January 2023

Longleaf Partners Fund Commentary

4Q22

Longleaf Partners Funds

Fund Characteristics

P/V Ratio	Mid-50s%
Cash	4.8%
# of Holdings	19

	Annualized Total Return					
	4Q (%)	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)	Since Inception (%)
Partners Fund	8.63	-23.25	1.59	-0.26	4.48	9.00
S&P 500	7.56	-18.11	7.66	9.42	12.56	9.85
Russell 1000 Value	12.42	-7.54	5.96	6.67	10.29	9.57

* Inception date 4/8/1987

Longleaf Partners Fund added 8.63% in the fourth quarter, ending the year down 23.25%, while the S&P 500 returned 7.56% in the quarter and fell 18.11% in the year. Multiple companies rebounded in the fourth quarter, delivering strong double-digit returns that continued into the first part of 2023 as we are writing this letter. While we recognize that more near-term volatility may be in store, we believe this is only the beginning of better performance.

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 southeasternasset.com. The prospectus expense ratio before waivers is 1.00%. The Partners Fund's expense ratio is subject to a contractual fee waiver to the extent the Fund's normal operating expenses (excluding interest, taxes, brokerage commissions and extraordinary expenses) exceed 0.79% of average net assets per year. This agreement is in effect through at least April 30, 2023 and may not be terminated before that date without Board approval.

Our 2022 annual returns were subpar and lagged our expectations, driven primarily by declines at a handful of detractors – Lumen, IAC and Warner Bros Discovery – which more than accounted for the relative performance gap, as well as a large portion of the disappointing absolute performance over the last year. We discuss these positions and others in more detail below.

Last month we were talking with a long-time Southeastern observer. He said that with the two macro themes laid out in our 2021 annual letter – 1) no more free money / interest rates going up; 2) more market sanity after years of growth at all costs beating everything – he would have expected a better year for Southeastern in 2022. We agreed with him. In this talk and others like it, we spent the most time going stock-by-stock, detailing how we own high-quality companies that we believe will deliver more free cash flow (FCF) per share than current results and market expectations, leading to better future returns.

We have demonstrated long-term skill as bottom-up stock pickers, but partly because of this deep, micro research focus, it has taken us too long to learn some larger lessons. Our approach remains neither purely statistical value (which has done better this year after being out of favor for the last 15) nor compounders-at-any-cost (which has done much worse this year, after dominating for more than a decade). We believe seeking out the best of both served us well for our first three decades and will again serve us well from here.

Southeastern is at its best when we find temporarily unloved but high-quality companies with short-term earnings per share (EPS) below long-term free cash per share. We have picked many good stocks that fit this description. But we have held ourselves back by making certain portfolio management decisions and investing too early in certain types of stocks. We have done internal and external analysis to better quantify these mistakes, and the impact is large. While you should be wary if we were about to say that there is one magic thing or 10 minor tweaks that will take the next several years back up to our standards, we believe that the following three guidelines will make us much better. As Charlie Munger said: “All I want to know is where I’m going to die, so I won’t go there.” We have been wounded at these three places too often, so we will avoid them in the future.

1) Overweights: The numbers show that we are more often than not good stock pickers, but we have not done well with our overweighting decisions for a long time. After trying for years to qualitatively fix this problem, we are now limiting our discretion on this matter by not allowing stocks to get above 6.5% weightings in the portfolio for any extended period of time. Sometimes we will have companies temporarily pop over this level on good news, but the longer stocks have stayed at weightings like this, the worse they have done for us. While GE was above a 6.5% weight to end the quarter, this was because it was splitting into 2 parts in the first week of 2023.

