Longleaf Partners Fund Commentary

Longleaf Partners Fund's 5.47% advance in the quarter brought the 2015 return to -18.80%. These results fell below the S&P 500's gains of 7.04% and 1.38% for the same periods. The Fund's energy-related holdings were the leading detractors for the quarter and the year due to the sharp decline in energy prices. Since its inception, the Fund has outperformed the index.

Our energy companies dampened the Fund's otherwise strong absolute and relative performance in the fourth quarter and drove the vast majority of negative returns and relative underperformance for the year. Although our energy price assumptions have been wrong, we believe that Chesapeake Energy and CONSOL Energy could rapidly rebound with major asset sales and when oil and gas prices correct as supply and demand eventually rebalance. At both companies, our management partners are taking action by cutting costs, increasing financial flexibility, and selling assets to ensure the companies can withstand the difficult commodity environment. The other large factor negatively impacting performance during the year was a higher-than-average exposure outside of the U.S., where we see larger discounts and greater opportunity for future growth. 31% of assets are in companies headquartered outside the U.S., and the conversion of prices to U.S. Dollars from weaker currencies cost the Fund over 1% in performance last year. Additionally, the portfolio had an indirect impact from revenues based outside of the U.S.—look-through revenue exposure to overseas developed markets was 21% and to emerging markets was over 31% of the portfolio. Like energy, the overseas exposure has been a driver of underperformance since late 2014, as U.S. markets, fueled primarily by larger cap momentum stocks, continued their outperformance over non-U.S. markets. While we believe both of these portfolio exposures offer more substantial discounts and greater upside than the S&P 500, the short-term negative performance masked the positive progress across the majority of our businesses in the year. When the sentiment turns, we believe the payoff can come quickly.

After being a top contributor in the fourth quarter and adding 25%, **Level 3 Communications** gained 10% for the full year. Over the course of the year, operating metrics continued to improve. During the fourth quarter, company segment Core Network Services' (CNS) organic revenue grew 6% year-over-year. Within CNS, Enterprise revenue grew 8%. This revenue growth, combined with the synergies created by the merger with tw telecom, resulted in margin expansion. The high contribution margins, which are currently over 60%, have been one of the focal points of our Level 3 investment case and are one of the primary drivers of high growth in both EBITDA (earnings before interest, taxes, depreciation and amortization) and FCF (free cash flow) growth. In 2016, we believe the company will generate approximately $5.00/share of FCF before discretionary growth capital expenditures, which translates to approximately 10x FCF on current price. The company's success-based growth capex is tied to new, high margin, revenue-producing contracts. Given management's excellent execution, we expect leverage ratios to continue to improve from their current 4x debt/EBITDA levels into the 3x's.

Also a top performer, **DuPont** rose 39% in the fourth quarter making it a significant contributor for the quarter and the year. Over the last four months much transpired. In October, Chair and CEO Ellen Kullman retired and board member Ed Breen assumed the CEO role, quickly articulating that deeper operating cost and capital spending savings were achievable, and announcing consideration of all possibilities for the Agriculture business. In December, DuPont and Dow Chemical announced an all-stock "merger of equals." After the deal closes, the company plans to separate into three companies focused on agriculture, material science, and specialty products. This separation should allow more operational focus at each company and more efficient capital allocation. Our appraisal increased following the merger announcement.

Alphabet (formerly named Google) gained 51% for the year on the back of a 25% rise in the fourth quarter. The company reported strong revenue growth year-over-year across the U.S., U.K., and the rest of the world. The bear case that the move to mobile search would be detrimental to revenues and market share seemed to fade. Mobile queries now outnumber desktop queries in important countries, and mobile revenue per click is improving. Alphabet segment YouTube's growth remained strong, and the company announced a new pay tier named Red. Disclosure should improve with new reporting of segments in January. During the fourth quarter, a new share buyback program was authorized, further affirming the company's attention to capital allocation.

Average Annual Total Returns (12/31/15): Since Inception (4/8/87): 10.08%, Ten Year: 3.28%, Five Year: 4.97%, One Year: -18.80%

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 Longleaf Partners Fund is 0.91%. The Funds' expense ratio is subject to fee waiver to the extent normal annual operating expenses exceed 1.50% of average annual net assets.

