December 31, 2017

4Q17

Longleaf Partners Funds Shareholder Letter

For a second consecutive year, all four Longleaf Partners Funds delivered solid absolute results in 2017, with the Longleaf Partners, Longleaf Partners International and Longleaf Partners Global Funds exceeding our annual absolute goal of inflation plus 10%. The Global Fund also outperformed its benchmark index for the year. As is normally the case with our concentrated portfolios, business fundamentals at our companies largely accounted for performance. Our absolute returns were particularly notable in a market environment where stocks others call "growth" outperformed stocks categorized as "value" by over 1200 basis points (bps) in the U.S. and 700 bps elsewhere. Information Technology (IT) was a meaningful part of growth's momentum as the sector far outpaced all others. This impacted our relative returns, as did our high cash balance in all four Funds throughout the year.

	One Year	4Q
Partners Fund	**15.51%**	**3.62%**
S&P 500 Index	21.83	6.65
Small-Cap Fund	**8.99**	**1.74**
Russell 2000 Index	14.65	3.34
International Fund	**24.23**	**-0.31**
MSCI EAFE Index	25.03	4.23
Global Fund	**26.33**	**2.64**
MSCI World Index	22.40	5.51

Past performance does not guarantee future results.

Most investments positively contributed to our positive returns during the year. Several of our management partners drove value recognition through mergers, acquisitions, spin-offs, or asset sales, including at Scripps Networks, Fairfax Financial, Deltic Timber, United Technologies and CONSOL Energy in North America, CK Asset, Baidu, and Hopewell in Asia, and Stada in Europe. Some of our biggest performers benefitted as the time horizon arbitrage gap closed. Because stock prices normally reflect earnings expectations for several quarters, our approach of appraising value growth over 3-5 years often provides the opportunity to arbitrage short-term versus longer term assumptions. In 2017, we saw big gains when businesses that previously had non-earning assets (NEAs) as they had invested for future growth, such as Wynn Resorts, United Technologies, EXOR and Melco, or facing cyclical lows, like CNH and OCI just 12-24 months ago, had their capital projects start generating strong earnings and/or their business cycles begin to turn.

Our high cash position throughout the year, as well as our limited exposure to IT, dampened relative performance. Cash is a by-product of our disciplined process. It often grows in periods when many companies are rising closer to our appraisals and high market levels make strong businesses hard to find at deep discounts. Cash provides the ammunition to purchase new investments when they qualify and poses no risk of capital loss while we patiently search for the next opportunities that meet our strict criteria.

A narrow group of companies led the indices higher. This concentration lowered stock correlations, contributing to several new qualifiers and an expanded on-deck list for us, but weighing on our relative results during the year and the fourth quarter. We owned few IT investments — a large part of growth's dominance over value — which was 2017's strongest performing sector by far in the S&P 500, MSCI World, and MSCI EAFE indices. This single sector accounted for approximately 40% of the S&P 500's and over 25% of the MSCI World's one year return. Additionally, because U.S. companies have been fully priced for a while, the Partners, Small-Cap and Global Funds held a higher proportion of companies domiciled elsewhere that already pay less than the current 35% U.S. rate. We, therefore, did not benefit as much from the U.S. market rally driven by tax reform prospects. In the fourth quarter, as capital chased the momentum of IT and companies with higher U.S. tax rates and ignored a few good

Average Annual Total Returns (12/31/17) Partners Fund: Since Inception (4/8/87): 10.58%, Ten Year: 4.74%, Five Year: 9.43%, One Year: 15.51%. Small-Cap Fund: Since Inception (2/21/89): 11.02%, Ten Year: 8.79%, Five Year: 12.60%, One Year: 8.99%. International Fund: Since Inception (10/26/98): 7.89%, Ten Year: 1.37%, Five Year: 6.99%, One Year: 24.23%. Global Fund: Since Inception (12/27/12): 9.61%, Ten Year: na, Five Year: 9.63%, One Year: 26.33%.

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. 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 Funds are: Partners Fund 0.95%, Small-Cap Fund 0.91%, International Fund 1.33%, and Global Fund 1.52%. The expense ratios are subject to fee waiver to the extent a fund's normal annual operating expenses exceed the following percentages of average annual net assets: Partners Fund 1.50%, Small-Cap Fund 1.50%, International Fund 1.75%, and Global Fund 1.65%. Effective May 1, 2016, Southeastern agreed to voluntarily reduce the expense limit to 1.20%. The voluntary fee waiver for the Global Fund may be discontinued at any time.

businesses, we bought four new companies at deep discounts across the Funds, as well as several qualifiers in our Asian and European regional strategies.

