Longleaf Partners Funds Shareholder Letter

We are pleased to report strong absolute returns for all four Longleaf Partners Funds for the first nine months of 2016. All four Funds also surpassed their respective benchmarks by a wide margin for the year-to-date. In the third quarter, Fund benchmark indices rose, and the Funds were well above those benchmarks, with the exception of the Small-Cap Fund. Over the last twelve months, all four funds exceeded our annual absolute goal of inflation plus 10% as well as their relative benchmarks.

	One Year	YTD	3Q
Partners Fund	**24.80%**	**18.32%**	**11.07%**
S&P 500 Index	15.43	7.84	3.85
Small-Cap Fund	**24.09**	**15.97**	**5.28**
Russell 2000 Index	15.47	11.46	9.05
International Fund	**16.86**	**12.55**	**12.55**
MSCI EAFE Index	6.51	1.73	6.43
Global Fund	**25.74**	**18.54**	**17.71**
MSCI World Index	11.36	5.55	4.87

Past performance does not guarantee future results

Impact of the Low Interest Rate Environment

We started Southeastern in 1975 in the aftermath of the "Nifty Fifty" bubble. In the subsequent four decades, we have been through various market cycles, including the S&P run in the late 1990s that ended in the dot-com bubble bursting and the 2006-2007 housing and mortgage securities bubble that precipitated the Global Financial Crisis (GFC). Today, the dominant market force is historically low interest rates that have driven bond yields into extremely low and even negative territory in a number of countries. Central banks in many of the world's developed markets have maintained low interest rates to help spur economic growth. With ongoing anemic gross domestic product (GDP) growth, rates have stayed low for much longer than fiscal policymakers would have predicted. Much has been written about how sustained low interest rates are sending stocks higher in spite of challenged corporate revenue and profit growth. Lower borrowing costs have helped support earnings with lower-than-normal interest expense. The search for top-line growth, combined with cheap financing, also has spurred acquisition activity.

Paltry fixed income yields and ongoing fears of a repeat of previous market shocks have impacted equity market activity and valuations in several ways. First, investors increasingly have turned to stocks that pay out higher dividends in a search for yield. Second, investors have moved to stocks with lower volatility and more predictable, stable earnings that seem bond-like. Third, memories of stock-specific losses in the GFC and Europe's 2011 debt crisis have helped drive fund flows into low volatility and/or high dividend yielding equities and exchange traded funds that performed better during those periods, even though past performance is no guarantee of what will happen in the next downturn.

To illustrate the flight to income and perceived stability, the table on the next page shows data on the Utilities and Consumer Staples sectors across broad global indices. These sectors with stable earnings and reliable, high dividends are trading well above their historic levels.

Average Annual Total Returns (9/30/16) Partners Fund: Since Inception (4/8/87): 10.44%, Ten Year: 3.77%, Five Year: 11.39%, One Year: 24.80%. Small-Cap Fund: Since Inception (2/21/89): 11.05%, Ten Year: 8.70%, Five Year: 16.49, One Year: 24.09%. International Fund: Since Inception (10/26/98): 7.17%, Ten Year: 1.41%, Five Year: 6.65, One Year: 16.86%. Global Fund: Since Inception (12/27/12): 5.75%, Ten Year: na, Five Year: na, One Year: 25.74%.

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, 2016, the total expense ratios for the Longleaf Partners Funds are: Partners Fund 0.93%, Small-Cap Fund 0.91%, International Fund 1.28%, and Global Fund 1.54%. 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.

Metrics for "Safe" