Important Disclosure Information

Average annual total returns for the Longleaf Partners Funds and their respective benchmarks for the one, five, ten year, and since inception periods ended March 31, 2013 are as follows: Longleaf Partners Fund, 15.22%, 4.87%, 7.55%, 11.17%; S&P 500 Index, 13.96%, 5.81%, 8.53%, 9.14%; Longleaf Partners Small-Cap Fund, 25.40%, 10.21%, 13.27%, 11.10%; Russell 2000 Index, 16.30%, 8.24%, 11.52%, 9.34%; Longleaf Partners International Fund, 16.53%, -0.21%, 8.97%, 8.58%; MSCI EAFE Index, 11.25%, -0.89%, 9.69%, 4.24%; Longleaf Partners Global Fund, 3.90% (since inception on December 27, 2012); MSCI World Index 7.73%. Fund returns and those of these unmanaged indices include reinvested dividends and distributions, but do not reflect the deduction of taxes. Current performance may be lower or higher than the past performance quoted herein. Past performance does not guarantee future results, fund prices fluctuate, and the value of an investment at redemption may be worth more or less than the purchase price.

Please call (800) 445-9469 or visit longleafpartners.com for more current performance information or for a current copy of the Funds' Prospectus and Summary Prospectus, both of which should be read carefully before investing to learn about the investment objectives, risks, charges and expenses of the Longleaf Partners Funds.

The annual expense ratios for the Longleaf Partners, Small-Cap, International, and Global Funds are 0.91%, 0.91%, 1.27%, and 1.65% respectively. Fund ownership includes the following risks - stock market, investment selection, corporate ownership, non-diversification , non-US investment, small cap risk (with respect to the Small-Cap Fund), and derivatives – discussed in the Prospectus. Funds Distributed by: Rafferty Capital Markets, LLC

Particular investment discussions are not a recommendation to buy or sell any security and Southeastern's views may have changed since the date of the meeting. It should not be assumed that investments subject to a 13D discussed herein resulted in a gain on disposition for Southeastern's clients with respect to that investment. Southeastern's filing may be one of many factors contributing to the price increase discussed.

Comments regarding Dell have been redacted.

Introduction: Lee Harper

Welcome tonight to all our partners. We very much appreciate your taking the time to be with us. We especially thank those of you who came from out of town to be with us. It's just incredible to have partners who make the effort to join us at our annual meetings and, and certainly to come back every year. We have many people in this room who have been our partners for more than a decade, into two decades even, and so those are the kind of partners who really embody the meaning that we think of as long-term partners when we think of the Longleaf Partners Funds, so thank you all for being here.

We have an agenda tonight and you'll see that what we're going to focus on is the partners at our investment companies. Mason is first going to highlight what can go well when you have great partners at the helm of the companies that you invest in. Staley is going to talk about a perspective when our partners disappoint us, what we do, and how we handle that, as well as contrast that with most of the CEOs that we invest with who are great partners. Ken and Scott are going to give some examples of partners that we have that are helping us compound overseas. We'll then spend time answering your questions. Because – and this is a side note – we do consider this a meeting of our partners, we do ask that if anyone is here from the media, that you consider this off the record. This is not intended to be for the public; this is intended to be for our investment partners in the Funds.

Since we meet annually, we thought we'd start with giving you an update on our returns, and we're very happy to report good news. In 2012, you can see on this chart with the bright color, the bright color bars are the Funds, the gray are the indices, and the line across shows you inflation plus ten, our absolute annual return goal. You can see that in 2012, all three Funds exceeded both their indices and our inflation plus ten goal. The Partners Fund was up 16 and a half percent, the Small-Cap Fund was up 23 percent, and the International Fund was up 21.2 percent. Also, you'll see now that we are off to a good start in 2013. The Funds are up again, well above our inflation plus ten goal. Through the first quarter, the Partners Fund was up 11.6 percent, Small-Cap had added 12.1 percent, and the International Fund had risen 7.2 percent. Given the quality of our holdings, the strength of our management teams, the discounts in our stocks' prices from their appraisals, and the value growth that we expect, we believe our portfolios, even after this strong performance, have attractive upside, especially if you have a three to five year time horizon from here.

Before I hand over the podium, we want to take a minute to recognize our partners who oversee the Longleaf Funds, the outside trustees. You can see from the list with the names and how long they've been in, in their role as a trustee, that all of them have been at work for Longleaf for over a decade. Collectively, they have 139 years of service to the Funds and the shareholders that, that they represent. And beyond their time commitment, they are personally invested in the Funds, completely aligned with the shareholders. They have over 21 million dollars invested in the

Funds and are, believe me, watching out for all the interest of shareholders with that money. I ask the trustees to stand for a moment so we can acknowledge their dedication and commitment. (applause)

And now I'm going to let Mason tell you more about the tangible benefits of having good corporate partners.