Temporarily holding cash or not participating in the broad areas driving markets may impact short-term relative results but has little long-term effect on concentrated, bottom-up owners of qualified public companies. Much more important to our investment outcomes are the businesses we own. Our largest holding across the Partners and Global Funds, and third largest in the Small-Cap Fund, CenturyLink (CTL - formerly Level 3), was one of our few investments that declined during the year, 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 net operating losses (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 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, 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.

Southeastern's Private Equity Approach to Public Markets
CTL illustrates Southeastern's long-term, engaged, concentrated, ownership-oriented value investment discipline. In many ways, our approach is more comparable to how private equity (PE) invests than to the strategies of most public equity managers. A number of our client partners characterize us as taking a PE approach to public markets. The characterization is especially relevant in today's environment, where public equity markets are moving primarily due to momentum, passive flows, and broad optimism rather than on fundamentals. We would go a step further and say that, while our investment discipline is very similar to PE, we offer significant advantages, and the perceived "benefits" of PE – less reported volatility and market correlation – are a mirage.

Southeastern's similarities to PE start with the basic view that we own businesses, not tradeable pieces of paper. We concentrate in our best ideas and, as a result of our deep dive research and engagement, know our companies intimately and work closely alongside our management partners. What we own is based on the bottom up fundamentals of a business without regard to the sectors or countries that are in a market index. We underwrite our appraisals in the same manner as PE, using discounted FCF and sum-of-the-parts valuations-calculations based on in-depth research that includes knowledge of competitors, key suppliers, major customers and company management. We own companies where we believe that the value will grow over the minimum 3-5 year time horizon we have for being owners.

An important parallel to PE but large differentiator to most public equity managers is the emphasis we place on corporate managements/boards and our level of engagement with them. As significant owners of the business, when we believe it can be helpful, we use our over four decades of experience, cumulative knowledge and widespread global network to seek a positive investment outcome. As is true with PE, and as our 2017 performance illustrates, our returns are dependent on results and events at the limited number of businesses we own rather than broad market drivers.

While similar in approach, we believe the Longleaf Funds offer advantages to PE. Shareholders have more portfolio transparency, better liquidity, and a lower fee structure. More importantly, we believe that our risk/reward profile is much more attractive. First, rather than PE's often recruiting temporary hired guns to run their businesses, in public companies we have the opportunity to partner with founders and owner-operators such as Li Ka-shing (CK Hutchison and CK Asset), John Elkann (EXOR), Fred Smith (FedEx) or John Malone (Formula One). These aligned managers not only have deep institutional knowledge, but true commitment to long-term value growth, given that their net worth is tied to the company. Second, PE does not have the ability to take advantage of manic public market prices that create a large margin of safety between the price paid and intrinsic worth. In fact, if buying a public company, PE usually pays a premium to the stock price and an amount relatively close to fair value. Third, by owning public equities, we have more flexibility to manage fund risk. For example, when a company has appreciated, leaving less margin of safety in the price, we can easily lock in some of our gains and reduce the weight of the company in our portfolio. Fourth, without a large discount to intrinsic value, PE takes on further risk by using leverage to amplify returns. While that approach makes the math work when things go well, as it has in the sustained U.S. bull market of the last almost 10 years, the leverage also quickly threatens permanent capital if the case turns negative and/or the multiples that people are willing to pay decline. A look at risk-adjusted or unlevered returns would make the case for PE even less compelling relative to owning public companies. A highly geared balance sheet also limits the flexibility of the underlying portfolio company both to go on offense and to endure challenges. Leverage is likely to become an even less attractive tool as interest rates rise and with the new U.S. limits on interest expense deductibility. Fifth, PE funds have a finite life that creates an incentive to invest capital and unwind investments, even at points in time when prices are unattractive. And, unwinding essentially requires the creation of some sort of transaction, whereas transactions are only one of the potential ways the Funds' investments reach our appraisal values.