2) Leverage: Southeastern has made good investments in companies that have net debt on the balance sheet, but some of our more disappointing investments have had excessive leverage. Previously, we have given ourselves too much leeway on these kinds of investments because we were too attracted by a low price-to-value ratio on equity value (P/V), when we should have focused more on the price to enterprise value ratio (P/EV) that better accounts for a company's balance sheet. Going forward, once a prospective or existing investment crosses over 3x Net Debt to EBITDA (earnings before interest, taxes, depreciation and amortization), P/EV will become the key factor, not P/V or price to free cash flow (P/FCF). Often a P/V of 65% on a levered company can be closer to 80% on P/EV, leading to less margin of safety. It is also true that not all Net Debt to EBITDA ratios are created equal. 4x of long-term, non-recourse debt on a company with contracted, stable EBITDA that converts into free cash flow at a high rate can be better than 3.5x of short-term bank debt on a more volatile company (especially if it is not at the trough of a cycle) with less attractive free cash flow generation. The public markets start to differentiate on companies once they get over 3x and are harshest over 4x. Private equity, meanwhile, has benefitted from getting to mark their own prices on investments levered at well over 4x. We are now in the early stages of this coming home to roost, and we look forward to seeing private equity price marks catch up to public market peers. Back to what we can do about things, we will use a grid of P/EVs to pay ranging from the 70s for stable, high-quality companies levered closer to 3x to sub-60 (often equating to P/Vs in the 40s or below) for more volatile companies levered over 4x. If there are excessive financial liabilities that put the company's future at significant risk, we won't play at all.

3) Holding Companies: Value has been created at complex holding companies (holdcos) operating across multiple businesses. Berkshire Hathaway, Liberty Media and

EXOR are prime examples that we have invested in at Southeastern. Companies like this can be dangerously seductive for value hounds like us. We get to dig into the footnotes and own multiple, high-quality assets when the market focuses too much on a consolidated EPS or book multiple. There have been, however, too many examples where our partners were not of the caliber of the above three and/or where we have been early before the market punishes anything complex, which often happens in a bear market. Going forward, we will do two things on these companies: 1) qualitatively, we must insist on higher quality partners who are manic about closing the price-to-value gap, since these structures magnify the plusses and minuses of the people involved; 2) quantitatively, when these companies have publicly traded parts, we need to use the lower of price or value of each sub-part when calculating the value of the entire holdco.

We understand that it might take time to earn your trust that we have changed on these fronts, and we are very grateful for our long-term and new clients who are with us today. The changes are in place, and the analysis supports our view that they can make a big difference. By the time this is obvious, the greatest opportunity to invest with us will be gone.

Contribution To Return

4Q Top Five

Company Name	Total Return (%)	Contribution to Return (%)	Portfolio Weight (%) (12/31/22)
AMG	42	2.38	6.3
General Electric	36	2.25	6.8
PVH	57	2.24	5.2
CNH Industrial	44	1.79	4.2
Fairfax Financial	30	1.28	5.4

4Q Bottom Five

Company Name	Total Return (%)	Contribution to Return (%)	Portfolio Weight (%) (12/31/22)
Lumen	-28	-2.64	6.2
IAC	-20	-1.02	4.9
Warner Bros Discovery	-18	-0.85	4.8
Alphabet	-8	-0.36	4.2
Mattel	-6	-0.35	6.3

2022 Top Five

Company Name	Total Return (%)	Contribution to Return (%)	Portfolio Weight (%) (12/31/22)
CNX Resources	22	1.27	5.6
Williams	34	0.98	0.0
Warner Music Group	38	0.77	3.5
Fairfax Financial	19	0.73	5.4
PVH	6	0.41	5.2

2022 Bottom Five

Company Name	Total Return (%)	Contribution to Return (%)	Portfolio Weight (%) (12/31/22)
Lumen	-56	-6.42	6.2
IAC	-66	-4.49	4.9
Warner Bros Discovery	-58	-3.82	4.8
Liberty Broadband	-58	-3.30	4.8
Douglas Emmett	-51	-2.26	2.0

- CNX Resources (CNX) - CNX was the top contributor for the year, but we were surprised it wasn't an even larger one. Its value per share strongly outgrew its price performance for the year. While all energy companies saw a boost from higher prices, CNX had previously done more price hedging than peers. This decision held back near-term reported earnings, which remain the market's focus. This helped relative returns at unhedged and more leveraged companies that were hoping for higher prices. CNX has been taking advantage of a widening price-to-value gap for itself as the year went on by continuing to be one of our largest share repurchasers. When you combine strong capital allocation like this with geopolitical conflict solidifying the long-term value of North American natural gas while hedges roll off with the passage of time, we remain excited about CNX's future.