Importance of Good Partners: Mason Hawkins

It's also my special privilege to welcome you to our 2013 Longleaf meeting. It's special because this is the twenty-fifth consecutive annual gathering of our mutual fund partners and because of the progress our investments have made since we were last together. Lee noted the Funds' good performance for 2012 and through the first quarter of this year. Equally if not more important, we made monumental progress improving the corporate governance and management of the few Longleaf companies that needed new leadership. We've added directors and put in place leaders who are good capital stewards and proven owner-operators. Critically, these talented individuals are clearly focused on prudently building intrinsic value per share. Additionally, we're happy to report the value enhancing changes were made efficiently and effectively without litigation or proxy fights. We are confident these changes portend good things for Longleaf's future returns.

As we discussed often and many of you know, Benjamin Graham spent most of his professional life defining intelligent investing. His two incomparable texts, *Security Analysis* and *The Intelligent Investor,* provided the tools for valuing investments, and the necessary psychological framework for successful capital commitments. Warren Buffett, by example and through his lucid writings, has added materially to those disciplines, and we've applied those disciplines fairly intensively for the last 40 years. Graham summarized his work postulating the imperative that every good investment must qualify quantitatively and qualitatively. Quantitatively, capital investments should be made only when prices are significantly discounted from conservative appraisals. Qualitatively, companies should be competitively advantaged and expected to grow. And management ought to be shareholder oriented, operationally competent, and sage capital allocators.

We've distilled these mandatory investment requirements, as you've heard, down to business, people, and price. Over the last four decades that we've practiced value investing, we've had a successful history assessing companies' competitive strengths, getting our appraisals, quote, "approximately right," and making investments at the requisite discounts from definable values. Where we and the best investors have been challenged is always getting it right on people, the CEOs to whom we entrust your and our investment dollars. Ron Johnson's recent short time at JCPenney highlights how disastrous it can be when you really get it wrong. Inevitably, if you are a long-term investor, one of your companies will be faced with a leadership challenge. When the company's underlying assets are strong, the stocks' undervaluation is compelling and the primary needed, quote, "fix," relates to people, you can expect us to become active and to improve the governance and management of the business. Activism is not part of our normal process, nor is it our preferred responsibility. When we make an investment, we objectively believe we have management partners who run the business well, wisely allocate capital, and ultimately seek paths to value recognition. In the large majority of our investments, our partners prove capable.

Judging humans, however, is more difficult and less reliable than analyzing the quality of a business or appraising value. Nothing can measure people's future actions, no matter how good their previous work may have been or how strong and properly aligned their incentives are with shareholders' interest. Becoming active generally indicates we made a mistake assessing our partners on the front end. Staley's going to talk more about our history of active management engagement.

When you really get it right on corporate stewardship, the long-term returns for shareholders goes up exponentially. William T. Thorndike, Jr. has just written a masterpiece on corporate leadership entitled *The Outsiders*. In Will's anthology of eight unconventional CEOs, he chronicles their quote, "radically rational blueprint for success." We commend it to you as one of the best books on corporate management we've ever read.

Throughout the years, Southeastern's been fortunate to have owned seven of the eight companies these all-stars have led. The corporate leaders and their companies are: Tom Murphy at Capital Cities Broadcasting, Henry Singleton at Teledyne, Bill Anders at General Dynamics, John Malone at TCI et al., Katherine Graham at the Washington Post Company, Bill Stiritz at Ralston Purina, Dick Smith at General Cinema, and Warren Buffett at Berkshire Hathaway. Each was a first time CEO; ran decentralized organizations focused on free cash flow production while delegating operational duties to others; reserved capital allocation for themselves; paid no or low cash dividends; except for Buffett, bought back over 30 percent of their company's shares when they were undervalued; made at least one key acquisition that was greater than 25 percent of their company's market cap; minimized taxes; and, never gave Wall Street guidance.

Their mantra was to prudently optimize long-term value per share and it was their investment acumen that made their long-term owners wealthy. Each evaluated opportunities independently, was disciplined and demanded high returns on capital deployed. They were incredibly patient, often waited long periods for, quote, "fat pitches." When an opportunity showed up, they carefully analyzed it themselves, without consultants or advisors. And when they were certain they wouldn't lose, made huge investments that dramatically enhanced their companies' worth.