The primary perceived advantages of PE are related — less volatility and returns that are uncorrelated to public market equities. However, the numbers do not support the uncorrelated argument. When looking at the last approximately 30 years, U.S. private equity returns have been over 70% correlated to large cap U.S. equities, 65% correlated with U.S. small cap equities, and even 67% correlated to global equities. Over the last 5 years, U.S. PE returns and those of the U.S. large and small cap indices have been within a narrow range of 13.3% - 14.2%, with PE at the low end. Comparable correlation and return data for Non-U.S. Private Equity is difficult because the benchmark includes Venture Capital as well.

Some of the assumptions about low correlations are related to the lower volatility in PE's reported returns. Cash flows, market shares, margins, and earnings of a publicly held company are not inherently more volatile than those of a privately held one. Because businesses are worth the earnings stream they produce, private and public companies should be worth similar multiples every day. But, because PE managers do not price daily, and the valuation methods they use are often based on their own internal views rather than an external daily mark to market, PE's reported returns appear smoother than what the exact same company priced daily in public markets would be. Factors unrelated to the business can swing short-term stock prices, but PE pricing does not take that into account. A company owned by a PE fund for 5 years with a 60% return could report a consistent rate of approximately 10% returns per year, while that same company, if public, with the same 60% return over 5 years, would have been deemed "riskier" because the stock market repriced it every day. For those willing to take a 5+ year view of owning a business, price volatility is an opportunity, not a risk, and one which owners of publicly traded companies can much more readily exploit. It has never been clear to us why investors are more willing to take a longer term horizon in privately held leveraged businesses than in financially sound publicly held ones.

2017 Recap & Looking Ahead

Following double-digit returns in 2016, we delivered solid absolute returns in 2017, in spite of the dominance of momentum investing, abnormally low volatility in public equities (lower even than normal private equity smoothing), the ascendance of IT stocks and high cash balances. We also added several building blocks to the Funds for future compounding. As market correlations declined, particularly in the latter part of the year, we found more prospective qualifiers.

Owning publicly traded businesses using PE's long-term, research-driven, and engaged approach makes us confident in the risk/reward proposition of the Funds over the next 5+ years, particularly relative to both the lofty valuations in public markets and the illiquid, levered profiles of PE funds. We have cash available to be nimble and a well-developed on-deck list of prospective businesses to own. Our investments have a margin of safety with stock prices on average at less than 75% of our conservative appraisals. Our companies' values should continue to build from their FCF coupons, which we expect to grow over the next 3+ years because various businesses currently have temporarily depressed earnings, investments with returns that are 12-36 months out, or upside from the changes in the U.S. tax laws. Most of our investees have the balance sheet strength to go on offense when opportunity is presented. Our management partners can continue to make intelligent capital allocation moves that are unrelated to, and therefore uncorrelated with, the broader stock market. Furthermore, be assured that we are prepared to be engaged with our corporate partners on your behalf to help generate the equity returns you and we expect. As the largest investor group in the Funds, your partners at Southeastern enter 2018 optimistic and wish you a Happy New Year.

See following page for important disclosures.

Past performance does not guarantee future results.

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 Fund 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 by the Funds 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.

The statements and opinions expressed are those of the author and are as of the date of this report.

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. 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. 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. 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.

"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.

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

One basis point is equal to 1/100th of 1%, or 0.01% (0.0001)

Venture capital is financing that investors provide to start up companies and small businesses that are believed to have long term potential.

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%. Longleaf Partners Small-Cap Fund: ViaSat, 7.4%; OCI, 7.3%; CenturyLink, 6.5%; Graham Holdings, 6.3%; Mattel,5.3%; Hopewell Holdings, 5.1%; CNX Resources, 4.8%; Neiman Marcus, 4.7%; Liberty Media Formula One, 4.7%; Park Hotels, 4.7%. Longleaf Partners International Fund: EXOR, 9.0%; LafargeHolcim, 7.4%; OCI, 6.9%; CK Hutchison, 6.5%; Fairfax, 6.2%; Hikma Pharmaceuticals, 5.9%; CK Asset, 5.3%; Baidu, 4.8%; Great Eagle, 4.7%; Ferrovial, 4.3%. Longleaf Parterners Global Fund: CenturyLink, 7.8%; FedEx, 6.9%; Fairfax, 5.5%; EXOR, 5.5%; LafargeHolcim, 5.3%; CK Hutchison, 5.3%; OCI, 4.9%; CK Asset, 4.3%; Alphabet, 4.3%; United Technologies, 4.1%. 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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