%; Bollore, 4.8%%; CK Asset Holdings, 4.8%. Longleaf Partners Global Fund: CenturyLink, 8.6%; EXOR, 7.9%; Melco, 7.3%; Vestas, 6.9%; CK Hutchison, 6.9%; GE, 5.8%; FedEx, 5.4%; Fairfax, 4.9%; Alphabet, 4.8%; LafargeHolcim, 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.

Funds distributed by ALPS Distributors, Inc.

LLP000844
Expires 4/30/2019

Summary - December 31, 2018

Longleaf Partners Funds

4Q18 Longleaf Partners Small-Cap Fund

(Closed to New Investors)

(800) 445-9469 / longleafpartners.com

Long-Term / Concentrated / Engaged / Value

Founded in 1975, Southeastern Asset Management is an independent, global investment firm managing $14.1 billion. Partnership is core to all that we do, and Southeastern's employees and related entities are the largest investors across the Longleaf Partners Funds. Our team of 14 research analysts are generalists, tasked with finding the best bottom-up opportunities across the globe.

The Fund seeks to own a concentrated portfolio of our best 18-22 ideas that meet our Business, People, Price investment criteria. We invest with a 3-5 year investment horizon and take advantage of short-term volatility to own high quality businesses, run by capable management teams, whose stock prices are trading temporarily at a discount. Our extensive, global network allows us to engage with our management partners to help drive long-term value creation.

Fund Profile

Investment Style	US small-cap value
Ticker	LLSCX
Inception Date	February 21, 1989
Net Assets	$3.1 billion
Expense Ratio	0.92%
Turnover (5 yr avg)	38%
Weighted Average Market Cap.	$4.7 billion

Holdings (17)

	Activity*	Weight
Graham Holdings		8.8 %
Hopewell		7.5
CenturyLink		7.2
Formula One Group		6.7
OCI		6.4
Eastman Kodak *(preferreds/common)*		5.1
Summit Materials	+	5.1
Lazard	+	4.9
Mattel	+	4.8
ViaSat		4.7
Park Hotels & Resorts		4.7
PotlatchDeltic	NEW	4.7
CNX Resources		4.4
GCI Liberty	+	4.3
Realogy		4.3
Actuant		3.9
Neiman Marcus *(bonds)*		3.8
Cash		8.7
Total		100.0%

*Full eliminations include the following positions: None.

Holdings are subject to change and discussion of holdings are not a recommendation to buy or sell any security. Holdings are subject to risk. Funds distributed by ALPS Distributors, Inc.

Sector Composition

Real Estate	21.2 %
Communication Services	18.2
Consumer Discretionary	17.4
Materials	11.5
Information Technology	9.8
Financials	4.9
Energy	4.4
Industrials	3.9
Cash	8.7

Performance Contribution

Top Contributors	Return	Portfolio contribution
Hopewell	35%	1.60%
Graham Holdings	11	0.59

Top Detractors	Return	Portfolio contribution
OCI	-36%	-2.78%
Mattel	-36	-2.22
CenturyLink	-26	-2.15

Performance at 12/31/18

	Total Return		Average Annual Return					
	Qtr	YTD	One Year	Five Year	Ten Year	15 Year	20 Year	Since Inception
Small-Cap Fund	-15.55%	-6.52%	-6.52%	5.34%	14.49%	8.65%	9.32%	10.38%
Russell 2000 Index	-20.20%	-11.01%	-11.01%	4.41%	11.97%	7.50%	7.40%	9.03%

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 may be worth more or less than their original cost. Current performance of the fund may be lower orhigher than the performance quoted. Performance data current to the most recent month end may be obtained by visiting longleafpartners.com.

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 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.

LLP000868 expires April 30, 2019

January 21, 2019

Longleaf Partners Small-Cap Fund Commentary

4Q18

Longleaf Partners Small-Cap Fund fell -15.55% in the fourth quarter, bringing the 2018 return to -6.52%. The Fund significantly outperformed the Russell 2000 Index in both periods. The Index declined -20.20% and -11.01% respectively. Few stocks escaped the market decline in the fourth quarter as trade wars, U.S. interest rate increases, geopolitical unrest, fears of economic slowdowns in multiple countries, including China, and falling oil prices were among the primary headlines pressuring equity prices around the world.

The Fund's outperformance was primarily driven by transactions at two holdings during the year. Additionally, the cash position that previously had been a drag on relative returns became a benefit, not only because it helped buffer performance in the downturn, but also because it provided the liquidity to buy new positions as more qualifiers emerged. The Fund's negative absolute return came primarily from companies that missed expectations. The market punished companies that disappointed particularly severely in the fourth quarter.