As I'm sure you've deducted, the iconoclastic and idiosyncratic attributes of *The Outsiders* are characteristics common in great investors. You and Southeastern are lucky to have seven young, nascent investment all-stars working for Longleaf that possess these important talents. They are Brandon, Josh, Ken, Lowry, Manish, Ross, and Scott, and they've been hugely responsible for the Funds' good recent returns. Would you guys please stand up so we can all thank you. (applause)

Thorndike compares *The Outsiders*' stock performance record to that to the oft acclaimed record of Jack Welch's GE and to the S&P 500. Incredibly, as you can see from Will's graph on page 198 of *The Outsiders*, the composite of *The Outsiders*' returns were multiples of Welch's and some 30 times the S&P 500 over their average tenure of 25 years. As these data show, great corporate partners, people, really matter. You can be assured that we've partnered with many terrific ones, ones that will be on future *Outsiders*' lists. Staley, Scott, and Ken are going to give some great examples. Staley. (applause)

When Partners Disappoint vs. Most Who Don't: Staley Cates

Mason explained why we've become active and how activism is more about fixing a mistake rather than our preferred way to manage a position. But activism is not our only recourse when we make a research error. Most of the time we simply exit the position. Because we have moved on, people easily forget that exiting is our normal path, and although an automatic sale rule when something goes wrong might be even easier, we have a responsibility to evaluate the investment case before deciding whether to sell or get active. Besides requiring the mandatory attributes of strong and undervalued assets, we will generally become active only if we also believe we have very good odds of successfully improving our clients' outcome. This approach to activism is neither new to Southeastern nor does it happen often. And by the way, this is the first time in 20 years of boring speeches I have used slides, I have seven slides, one for each hour of my talk.

In the last 20 years, we have owned 255 U.S. names and filed just 26 13Ds, and for those of you that don't know, a 13D is an SEC filing that changes our status to active. While activism outside the U.S. is not subject to a clear 13D-type designation and thus is harder to track, a subjective review shows a similar low level of activity in non-U.S. names.

The second slide shows that the 26 13D filings have been spread over a long history. It shows the holdings per year and shades those where we became active. Fighting for our clients has been worth the effort. In over three-fourths of the cases where we filed 13Ds, the stock price rose from the filing point through our holding period. So in total, these charts demonstrate that, number one, making management assessment mistakes that warrant activism has been infrequent; number two, becoming active is not a recent tactic, even though the media attention on Dell and Chesapeake make it seem like it; and number three, standing up for our clients via activism has been worthwhile.

Besides Dell and Chesapeake, we have also worked productively in the last year with HRT and with Level 3 to improve governance and ultimately results, though the stocks do not yet reflect that progress. Fortunately at our 52 other holdings across portfolios, management appears to be working hard for the benefit of shareholders. No doubt that in the future, a small percentage of those 52 might change for the worse, but odds are very good that we will continue to check the people box for the vast majority of the 52.

So our more normal MO is picking great assets run by partners with whom we don't foresee any fighting, purchased at very cheap prices. It bears repeating that if the greater outside world agreed with us that these assets are of high quality, we would have to pay a much higher price. So we seek quality that diligent research can appreciate but that lazy or superficial research will not. In this regard, Dell's growing and high margin enterprise assets are obscured by the PC, and Chesapeake's incredible and well diversified gas reserves, oil reserves, and land positions are obscured by the governance dramas and the spot natural gas price.

But let's look at others, though, that are more representative of our normal MO. Our three largest U.S. positions after Dell and Chesapeake, because Ken and Scott are going to cover international, the non-U.S. names, are Loews, which is not related to and is a different spelling from the home improvement chain, FedEx, and DirecTV. The three CEOs of these companies are Jim Tisch, Fred Smith, and Mike White. Jim Tisch is the current leader of one of the most legendary investing families ever. Fred Smith is a genius who needs no introduction here. And Mike White might be our best embodiment of excelling in the dual but unrelated CEO skills of both operational acumen and capital allocation prowess.

Mike honed his operations ability at Pepsi, eventually becoming Vice Chairman. After moving to DirecTV, Mike has quietly undertaken the kind of recapitalization of the balance sheet which we wish every investee was smart enough and shareholder oriented enough to execute at this particular time in financial history. Equity prices have been at post-crash lows, coincident with ridiculously low long-term interest rates, so logically he has borrowed historically cheap long-term money to buy back his stock at very high free cash flow yields.

These three companies also feature businesses which are surprisingly unappreciated and/or overlooked. FedEx conjures up Fred Smith's Yale paper, airplanes, pioneering Chinese expansion, mind-boggling express logistics, amazing employee culture, and legendary advertising. That's all true, but little of it happens to pertain to the most valuable part of FedEx. The most valuable part is FedEx Ground, the time definite, small package ground delivery segment which competes with UPS.

The foundation of FedEx Ground was acquired when FedEx bought RPS in 1997. This slide says it all about the quality of the Ground segment. It grows units at healthy rates, thanks to web commerce and by steadily gaining market share from UPS as a lower cost alternative. It enjoys pricing power, along with UPS, and levers the resulting healthy organic revenue growth into steady margin gains. On the far right, you can see that returns on assets and therefore implicitly returns on capital are incredibly high. It is extremely stable, as you can also see, in contrast to the more volatile air-focused Express division.