- Affiliated Management Group (AMG) – Asset management holding company AMG was a top contributor in the quarter after reporting results and a positive outlook well ahead of expectations. CEO Jay Horgen is proving to be a great partner, and we believe it is still early days as AMG's diversification of asset classes and management styles is becoming better appreciated.

- General Electric (GE) – Formerly one of our most hated companies, industrial conglomerate GE is now on the verge of beginning its breakup into three separate businesses. It has been a solid relative contributor for the year with further potential upside in 2023 and beyond.

- PVH – Apparel company PVH, which owns brands Tommy Hilfiger and Calvin Klein, is a new position that has quickly rebounded from 3Q lows after it was kicked out of the S&P 500 in September. The company reported solid revenue growth and increased guidance for the full year. PVH has repurchased shares at a 12% annualized pace, and both the CEO and CFO have bought shares personally in the second half, indicating their confidence in the company.

- CNH Industrial – Agricultural machinery company CNH Industrial reported strong 3Q results, meaningfully beating expectations for both sales and margins, and increasing full year guidance. Management announced an additional $100 million buyback program on top of the $300 million program already in place. It is good to see new management delivering in a better environment, and the company still trades at too wide of a discount to other agricultural equipment companies.

- Lumen – Global fiber company Lumen was the top absolute and relative detractor for both periods. This long-term position had a history of managing costs and producing steady free cash flow under the leadership of former CEO Jeff Storey, but its organic revenue growth has been disappointing for a few years and its cash flow began to disappoint recently. In September, the company announced a new CEO, Kate Johnson, would take over. Although her experience at Microsoft and proven track record of delivering organic growth make her a good fit for the role, the communication of her hire was mishandled. The stock price declined on the initial news and fell further as a previously feared dividend cut was announced in November. Lumen also announced in November the positive news of the planned sale of its Europe business for 11x EBITDA (when the whole company is now selling at 5x EBITDA) and a $1.5 billion share repurchase authorization, on top of closing on the previously announced sale of part of its consumer business to Apollo in October. The recent moves are creating a clearer business mix and stronger balance sheet, and we believe we could see additional positive moves to finally separate the legacy Level 3/Qwest business from the remaining quality local market assets.

- IAC – Digital holding company IAC saw its conglomerate discount grow wider over the course of the year as technology stocks declined precipitously. This

time last year, we thought we were paying a low-double-digit multiple of FCF power for a growing collection of assets led by great people. We now think that is a mid-single-digit multiple and that the people remain aligned. While underlying holding company MGM is doing well, other parts of this holdco have not yet delivered. Angi reported another disappointing quarter and has undergone a necessary management change that is already producing better results. Dotdash Meredith is facing a tough online ad market, but the integration of the two businesses is on track. We remain confident in CEO Joey Levin and Chairman Barry Diller's ability to close the wide price-to-value gap at IAC.

- Warner Bros Discovery – Media conglomerate Warner Bros Discovery (WBD) was another top detractor in the quarter and for the year. As has been documented in almost every form of media over the last several months, while we and WBD's board/management knew there were things wrong at Warner Brothers under AT&T, it turned out to be even worse than expected. The aforementioned advertising market is not helping WBD either. While the brand and library values remain intact, the realization of this value has been deferred. With leverage closer to 5x than the sub-4x we thought we would be looking at in 2023, the market's judgment has been harsh. We remain confident in management and growing free cash flow from here, with eight different insiders buying shares personally this year. We encourage you to listen to Partners Fund PM Ross Glotzbach interviewing WBD CEO and President David Zaslav in the latest episode of the Price-to-Value Podcast.

