September 30, 2017 3Q17

Longleaf Partners Funds Shareholder Letter

In the third quarter, we compounded our shareholders' capital across all four Longleaf Partners Funds. Performance gains, however, were somewhat muted by the larger-than-normal cash held across the Funds. Markets outside of the U.S. led year-to-date returns throughout 2017, but U.S. small cap stocks beat both U.S. large cap and non-U.S. markets in the third quarter following the September small cap rally associated with prospective corporate tax cuts. Longleaf International Fund outperformed EAFE. In the Longleaf Partners, Longleaf Partners Small-Cap, and Longleaf Partners Global Funds, which underperformed their relevant indices, our largest holding, Level 3 Communications (LVLT),[1,2,3] was the primary source followed by the cash headwind. LVLT will become a more normal weight when CenturyLink (CTL) closes its purchase of LVLT, paying cash for approximately half of the acquisition. In the quarter, LVLT's price reflected concerns about final deal approvals and a potential CTL dividend cut post-deal. We anticipate that the deal will close, the prospective cash flow will easily cover the dividend, and the new CTL will be the preeminent global fiber network solutions company with an extraordinarily capable management team.

	YTD	3Q
Partners Fund	**11.47%**	**3.25%**
S&P 500 Index	14.24	4.48
Small-Cap Fund	**7.13**	**2.08**
Russell 2000 Index	10.94	5.67
International Fund	**24.61**	**5.64**
MSCI EAFE Index	19.96	5.41
Global Fund	**23.08**	**3.01**
MSCI World Index	16.01	4.84

Past performance does not guarantee future results.

With the ongoing multi-year bull market in the U.S. and the more recent rise in global markets, finding meaningfully discounted strong businesses led by good management partners has become more challenging. We have trimmed or sold numerous successful investments over the last year but found few qualifying replacements. Our cash levels, therefore, remain our largest positions across all four Funds as we adhere to our multi-decade discipline – when nothing meets our criteria, we patiently wait rather than putting capital at a higher risk of loss by compromising on the margin of safety.

Liquidity in a portfolio is a byproduct of our bottom up process. Southeastern has not become more reluctant to invest, nor has market structure changed such that fear and uncertainty will no longer price companies at 60-70% of intrinsic worth. We are confident that we will find new qualifiers, as we have in the past when cash has been this high. Stocks become discounted for numerous reasons ranging from simple, company-specific earnings misses to complex, broad geopolitical or natural events that generate fear in particular industries or overall markets.

Over 42 years of investing, we have found undervaluation in almost every imaginable way, but Southeastern's approach lends itself especially well to three consistent sources of opportunity: 1) unraveling complex companies and/or reporting, 2) partnering with extraordinarily capable corporate leaders who can build value per share in ways that do not fit easily into spreadsheet models, and 3) arbitraging time horizons.

Complexity

Companies with complex structures (as opposed to complex products such as biotech or information technology) can be overlooked because they require time, multi-industry knowledge, and global perspective to appraise properly. Stock analysts often determine "price targets" by putting an industry

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Average Annual Total Returns (9/30/17) Partners Fund: Since Inception (4/8/87): 10.54%, Ten Year: 3.44%, Five Year: 9.33%, One Year: 13.74%. Small-Cap Fund: Since Inception (2/21/89): 11.05%, Ten Year: 7.57%, Five Year: 12.99%, One Year: 11.29%. International Fund: Since Inception (10/26/98): 8.01%, Ten Year: 1.34%, Five Year: 8.78%, One Year: 24.22%. Global Fund: Since Inception (12/27/12): 9.54%, Ten Year: na, Five Year: na, One Year: 25.05%.

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.

multiple on near-term earnings estimates, and most investment firms organize their analysts by industry and/or geography. Thus, a company such as CK Hutchison[1,2,4] that has wireless telecom, retail, and port operations around the world as well as infrastructure and energy assets, cannot be properly appraised with a single multiple for a single industry in a single country.

Southeastern's structure enables us to unearth this type of mispricing because our analysts around the world operate as a team to review our prospective investments, and each analyst is a generalist, with cumulative years of experience appraising a wide variety of businesses. This means we create detailed appraisals of each business segment rather than applying an industry multiple across corporate earnings. Our generalist team approach also has an advantage over coverage by industry-specific analysts when a company shifts its primary business focus, as when CK Hutchison spun off its property business, which made properly assessing the remaining segments even more important.