The stock market treats FedEx in total as cyclical and capital intensive due to its second most valuable division, which is far better known than its most valuable division. This is as powerful an association as Dell and the PC. We can't find any way that this Ground segment should be worth a fraction of a multiple point less than UPS, since it, since it should always outgrow UPS. Long hand net present value gives the same answer. Such multiples make FedEx Ground worth around 24 billion dollars compared to FedEx's total market cap of 30 billion. FedEx Freight is worth another few billion and net debt is about a billion. So we pay close to zero for the legacy Express division which, despite it cyclicality and volatility and current low margins, still has a terrific moat and will grow long-term with world trade.

DirecTV is viewed in the stock market through goggles which have as their default assumptions the maturity of the U.S. pay TV industry and nagging concerns of the inevitability of over-the-top internet video, so it sells for a very low PE. That's all logical but it, it importantly ignores the vital facts that DirecTV Latin America is growing explosively along with those developing economies and that DirecTV Latin America has no fiber or cable competition remotely like what we have in the U.S. This slide gives you a sense of that rapid growth and cash flow, or EBITDA. DirecTV Latin America is one of the best emerging market companies that we own and it comprises almost half the total corporate value of DirecTV.

Loews is like a closed-in fund of cash, securities, oil and gas reserves, and hotels. The beauty of the stock is that it can be bought in the public market for a price below just the cash and securities, as shown in this slide. But you get two kickers on top of the cash and securities. First, CNA is worth a lot more than its market price. Second, this slide excludes their non-listed oil and gas reserves as well as their hotel division. So when you total up the appropriate values, Loews is worth something in the mid-60s per share while selling in the market for about 43. It sells at this head-scratching discount not just because of the disparate parts which discourage much Wall Street analytical coverage, but also because for many years their main asset, CNA, performed very poorly. Thanks to CNA's CEO, Tom Motamed, who came over from Chubb, that is no longer the case.

But even more important than buying this pool of mostly liquid assets cheaply is the real competitive advantage of Loews, the Tisch family stewardship. This slide shows that the managing team of this closed-end fund has one of the best multi-decade investing track records of all time. You see here a 50-year record of Jim's father and Jim with the hard-to-believe compounding over those 50 years of 15 percent annually for Loews versus 6 percent for the market. As the final slide shows, Jim Tisch and his family have bought in over two-thirds of the company over time, so we are confident that they will either continue to either buy back stock cheaply or find even better things to do with their capital, just as they did in building Diamond

Offshore from scratch or expanding their pipeline and hotel businesses.

So in summary, FedEx, DirecTV, and Loews feature CEOs worthy of the next edition of *The Outsiders*, they all have phenomenal assets which prevailing conventional wisdom ignores, as most easily evidenced by the dominant man on the street or typical investor associations of what they do being so different from what actually drives their economics.

Good Partners – Good Investments: Asia: Ken Siazon

Good evening. In Asia, we look for investments using the same criteria that Mason and Staley mentioned – business, people, price. We've partnered with managements that are mostly big owners and, founders. Our newest management partners are CEO Nagamori at Nidec and Sergio Marchionne at Fiat Industrial. While we spend a lot of time on Asia, Fiat Industrial's a good reminder that sometimes we find good opportunities outside of our time zones. This is not unusual for us. Josh in London covers some Japanese and Brazilian names, I've originated two European names. I think Ross is working on some European and Asian names.

Tonight I'd like to provide an update on our Asian gaming exposure, as this has become a bigger portion of our portfolio and since every few months, it seems, there's a bout of panic about this sector. We currently have almost 10 percent of our funds invested in Asian gaming, through Malaysia-based Genting and Macau-based Melco International. We've been invested in Asian gaming since 2008 when we first started investing in Genting after they were awarded a license in Singapore for which the market gave zero value. We like Asian gaming because of the significant growth prospects, the extremely favorable imbalanced supply demand dynamics, and the fact that the managers who run these businesses are entrepreneurs who care about returns and shareholder value, primarily because they are the largest shareholders. Even halfway around the world in the United States, you see the influence of the Asian player. Baccarat in Las Vegas, a predominantly Asian game, has outstripped blackjack as the largest source of revenue in Las Vegas, which helps explain why, Malaysian gaming company, Genting, just bought a piece of property on the Las Vegas strip.

In Asia, gaming supply is extremely limited. In Malaysia, it's a monopoly and Genting has it. In Singapore, it's a duopoly and Genting and Las Vegas Sands have it. In China, casinos are illegal and probably will remain that way for a very long time. On the doorsteps of mainland China, an hour away by ferry from Hong Kong and soon about a 30-minute drive from Hong Kong, we have Macau where there are only six licenses of which Melco has one, but in fact, three of the licenses are actually owned by the same Ho family which run Melco. So although it may seem that six licenses are a lot, the number of tables are extremely limited and highly regulated. The current table count will only be allowed to grow 3 percent a year. On the other hand, we're seeing double digit growth in demand.