- Liberty Broadband Corp – Cable and media holding company Liberty Broadband declined amid worsening sentiment for its underlying cable business Charter. We believe the Liberty management team will successfully close the valuation gap at both underlying holding Charter and holdco Liberty Broadband, as we have seen sentiment on cable stocks shift many times over our decades at Southeastern. This remains a good business run by great partners.

- Douglas Emmett – Real estate investment trust company Douglas Emmett declined in a challenging year for office real estate. While DEI reported another strong gross leasing quarter in November, it has seen portfolio churn and new cash rents below old contracts. We have seen meaningful insider buying of the

deeply discounted shares, including an impressive $6 million purchase by new independent director Shirley Wang. Additionally, the company approved a $300 million share repurchase program to take advantage of the steep price disconnect.

Portfolio Activity

We sold five companies and bought five new businesses this year as persistent market volatility threw out a number of compelling new opportunities. We had no new additions in the fourth quarter, and we sold our remaining position in CK Hutchison to make way for more compelling opportunities. We added opportunistically to heavily discounted businesses and trimmed several positions, including companies like AMG and Hyatt whose strong performance drove them over the 6.5% position limit.

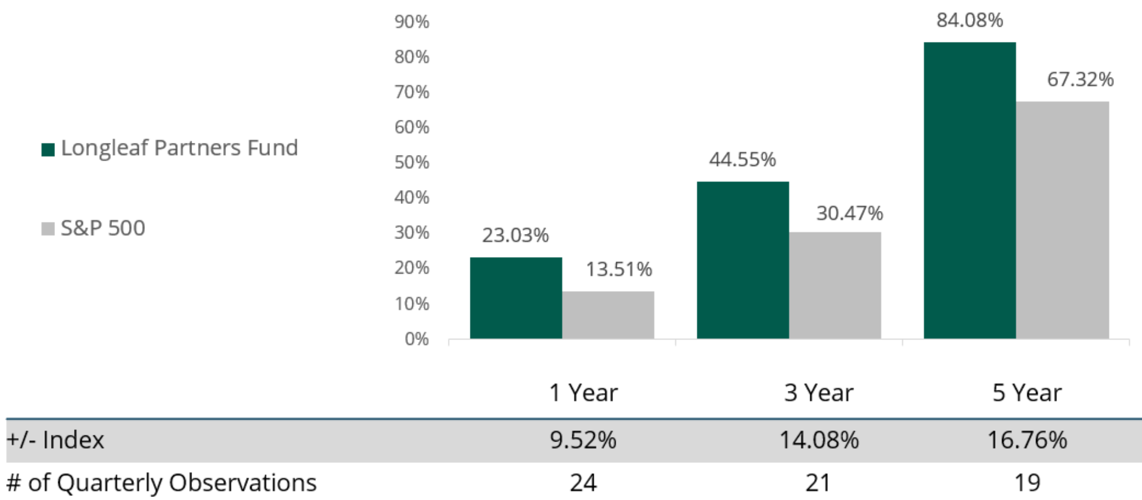
Outlook

Some of our overall market views remain similar to previous years: the S&P 500 still looks elevated or fairly valued on potentially too-high earnings assumptions, but the median multiple is more attractive than the average multiple in this top-heavy index; the Russell 2000 looks better on its reported multiple, but this ignores many unprofitable companies; Non-US markets are statistically cheaper than US markets. The S&P 500 next twelve months' EPS multiple is currently 17x, while the US 10-year treasury yield ended the year at 3.8% vs. one year ago at 1.5%. This is an interesting contrast to 10 years ago when the index was at 12x and the 10-year was at 1.8%, or 20 years ago when the numbers were 15x and 3.8%. The lesson is that there is a lot more that goes into valuation than just discount rates, but they are an important factor.