Other examples of multi-industry complexity and change in focus include EXOR[2,4] and Graham Holdings[3]. Ten years ago, many viewed EXOR as a way to own Fiat, a car company with limited models and distribution. But Chairman and CEO John Elkann and Vice Chairman Sergio Marchionne successfully split Fiat into its better recognized parts of Ferrari, Fiat Chrysler Automobiles, and CNH Industrial. Last year, the purchase of PartnerRe made it the largest part of EXOR's value, thereby requiring reinsurance industry knowledge to properly analyze the company. Our generalist team could quickly incorporate the value of this significant acquisition into our EXOR case given the analysts' coverage of previous reinsurance investments such as Everest Re, Odyssey RE within Fairfax, and Berkshire Reinsurance within Berkshire Hathaway. To appraise Graham Holdings, formerly The Washington Post, knowledge of the newspaper and cable industries (the two largest parts that the company sold and spun out, respectively) is of limited help in determining the value for the remaining disparate businesses of television stations, for-profit education, industrial companies, and other ventures. Our history of analyzing each segment of the company as well as our experience as generalists covering multiple related businesses allowed us to quickly assess Graham's worth as the company changed focus.

Complex reporting also can lead to undervaluation when accounting obscures the true free cash flow of a company. LafargeHolcim[1,2,4] amortizes acquisition intangibles and large upfront spending for its cement plants, causing current earnings per share, which most cement analysts use as the foundation for their stock recommendations, to be well below the free cash flow power of the company.

Leadership

Superior management teams and owner-operators who are willing to think and act unconventionally for the benefit of shareholders can create discount opportunities, because standard valuation metrics do not adequately encompass what investors are getting. Last year, Chairman John Malone and CEO Greg Maffei of Liberty Media Corporation divided the company into three different tracking stocks. The most complex, Liberty Media Group, also had the most upside potential for smart capital allocation due to its large level of cash and investments. The company quickly announced its purchase of the global racing circuit Formula One[3] and adopted the name for the combined entity. Even better, Malone and Maffei recruited Chase Carey, an all-time great Southeastern partner during his time as CEO at DirecTV, to be CEO. Our partners created instant value in an unexpected way, but also laid the foundation for significant future upside.

Similarly, although Prem Watsa, CEO of Fairfax Financial,[1,2,4] has proven his ability to compound shareholder capital over multiple decades, this insurance company became deeply discounted earlier this year. A few recent years of lackluster investment returns and a new acquisition penalized the stock price, which only reflected capitalizing Fairfax's current earnings without giving credit for the large amount of non-earning cash that Watsa has available to put to work at much higher returns.

Southeastern puts significant weight on the quality of corporate leaders and spends time productively engaging with our management partners. Our process provides an advantage in identifying leaders whose value may be underestimated in the stock price. Numerous sources give us insight into the potential impact of management. We study their capital allocation record. We ask for first-hand knowledge from our large network of investee, client, and industry relationships. We also draw upon our own previous interaction with people, which often leads to re-investing over time with those who have demonstrated exceptional abilities.

Time Horizon

Even though the market eventually can cut through a company's complexity and properly weigh value created by great partners, market prices normally reflect expectations for earnings over the next few quarters at most. Southeastern assesses how a company's value per share will grow over the next 3-5+ years. Arbitraging this investment time horizon difference surfaces many opportunities for a patient investor focused on the intrinsic worth of a company. For example, a cyclical business such as CNH Industrial's[1,2] agricultural equipment has depressed near-term earnings that should recover as corn and other commodity prices rise above multi-year lows.

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Another source of understated earnings power is a company investing in longer term growth by spending today for future high returns. Large projects such as the Macau casinos that Wynn Resorts[1,2,3] and Melco International[2,4] completed over the last few years or the new fertilizer plant that OCI[2,3,4] recently finished are examples of significant corporate spending over several years that was given little market value until each project came within months of generating earnings. Those projects were accounted for in the capital expenditures line. In cases where companies have charged projects with longer-term payoffs on the income statement, such as at Alphabet[1,2] and Baidu[4], Southeastern's approach gave us an edge in identifying these growing companies at deep discounts. We took a longer-term view of the projects, unraveled the complexity in reporting (see the first source of opportunity above), and trusted the proven, aligned leaders at both companies (see second source above). Sell side analysts developed a more positive view of each company as projects moved closer to completion and our partners took unexpected actions - Alphabet separated the reporting of its more important Google search and YouTube businesses from its more complicated "Other Bets," and Baidu rationalized some of its Online to Offline investments. (Note that our 2017 First Quarter Letter focused on the opportunity in underearning or nonearning assets – NEAs - largely related to time horizon arbitrage.)