At Genting, in addition to the monopoly in Malaysia and the duopoly in Singapore, they also operate Resorts World New York, which is the only casino in New York. They have operations in the UK and some operations in the Philippines. This is the second time that we've invested with K. T. Lim who owns 40 percent of the company. Genting continues to do smart things. Most recently they bought a piece of property on the Las Vegas strip from highly leveraged Boyd Gaming for about 350 million dollars. That's 70 percent lower than what Boyd had spent on the same piece of property. Genting also owns 30 acres of valuable real estate in Miami, which they had bought at the bottom of the cycle through buying distressed as well as buying a piece of property from an indebted newspaper group. As you all know, Miami real estate has been one of the best performing real estate markets in the U.S., so Genting is sitting on a very nice gain in Miami, plus they retain the optionality in case gaming is ever allowed in Florida. In the meantime, they're planning to ferry and fly over casino guests to their boutique casino resort about 50 miles east of Miami in Bimini. They just acquired a fast ferry from a Greek operator. As you can imagine, they got it on favorable terms. So not only do they buy smart, they also sell smart. This year, they sold a power plant in Malaysia at pretty high valuations.

At our second gaming investment, Melco International, we've partnered with Lawrence Ho, who is also CEO of the casino joint venture, Melco Crown, the joint venture between Crown Limited of Australia and Melco International. Melco operates an oligopoly in the largest and fastest growing gaming market in the world, and Macau is the only place in China where gambling is legal. If there's any trend that I have faith in, it's the Chinese propensity for gaming.

Every few years or months, the market believes that China is on a treadmill to hell, as Jim Chanos put it. So we first started buying Melco in the fourth quarter of 2011 during a period of fear and again in 2012 when there was another bout of panic. In a year that was supposedly going to end up badly for Macau and gaming, gross gaming revenues were up 13 and a half percent, to 38 billion, which is larger than the entire U.S. gaming market of 36 billion and six times larger than that of Las Vegas. So these gaming revenues are driven by five million people basically who visit Macau four or five times a year and the bulk of these visitors are coming from neighboring Guangdong Province. This catchman area will expand dramatically as infrastructure improves in China.

So gaming, as you know, has two segments – VIP and mass – and while the mass market only accounts for a third of revenues, it accounts for the bulk of the profits of this industry. EBITDA margins for mass are three times higher than that for VIP, and this is because, unlike in the VIP segment, in the mass segment, there's no need to pay third party junkets' steep commissions. So in the case of Melco Crown who are focused on the mass premium market, more than two-thirds of EBITDA comes from non-VIP. We can expect EBITDA and EBITDA margins to increase as masses growing at 20 percent a year and VIP is growing single digits. When we value Melco, we're assuming single-digit growths in our long hand.

So that's why we think that at Melco International, this discount to, to appraisal is very attractive still. Their stake in the joint venture, Melco Crown, is worth 160 percent of the market cap of the company itself. We're effectively paying 10 times free cash flow for a company that grew earnings 140 percent last year and EBITDA by 14 percent. The CEO is Lawrence Ho. He owns 49 percent of this company which he basically built from scratch. In '04 he partnered with the Australians, Crown Limited. In '06 he acquired a gaming license. And in the last seven years, he has built a business that does north of 900 million dollars of EBITDA based on less than 3 billion dollars of investments. And this company is growing fast. They have a pipeline of two projects in Macau and one project in the Philippines.

Melco Crown is listed in New York, so it's gone through and passed multiple levels of regulatory scrutiny, which has always been an investor concern. He's passed the regulatory scrutiny in the U.S., in Australia, the UK, even in Singapore. They currently have two casinos in Macau and a third casino under construction called Studio City. Studio City is particularly interesting because it's going to be connected directly to the immigration checkpoint. It's the, equivalent of drinking straight from the fire hydrant.

Growth, until now, has been constrained primarily by the lack of infrastructure, but this is changing dramatically as we speak. The infrastructural changes in Macau over the next 36 months are going to be dramatic. You've got a new bridge going to Hong Kong in 2016, you have a new light rail system coming up, you have a new ferry terminal, you have expanded airports' capacity, and a new rail system going into China. And you also have potentially an immigration border that's going to be open 24 hours a day.

So in Melco International and in Genting, I think we've partnered with great owner-managers who have businesses that are unique, are deeply entrenched, and selling at cheap valuations. And just as importantly, are conservatively capitalized.