Another notable contributor in the quarter, **Wynn Resorts**, the luxury gaming and hotel company with prime real estate in Las Vegas, Boston, and Macau, was up 31% but down 47% since we first added the position earlier in the year. The stock became deeply discounted as China's anti-corruption campaign pressured revenues in Macau where Wynn is among six current operators and is scheduled to open the Wynn Palace in Cotai in June 2016. During the recent quarter, Macau sentiment began to turn as revenues stabilized. CEO Steve Wynn demonstrated his commitment and confidence in the business, purchasing over one million shares in early December and bringing his stake in the company to nearly 11%. Year-over-year comparable gross gaming revenues should improve in 2016, and Wynn cash flow will be bolstered with the Cotai property coming online. Longer term, we believe the company can generate impressive returns. Macau revenues from mass and premium mass visitors should grow with added non-gaming attractions, needed hotel room supply, and infrastructure improvements that bolster arrivals. Additionally, the Wynn Everett is in early site preparation with a strategic location just outside of Boston, but its value is not reflected in the stock price because it is several years from opening. Opportunities to partner with proven value creators like Steve Wynn at such a large discount to our appraised value exist over time, but rarely do we see one where the near-term market extrapolations are so distinct from the long-term earnings power of the company.

CK Hutchison, a conglomerate comprised of the non-real estate businesses from the June merger between Cheung Kong and its subsidiary, Hutchison Whampoa, returned 23% during 2015 when combined with Cheung Kong Property. The corporate transaction helped remove holding company discounts and clarify business line exposures by splitting the conglomerate between the property business (Cheung Kong Property Holdings) and the non-property business (CK Hutchison Holdings). The transaction is likely to be viewed as a seminal event leading to improved governance and structure for other complex conglomerates in Asia. Chairman Li Ka-shing and his son, Victor Li, have demonstrated a track record of building businesses and buying and selling assets at compelling values.

During the quarter, we began exiting our successful investment in global quick service restaurant operator **McDonald's** and completed the sale in the first week of 2016. The stock was a strong contributor for the year, up 31%, and the last three months, up 21%. When we initially purchased the company in late 2014, we believed management could overcome short-term obstacles and turn around same-store sales in certain struggling markets. Additionally, we saw optionality in the value of the company's real estate assets. Over the course of our investment, McDonald's hired a new CEO, Steve Easterbrook, a move welcomed by investors. His plan to revive the business both operationally and structurally helped drive the stock price. Although management and the board decided not to monetize the real estate assets, the stock price reached our appraised value in an unexpectedly short period. Over the year plus that we owned the stock, it gained 34% and was among the strongest contributors to performance. We appreciate the board's and management's solid execution. We hope that Mr. Market gives us an opportunity to partner with them in the future.

As noted, **Chesapeake Energy**, the second largest producer of natural gas in the U.S., declined 39% in the quarter and 77% for the year, making it the largest detractor of performance in both periods. Options accounted for 40% of our position and slightly half of our return. Fears related to further declines in energy prices drove the stock lower, despite CEO Doug Lawler's progress in areas he could control. After reaffirming the company's untapped $4 billion revolving credit facility and renegotiating a deal with Williams (pipeline operator), in the fourth quarter Chesapeake turned to restructuring its debt. Chesapeake offered to exchange various unsecured debt securities at a discount to par for secured debt with a later maturity. Pushing out due dates coupled with reducing overall debt outstanding should help the company weather a sustained low energy price environment.

Over the year we adjusted our appraisal of Chesapeake to account for the tumble in oil and natural gas prices. Even with the depressed energy prices of today and little growth in that price as indicated by the futures strip pricing, the company's non-producing assets have value that is not reflected at all in the stock price. Asset sale transactions in basins where Chesapeake operates helped validate our appraisal. We expect the company will continue to reduce costs while also seeking asset sales at fair prices. We are mindful of the risks associated with commodity companies. Once the debt restructuring was announced, we added to higher parts of the company's capital structure that became particularly discounted.

During the quarter, Brad Martin assumed the role of non-executive Chairman of the Board from Archie Dunham, who became Chairman Emeritus. Martin has been a productive partner for Southeastern in other successful investments including Saks, Dillard's and FedEx. We are confident that management, coupled with the board, can navigate the company through what has been and continues to be a severely challenging energy price environment.