2018 results did not reflect the progress in the portfolio. During the year, we sold four investments that successfully reached our appraisals. We deployed proceeds from these sales, plus a large part of the 22% cash in the Fund at the outset of the year, into five new qualifiers and several more discounted holdings. Cash ended the year under 9%. Portfolio repositioning and value growth amid stock price declines helped the price-to-value (P/V) ratio move into the 50s%, a somewhat rare level that has historically preceded strong absolute and relative

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Average Annual Total Returns for the Longleaf Partners Small-Cap Fund (12/31/18): Since Inception (2/21/89): 10.38%, Ten Year: 14.49%, Five Year: 5.34%, One Year: -6.52%. Average Annual Total Returns for the Russell 2000 (12/31/18): Since Inception (2/21/89): 9.03%, Ten Year: 11.97%, Five Year: 4.41%, One Year: -11.01%. 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 ratios for the Longleaf Partners Small-Cap Fund is 0.92%.

returns.

Just as performance did not reflect portfolio enhancements, the stock prices of most companies did not indicate what we view as positive progress made by our companies and management partners throughout the year. CEOs whom we view as stronger were secured at CenturyLink and Mattel. Park Hotels and Kodak agreed to sell assets for attractive prices. Forest City, Sonic and Hopewell were acquired or agreed to go private at strong premiums. Importantly, the primary business segments at most of the Fund's core holdings grew – Enterprise at CenturyLink, Barbie and Hot Wheels at Mattel, Broadcasting and Kaplan International at Graham Holdings and North American Fertilizer at OCI. As their stock prices became more discounted, numerous companies in the Fund repurchased shares, thereby increasing the remaining value per share.

Choppy markets and the economic uncertainty that feeds them could last for a while. To manage investment risk, we incorporate conservative-to-skeptical assumptions about the future, invest in a limited number of companies, have a broad and deep research network and engage with managements. We believe that the Fund's compelling P/V, combined with the underlying strength of the businesses we own and the management teams leading them, can generate strong absolute and relative results going forward and that the payoff for 2018 company-level and portfolio-level progress is deferred but not lost.

Contributors/Detractors

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

Sonic (61%, 2.26%, -, -), the quick service restaurant franchise, was the Fund's largest contributor for the year. Southeastern first bought shares in late 2016, when competing brands' discounting and unit expansion weighed down Sonic's system-wide sales growth. CEO Cliff Hudson and his team did good work as they revamped marketing, improved the menu, sold company-owned stores to franchisees, released a mobile app and consistently bought back shares at low earnings multiples. In 2018, Sonic reported growing sales, sending the stock 30% higher in a week. In September, private-equity firm Inspire Brands announced its acquisition of Sonic near our appraisal, and we sold the stock at nearly double the Fund's cost.

Hopewell Holdings (35%, 1.68%, 35%,1.60%) a Hong Kong-listed property company, was the primary contributor for the fourth quarter and among the top performers for 2018. On the final day of 2017, Hopewell announced the sale of its Hopewell Highway Infrastructure toll road company for 20% above our appraisal, and part of the proceeds went to a special cash dividend of HK$2 per share when the deal closed in April. In December, the founder, Gordon

Wu, offered HK$38.8 per share to buy out other shareholders and privatize the company. Independent shareholders will vote later in 2019 on the offer, and we are not opposed.

Realogy (-43%, -2.28%, -29%, -1.41%), the owner of leading real-estate franchises like Coldwell Banker and Century21, fell during the year. The company missed third-quarter EBITDA (earnings before interest, taxes, depreciation, and amortization) expectations and lowered full-year guidance by 5% after weaker existing home sales in coastal markets hurt the owned brokerage and title insurance segments. However, Realogy's franchise segment, the most important part of our appraisal, held up well despite the more difficult real estate environment in the wake of higher interest rates and changes in tax laws related to real estate deductions. CEO Ryan Schneider used the large free cash flow (FCF) coupon to repurchase shares at a mid-single digit FCF multiple. Realogy also launched two new brokerage brands for luxury and urban millennial sales this year. We remain confident that the value of this business will grow long-term with home prices and as millennials migrate to home ownership. Fears that online tools for viewing and advertising homes will displace realtors have been overblown as the use of realtors and online tools actually have grown in tandem. We believe that online home-selling economic models may be successful in areas where housing is somewhat standardized, but in most of the U.S., meaningful home variations by city, neighborhood, and even block do not lend themselves to purely online comparisons and transactions.

Mattel (-35%, -2.08%, -36%, -2.22%), 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.

Summit Materials (-34%, -1.60%, -31%, -1.50%), a U.S. cement and aggregates company, declined in the fourth quarter, making it a detractor for the year. We began buying the stock in the third quarter after the company's moderate cut to EBITDA guidance led to a sell off. Flooding and hurricane recovery took longer than anticipated and cost inflation also impacted profits, though Summit had already begun to increase pricing as an offset. Slowing national home construction hurt U.S. building materials companies, but Summit's stock felt more impact because of the company's leverage and lower aggregates mix. Summit owns 2.5 million tons of cement capacity, 10 river terminals and 3.7 billion tons of aggregates reserves. U.S. cement demand is above current capacity, and much-needed infrastructure spending would increase demand substantially. In aggregates, Summit benefits from exclusive local positions in

several large urban markets where it commands significant pricing premiums to competitors who bear additional shipping costs. Summit is not significantly exposed to high-rise construction, the biggest cyclical risk to the industry. In the event of a recession, its public-sector exposure, which comprises 40%+ of its business, should prove more durable. CEO Tom Hill has a strong record of intelligent acquisitions and is using FCF to de-lever the balance sheet. We paid a single-digit FCF multiple and expect the coupon to grow substantially in coming years.