As Asia continues to grow fast, the importance of Asia is increasing among our invested companies. Our Asian investee companies are investing globally. The involvement of Asians in U.S. gaming or Asians in U.S. E&P or Asians in European infrastructure or European teleco, makes our global network and collaboration more important than ever within Southeastern. So going forward, I think that you will see even more collaboration among the varying offices in Southeastern than you have in the past. Thank you. (applause)

<u>Good Partners Good Investments: Europe: Scott Cobb</u>

Tonight I want to talk about the capital allocation prowess of Frans van Houton at Philips. I spoke about Philips briefly last year and many of you will be relieved to hear that I will not be rehashing the entire investment case again tonight. With that said, I do think a quick reminder of the business would be helpful. Most of you will be aware that this is the third time that we've owned Philips. We obviously like the business, and are attracted to its market leading positions in the healthcare and lighting industries, as well as its focus on high value consumer products, such as the Sonicare toothbrush.

Philips is often wrongly perceived as a European consumer electronics company. The reality is that Philips is a company focused primarily on health and well-being, not electronics. In fact, at tomorrow's AGM in The Netherlands, shareholders are expected to approve dropping electronics from the name altogether. Over 50 percent of the earnings come from healthcare where Philips is the world leader in cardiovascular x-ray, home health care, patient monitoring, and ultrasound. The next biggest segment, representing about 35 percent of the business, is lighting where Philips is the dominant player with leading the shift to LED-based lighting solutions. Lastly, the company sells consumer items like Sonicare toothbrushes and Norelco razors which are growing double digits with mid-teen margins. Thirty-five percent of the business is located in fast growing emerging markets and another 35 percent of the business is located right here in the United States. Philips is far from being a European consumer electronics company.

Frans was appointed CEO in 2011. At the time of his appointment, he was unknown to us. One of the benefits of recycling an old name is that we are able to benefit from our relationships with the previous managers. When a manager is no longer employed by a company, he or she will usually give an unbiased yet spirited view of the current context of the company as well as the state of its management. That unbiased view is invaluable to us, but as we all know, talk can be cheap, so the fact that many of the ex-managers of Philips were vested owners in the company upon their departure and were still holding onto their shares after Frans was appointed CEO was an enormous vote of confidence in Frans and his transformation plan. It is one thing to give an opinion; it's another thing altogether to back that opinion up with their wallet.

Unlike say a Fred Smith at FedEx or the del Pino family at Ferrovial, founders of their respected businesses and therefore large owners, Frans did not have a huge ownership position in Philips. Still, since becoming CEO, he has behaved as if he owned 100 percent of the business. Since he only became CEO in 2011, we did not have a long-term track record to enable us to assess his ability as a capital allocator. We needed some tangible way of determining whether or not he would make decisions that would meaningfully grow the intrinsic value per share of the business before making our investment.

As I mentioned earlier, the vote of confidence in Frans given by past managers was an important factor in our decision making process. We also got another data point during Frans' first big address to the market in July of 2011. During this address, Frans highlighted his transformation plan for the company. Not only did he lay out a compelling plan for increasing margins through removing inefficiencies and selling non-core, low performing segments, he put his money where his mouth is and announced a 2 billion Euro share buyback. This share buyback was one of the largest buybacks in Europe at the time. It was a bold statement, especially since the majority of

CEOs were still shell-shocked from the financial crisis and hoarding their cash. What this announcement signaled to us was that Frans recognized that Philips was significantly undervalued, that he got the math of how buybacks at a discounted price increased the intrinsic value per share and benefit long-term owners, and that he had a high degree of confidence in his transformation plan.

If we fast forward to today, the company has nearly completed the buyback with the purchases taking place at an average price of 16 Euros and 40 cents a share. That price compares to the current market price of around 23 Euros a share. The company is on track to deliver its transformation plan and will hit its 2013 margin targets. Frans has sold both the low performing TV and lifestyle entertainment businesses, he has refocused the business around its three dominant platforms, and the intrinsic value per share has continued to grow at a healthy double digit pace. We are excited about the prospects for this investment over the coming years and confident that Frans will continue to allocate capital in ways that will benefit long-term shareholders.

And to much, I'm sure, to your relief, that's the end of the speeches, and thank you very much. (applause)

<u>Q & A: Investment Team</u>

Question: So what do you like about Murphy Oil, one of the newer holdings in the Partners Fund?

<u>Ross Glotzbach</u>

Murphy is one that we had bought a little bit of in late 2011. We bought more since. On the business side of things, it's a collection of assets that is a bit confusing to the average oil and gas analyst. It owns everything from the Murphy USA gas stations that you see in front of Wal-Mart to assets in Malaysia, part of Syncrude which is really effectively a real estate company in Canada, to a great position in the Eagle Ford Shale, so it's got a great collection of assets on the business front. On the people side of things, the extended Murphy family from south Arkansas owns about 20 percent of it. They have historically done good things over time. They've grown value per share. They spun off Deltic Timber, which we owned and made money in many years ago. So on the price, when we add the assets up, we get significantly higher than the stock price today. A unique thing about this is that just last year, they made the decision to spin off their U.S. gas station business. They're also selling that business that's in the UK, so we're going to get back potentially 15 to 20 dollars a share of the 60 dollar a share stock price soon this year. They also paid a special dividend and they're buying back a lot of stock, so this seems like it's checking all the boxes on business, people, price.