Our portfolio is at a NTM (next twelve months) P/E of 9x vs. these numbers. That remains an unusually wide gap. The portfolio reached a near-all-time low P/V ratio in the high-40s% in the second half and remains in the mid-50s% today, which has historically started a great time to invest with us:

Partners Fund

Average Cumulative Total Return Following P/V Less Than 60%



	1 Year	3 Year	5 Year
+/- Index	9.52%	14.08%	16.76%
# of Quarterly Observations	24	21	19

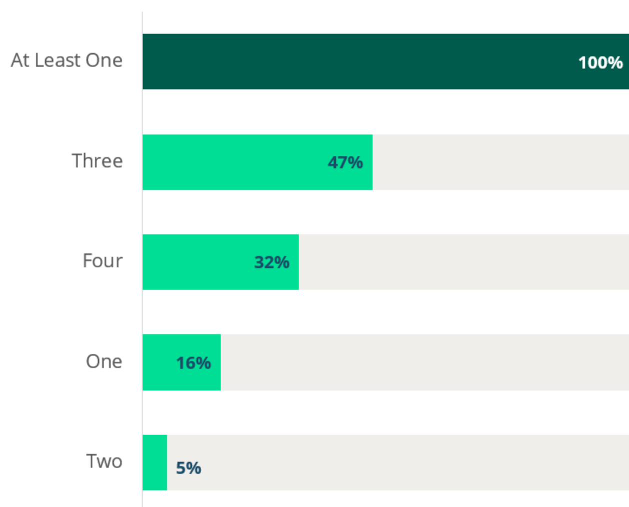
Average annual total returns for the Fund and its benchmark for the one, five, ten year and since inception periods ended 12/31/22 are as follows: Partners Fund: -23.25%, -0.26%, 4.48% and 9%; S&P 500: -18.11%, 9.42%, 12.56% and 9.85%.

The chart in this presentation shows the average of the total annual returns for Longleaf Partners Fund since 1993 where the quarter-end "price-to-value ratio" (P/V) was less than 60%. P/V compares prices of stocks in a portfolio to Southeastern's appraisal of their intrinsic values. The ratio represents a single data point and should not be construed as something more. ***P/Vs do not guarantee future results, and we caution investors not to give this calculation undue weight.*** *Past performance is not indicative of future results.*

While most asset classes felt pain from higher interest rates this year, that is more priced in now, and some of the main free-money beneficiaries are significantly off their highs. The initial punch in the face has been felt by all, and now our partners are taking productive actions to differentiate themselves at an impressive rate:

of Actions

% of all firms held in the Partners Fund



Types of Actions / Potential Actions

- Buybacks
- Insider Stock Purchases
- Potential Asset Sales/Spin-Offs
- Potential Whole Company Sale

We continue to believe that money costing something again is a healthy, long-term development for the capital markets in general and for Southeastern in particular. The change was abrupt, but our portfolios are positioned well for the future. The portfolio ended the year with nearly 5% cash, and our on-deck list remains healthy. We look forward to the changes we have discussed leading to better returns. Thank you for your long-term 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 *https://southeasternasset.com/account-resources*. ***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.

The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.

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.

Price / Earnings (P/E) is the ratio of a company's share price compared to its earnings per share.

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.

Enterprise value (EV) is a company's market capitalization plus debt, minority interest and preferred shares, and less total cash and cash equivalents.

"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.

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

Private equity refers to investments in firms which are not listed on a public stock exchange.

A stock buyback is when a company uses cash to buy shares of its stock in the market.

Insider stock purchases are purchases of company stock by company officers and directors.

A spin-off is the creation of an independent company through the sale or distribution of new shares of an existing business.

Total Return and Contribution to Return performance are shown gross of management fees and expenses.

As of December 31, 2022, the top ten holdings for the Longleaf Partners Fund: General Electric, 6.8%; Mattel, 6.3%; Affiliated Managers Group, 6.3%; MGM Resorts, 6.2%; Lumen, 6.2%; FedEx, 5.9%; CNX Resources, 5.6%; Hyatt, 5.5%; Fairfax Financial, 5.4% and Fiserv, 5.3%. Fund holdings are subject to change and holdings discussions are not recommendations to buy or sell any security. Current and future holdings are subject to risk.

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