ViaSat (-21%, -1.49%, -8%, -0.44%), the satellite communications company, was a detractor for the year but declined much less than many businesses in the fourth quarter after reporting strong quarterly results. In the Broadband segment, subscribers, ARPU (average revenue per user) and margins all increased. In Government, revenues and earnings grew over 20%. For InFlight, Viasat gained North American commercial aircraft market share beyond 20% for the first time, doubling in only two years. We believe ViaSat's superior inflight internet product should continue to gain business from slower competitors. ViaSat-3, the company's most powerful satellites by orders of magnitude, are scheduled to launch in less than two years, allowing the company to service several thousand government aircraft and offer a competitive broadband product to rural customers around the world.

OCI (-19%, -1.32%, -36%, -2.78%), a global producer of nitrogen fertilizers and natural gas-based chemicals, was the primary detractor in the fourth quarter, primarily due to the decline in the methanol spot price, which is linked to oil. To the positive, non-methanol-related assets, which represent three quarters of the value, did well. African facilities resolved gas supply issues and achieved 95%+ utilization rates. The company sells for less than the replacement cost of its assets and our conservative estimate of the discounted cash flow value. CEO Nassef Sawiris is an owner-operator focused on optimizing the capital structure and generating significant free cash flow.

CenturyLink (2%, -0.04%, -26%, -2.15%), 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 FCF nearly doubled year-over-year. CenturyLink's FCF, which grows beyond inflation, is more than $4.00 per share, 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. (Update at 19 Feb 2019: CTL did cut the dividend to use the cash instead to strengthen the balance sheet. We believe a better way to address the balance sheet is to explore asset sales given the multiples being paid in fiber transactions, and/or to issue tracking stocks for the separate Fiber and Consumer segments to highlight their values and offer the potential to raise capital. Southeastern filed a 13-D to talk to interested buyers and nominate appropriately experienced directors to the board. The

dividend cut did not alter our appraisal of the company or its earnings power.) 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

We exited four successful investments, all prior to the fourth quarter. In addition to Sonic, we sold Wynn Resorts and CONSOL Energy, the coal company. We both bought and sold Forest City, a real estate company that was acquired within a few months of our purchase. We also bought GCI Liberty, Lazard, Summit Materials and one undisclosed position in the fourth quarter. Both Forest City and the undisclosed position are "recycled names" that we previously owned. 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 absolute return, but we firmly believe that the portfolio is positioned well for future absolute and relative results. First, in the relatively rare times when the Fund traded below a 60% P/V in the past, the following one, three and five-year performance averaged well over 300 basis points above the Index annually. More importantly, Fund annual returns averaged in the mid-teens, far exceeding inflation plus 10%*. Second, the Fund's cash position is below 10%, and our on-deck list of prospective qualifiers has more than ten new possible opportunities. Third, we believe that a number of companies in the portfolio are good candidates over the next few years for the types of corporate transactions that have been an important source of the Fund's success over time, including in 2018. Fourth, we anticipate that the results of the strong businesses we own and the management teams leading them can eventually translate into stock prices that properly reflect value, whether by investor re-rating, much higher earnings than are currently being delivered or corporate partners taking action to gain value recognition.

See following page for important disclosures.

**Quarter-ends since 1993 were identified where the Small-Cap 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 Russell 2000 were calculated. Those returns were then averaged and the 3 and 5 year returns were annualized. The results were: 17.73% for 1 year, 15.05% for 3 year, and 16.53% for 5 year for the Small-Cap Fund and 14.36%, 10.79% and 12.81% for the Russell 2000. 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 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.

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. Free cash flow coupon (yield) is a ratio calculated by taking free cash flow per share divided by the share price.

Earnings multiple, also called the price/earnings ratio, is the ratio of a company's share price compared to its earnings per share.

Leverage refers to the use of debt. De-leverage refers to a decrease in debt. Aggregates are materials such as sand or gravel that are ingredients in concrete.

Spot price is the current market price at which an asset, like a commodity, can be bought or sold for immediate delivery.

Discounted cash flow (DCF) is a valuation method used to estimate the attractiveness of an investment opportunity. DCF analysis uses future free cash flow projections and discounts them to arrive at a present value estimate, which is used to evaluate the potential for investment.

As of December 31, 2018, the top ten holdings for the Longleaf Partners Small-Cap Fund: Graham Holdings, 8.8%; Hopewell, 7.5%; CenturyLink, 7.2%; Liberty Media, 6.7%; OCI, 6.4%; Kodak, 5.1%; Summit, 5.1%; Lazard, 4.9%; Mattel, 4.8%; ViaSat, 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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