Question: How have your dealings with McClendon and now Dell changed the way you evaluate people or think about the people part of your process?

Mason Hawkins

First of all, on Dell and Chesapeake, we have confidentiality agreement's signed and we have to be careful about what we do say. But as it relates to the history of Aubrey McClendon and Chesapeake, it was very evident that he had created a very valuable company. He founded it and 22 years later, it had the largest oil and gas acreage position in the U.S., some of the most cherished oil and gas lease acres as well as proven and unproven reserves. So he definitely checked the box as an owner-operator that was vested. It somewhat went off the rails in the third quarter of 2012 when he spent over 3 billion dollars in a quarter and really pushed it to the wall on the balance sheet. That was a point when we said, stop, and it was a point where the company became over-geared, over-leveraged, and somewhat put the creditors in charge of a position that could have been at the expense of the shareholders. So it was a situation where the founder, the creator of the company with substantial economic worth, did some things on the capital allocation front, that we've alluded to in the book *The Outsiders*, that jeopardized the shareholders' position. So as we said in my talk, it's never a given that people will continue to behave rationally or prudently.

Question: Do you still feel like the cement and aggregates companies are good companies to own?

Lowry Howell

On the cement and aggregates companies, to recap our investments there would include Texas Industries, Cemex, Vulcan Materials, Martin Marietta Materials, and Lafarge. We very much feel like the economic moats of these companies are intact. As we look at them, the barriers to entry are huge. To get a new cement plant permitted can take up to 5 to 10 years. It's a NIMBY thing; "Not In My Backyard", nobody wants one near them. In addition to that, a ton of cement or a ton of rocks doesn't cost that much, about a hundred dollars for a ton of cement, 10 to 12 bucks for a ton of rocks, and then when you transport them even over short distances, the cost goes up tremendously, and so therefore, what it creates is a local and regional oligopoly so other people don't enter your market. A third interesting aspect about this industry and these companies is environmental regulation here cuts both ways. For our assets, they don't require a bunch of environmental expenditures with new CO2 regulations, but for the rest of the industry, especially in developed markets, there's a lot of cement capacity that the next upturn will not come back, so we're going to end up with the market reaching capacity at much sooner levels, so the proof is in the pudding here, is all about pricing, so what, have we seen? Volumes are down 50 percent from the peak in this industry, yet cement pricing has been pretty stable. Aggregates pricing aggregates are the rocks, is down 40 percent, or the volumes are down 40 percent, yet pricing is up 30 percent, We've just never seen an industry that can get that type of pricing power when volumes are down.

Then further, thinking about the markets that we're exposed to, the U.S. is recovering, housing starts have doubled from the low. On top of that, we have a new roads bill that was signed in the United States this week, and then further, there's some other infrastructure stimulus called TIFIA that could occur that could really be a boost to U.S. infrastructure spending. Latin America is very important to us with Cemex and also at Lafarge. That continues to be strong as far as foreign direct investment and also housing shortage, and then in other developing markets, we're exposed to infrastructure and housing shortage is creating tremendous demand there.

On the people side, across these investments, we've really had a lot of good things happen on people and corporate governance in the last year. Three phenomenal new directors at TXI, with Vulcan Materials, when you look at the proxy they just filed, there's a lot of very shareholder friendly corporate governance initiatives in there. Cemex was able to refinance all of their bank debt and turn that out, and IPO part of their Latin American ops, and really solidify the balance sheet, and Bruno Lafont at Lafarge has just been a superstar in any way you want to measure it.

On the price side, we do our appraisals on discounted cash flow, but some other important metrics on the comp side have really come back that have given us increased confidence in our appraisals and the conservatism there. We've seen multiple comparable transactions in the cement plants being purchased and aggregates quarries being purchased at values that are way in excess of what we're appraising our cement and aggs assets, so on business, people, price, we still feel like these are great investments.

Question: When is Chesapeake's next phase moving into harvesting versus selling assets?

<u>Ross Glotzbach</u>

I think that that depends largely on the price they're getting for these assets. We are 100 percent in favor of them selling things when they get full value for them, especially when they're not producing cash flow today. When you can bring that value forward, reduce debt, strengthen your company, and still have plenty more good things to drill, we want them to keep selling things. I will say, though, that probably this time next year, they will have, HBP'd, held by production, a lot of their acreage that they want to, so it will turn into more of a, of a harvest mode, as you say.