Also previously mentioned, **CONSOL Energy**, the Appalachian coal and natural gas company, was down 76% in 2015 after falling 19% in the fourth quarter as the company missed operating cash flow (OCF) estimates amidst declining coal and gas prices. Management is adjusting to lower commodity prices and adopted significant cost controls under zero-based budgeting while still growing natural gas production. We filed a 13-D during the third quarter to discuss with third parties as well as management and the board a potential monetization or separation of the valuable Marcellus and Utica gas assets. This has been a constructive process since filing, and we appraise these assets at worth demonstrably more than CONSOL's total equity capitalization. CONSOL's exploration and production (E&P) business is unique, with low cost reserves given the company's fee ownership of many acres. CONSOL announced in the fourth quarter that its thermal coal business, which enjoys a low cost position, had contracted for 93% of production for 2016 at a confirmed price of $50-55 per

ton, providing near-term downside coal business risk mitigation. Multiple directors recently purchased shares.

In the fourth quarter, we sold **Murphy Oil**, an E&P company with a portfolio of global offshore and onshore assets, after the stock declined 51% and was among the Fund's largest detractors for the year. Following several disappointing drilling results and a lack of management plans for near-term ways to go on offense, we redeployed this capital into the high-quality franchise of National Oilwell Varco.

We repositioned the portfolio during the year, exiting eight businesses (two in the fourth quarter) and adding seven new holdings (one in the fourth quarter). In the first half, we sold four top performers that reached our appraisals. Over the last six months, we sold an additional four businesses whose values declined, including **Murphy Oil** and **Loews** in the fourth quarter. Loews, the holding company owned and managed by the Tisch family, remained undervalued, but we found more attractive opportunities in companies that we believe can build value per share in the current environment. Among our new investments, Alphabet and DuPont have been strong performers in a short period. Wynn, Lafarge Holcim, and National Oilwell Varco had stable appraisals but became more discounted in the year.

Although our 2015 performance was disappointing, we believe the Partners Fund is well positioned for a strong rebound. The Fund's price-to-value (P/V) ratio is in the high-60s%. The year's three major detractors that we still hold sell for less than 40% of our appraisals, and our four largest positions, three of which were among our top contributors for the year, remain discounted with solid valued growth prospects. In addition to these discounts, the high quality of our businesses and the caliber of our management partners, who are pursuing all available avenues to drive value recognition, make us confident in future results. The Federal Reserve raised interest rates for the first time in more than nine years in December. We believe the portfolio can benefit from a rising rate environment since the large majority of our businesses have strong balance sheets, many with net cash, and most companies have pricing power or gross profit royalties on revenues. Higher interest rates will not lower our net present value (NPV) valuations because we have maintained an 8–9% discount rate. Additionally, the Fund does not own the segments of the market that have been driven by yield chasing and could shift rapidly with higher rates. As the largest investors in the Fund, we know it has been a difficult year to be a Longleaf shareholder, but we are confident that the Fund should reward your patience and ours. Thank you for your partnership.

See following page for important disclosures.

Before investing in any Longleaf Partners Fund, you should carefully consider the Fund's investment objectives, risks, charges, and expenses. For a current Prospectus and Summary Prospectus, which contain this and other important information, visit longleafpartners.com. Please read the Prospectus and Summary Prospectus carefully before investing.

RISKS

The Longleaf Partners Fund is subject to stock market risk, meaning stocks in the Fund may fluctuate in response to developments at individual companies or due to general market and economic conditions. Also, because the Fund generally invests in 15 to 25 companies, share value could fluctuate more than if a greater number of securities were held. Mid-cap stocks held by the Fund may be more volatile than those of larger companies.

The S&P 500 Index is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. An index cannot be invested in directly.

P/V ("price to value") is a calculation that compares the prices of the stocks in a portfolio to Southeastern's appraisal of their intrinsic values. The ratio represents a single data point about a Fund and should not be construed as something more. P/V does not guarantee future results, and we caution investors not to give this calculation undue weight.

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

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.

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

Net present value is the difference between the present value of cash inflows and the present value of cash outflows.

Derivatives may involve certain costs and risks such as liquidity, interest rate, market, credit, management, and the risk that a position could not be closed when most advantageous. Investing in derivatives could lose more than the amount invested.

As of December 31 2015, the holdings discussed represented the following percentages of the Longleaf Partners Fund: Chesapeake Energy, -0.8%(5.0% adjusted for close of options and purchase of underlying stock); CONSOL, 2.7%;Level 3, 10.2%; DuPont, 4.9%; Alphabet, 9.7%; Wynn Resorts, 7.5%; CK Hutchison, 10.7%; McDonald's, 3.0%; National Oilwell, -0.5%(4.6% adjusted for close of options and purchase of underlying stock); LafargeHolcim, 5.2%. 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.

LLP000406

Expires 4/30/16