The Search for Opportunity

Our team continues to hunt for the exceptions. The above sources of opportunity exist whatever market valuations are; they simply are more difficult to identify in a broad-based bull market that lifts all boats. Qualifying companies based on business and management quality and determining intrinsic worth never is wasted work, because the cumulative knowledge prepares us when unexpected mispricing occurs. Thus far in 2017, our analysts have covered significant ground. We have updated many appraisals on our master list of approximately 1500 companies around the globe and have done the initial work on several hundred others. We have taken a deeper dive on well over 100 companies, assessing the qualitative aspects of the cases. This has included tapping into our contact network for added insight. We have met with numerous management teams – both those we invest with currently (who often spark new ideas when we ask whom they respect) – and prospective investees. Over twenty have been close enough to meeting our criteria to warrant assigning a devil's advocate. Our regional Asia Pacific and European strategies have generated opportunities to consider, primarily for the Global and International Funds, with Asia remaining the most discounted area overall (our Asia Pacific strategy has only 8% cash). In spite of our research efforts, across the Longleaf Partners Funds, we have purchased only five new names this year.

Our ongoing work has resulted in an on-deck list of at least fifteen companies that meet our qualifications and are within 10% of the discount we require to purchase. This list includes several obvious areas of uncertainty, such as 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. We also are close on several complex companies that are refocusing away from some of their legacy businesses.

Southeastern and our clients face a paradox: when cash is high, the pressure to buy a new company is strongest, but it is generally the time to maintain the most discipline because opportunities are likely to get better. One important way that we have maintained our discipline is in resisting a change to our 9% discount rates (in U.S. dollar terms), because we believe that the low interest rates following the Global Financial Crisis (GFC) are not permanent, and that owners of companies continue to expect this level of return for the business risks they assume. Even when we have tested the impact of lowering our discount rate by 10+%, appraisals become only marginally higher – not enough to generate numerous new qualifiers. Our purchases this year demonstrate that we can find select mispricing anomalies and that we are not reliant on a market change for new qualifiers. Just as in times past, high cash levels are temporary. Our concentrated approach means a 20% cash level requires only four new qualifiers to get fully invested. At previous times when cash positions exceeded 20%, we have returned to less than 5% cash in as short as two quarters and as long as eleven.

Southeastern does not speculate on when or how the next investments will come our way. As the year-to-date returns indicate, even with cash, we have the potential to generate strong absolute results given the quality and value growth at the businesses we own. Additionally, qualifying opportunities that replace the cash should provide a source of future compounding. Most importantly, as the largest investor group across the Longleaf Partners Funds, we will follow our long-held discipline to maintain our commitment to preserving capital and generating attractive long-term returns for our shareholder partners and ourselves.

See following page for important disclosures.

1 Owned in Longleaf Partners Fund 2 Owned in Longleaf Partners Global Fund 3 Owned in Longleaf Partners Small-Cap Fund
4 Owned in Longleaf Partners International Fund

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.

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

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

The devil's advocate role challenges the assumptions on an investment case, brings up risks of owning the company, and incorporates the internal and external arguments against buying a particular stock.

As of September 30, 2017, the top ten holdings for the Longleaf Partners Fund: Level 3, 9.8%, CK Hutchinson, 7.0%, FedEx, 6.6%, Alphabet, 6.0%, CONSOL Energy, 5.8%, CK Asset, 5.6%, Fairfax, 5.5%, United Technologies, 4.8%, LafargeHolcim, 4.8%, CNH Industrial, 4.7%. Longleaf Partners Small-Cap Fund: Level 3, 7.4%, OCI, 6.3%, Graham Holdings, 6.1%, ViaSat, 5.9%, CONSOL Energy, 5.0%, Hopewell Holdings, 5.0%, Liberty Media Formula One, 4.8%, Eastman Kodak, 4.8%, Wynn Resorts, 4.3%, Park Hotels, 4.1%. Longleaf Partners International Fund: EXOR, 9.1%, LafargeHolcim, 7.4%, CK Hutchison, 6.5%, OCI, 6.3%, Fairfax, 5.9%, Baidu, 5.3%, CK Asset, 5.2%, Melco International, 4.8%, Great Eagle, 4.7%, Yum China, 4.4%. Longleaf Parterners Global Fund: Level 3, 9.7%, FedEx, 6.4%, EXOR, 5.8%, LafargeHolcim, 5.6%, CK Hutchison, 5.5%, Fairfax, 5.5%, OCI, 4.6%, Wynn Resorts, 4.2%, CK Asset, 4.1%, Yum China, 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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LLP000680
Expires 1/31/2018