<u>Mason Hawkins</u>

The gross figures are for them to sell between 5 and 7 billion dollars of assets, and their announced plans are to sell those things that are not strategic to them that might be more valuable to others. If you take maps of these various basins, you can see the checkerboard acreage that might line up with others' core positions, pipelines, etcetera, and so they're methodically going about paring their less strategic assets, keeping their good ones. If they sell 5 to 7 billion dollars of assets, they produce 5 billion or so dollars of operating cash flow, and they only spend about 5 billion on cap X, that means that their debt could come down by 5 to 7 billion dollars and they could end the year with an investment grade balance sheet with a lot of flexibility. At that stage, we should be in that harvest mode for certain and have a lot of optionality. Optionality on gas prices going back to more of an economic equivalent with oil. Number two, we could actually be buying a lot of our shares in because we clearly have an appraisal that's substantially greater than the current stock price. We, as long-term investors with a terrific board of directors looking after your and our interest, are very sanguine about where we'll be in a year.

Question: One of your newest holdings is Fiat Industrial. Can somebody talk more about why you own it?

<u>Manish Sharma</u>

Ken and I, we work together on this one. Fiat Industrial, it's the third largest capital goods manufacturer in the world after Caterpillar and Volvo. There are two key businesses here. One is CNH, Case New Holland, which is the second largest farm equipment manufacturer in the world, after John Deere. There are three players in this industry, they control the market, so they have huge pricing power. To give you an example, during GFC, global financial crisis in 2008 and '09, they were still able to raise prices, so that's the first business, CNH.

The second business is Iveco, which is the truck manufacturer. They have around 12 to 14 percent market share in Europe and Latin America. So unlike passenger cars, we believe CVs are much better business because up front cost of buying a truck is just 10 percent of total cost of ownership, so what really matters is fuel efficiency as well as the service and dealership network. So no wonder you don't see any cheap Chinese competition in this space. So good business, both in the farm equipment side as well as the truck manufacturing side.

Now moving on to price, the reason why you are able to buy this, back late last year, at close to 60 cents on the dollar, was because, one, Fiat Industrial is headquartered in Italy, it's listed in Italy, so it suffers from that Italy discount, but just 8 percent of their sales come from Italy. Most of their value resides, most of their value resides on the CNH side, the farm equipment side, and most European investors, they're treated as a truck manufacturer, so they put low end multiples on the business, so it deserves a much higher multiple than it actually gets. And then CNH, which is listed in the U.S., it has a very low free float, so it suffers from big liquidity discount. And then finally, Iveco, it's not the most efficient player and it competes in a cyclical industry which is somewhat exposed to Europe, so these were the key reasons why you were able to buy it on the cheap.

Now moving on to people, management team led by Sergio Marchionne. They are doing the best they can to increase shareholder value per share and address all the concerns that I just talked about. They are buying out minorities at CNH and they are moving their primary listing from Italy to U.S., so that should take care of the Italy discount as well as the liquidity discount here. And in addition, full merger with CNH would help them save a lot on financial expenses and plus they are rationalizing the manufacturing footprint. They are shutting down plants, they are increasing efficiency which should increase margins at Iveco as well.

So in summary, this is a great business, it's run by one of the operators, and it's sitting at a deep discount to what we think it's worth.

Question: What do you think about Level 3's new CEO and what do you think the prospects are?

Staley Cates

I'm happy to start and then the rest of us will get our rah, rah, cheerleader stuff and jump up and down, cause we're very excited, so we've been pretty open about the pros and the cons of Level 3 last few years and we think Jeff Storey, who's the new CEO, is, the perfect choice, and without getting into assessment of the previous CEO Jeff is favored by who was already running Level 3 as one camp. He's favored by Singapore in the form of Temasek who's the largest shareholder and has three board seats as another, and in our own assessment of Jeff, it's been hugely positive. He was, he was most recently inside of Leucadia after he ran WilTel Communicationsfor them. Before that, he was at Southwestern Bell. Before that, he was at Cox Communications where they were the first VOIP operator. So he's been all over the place and that's actually a really good broad perspective thing, and somewhat related to that is we've, made two suggestions for board members that they've taken and that's another kind of good timing thing within the last year, so we have a couple of board people we're wild about, including Mike Glenn from FedEx here in Memphis, the three Temasek directors, and now you have Jeff as new CEO, so we think we are finally ready to show the results that have been pent up there for a while.

Mason Hawkins

I'd say that Jeff executed in a nonpareil manner by putting Global Crossings together with Level 3 without a glitch; and, it expanded greatly their network around the globe. They now serve many more potential customers. And also Staley, I mention another fellow, Peter van Oppen who went on the board along with Mike Glenn. That gives us, we believe, the kind of board that is going to look after our capital as, we would hope they would. Clearly, the Singaporeans - Temasek, STT, their communications investment arm - are very interested in the outcome of these two companies and the leadership that Jeff Storey represents. So, we're thrilled to be partners with Jeff Storey and this board. We think they have a long runway of revenue and operating cash flow opportunity. As you remember, we were lenders first, we were convertible bond owners secondly, and we're now major common shareholders. And it's about time that these revenues and operating cash flows started to develop.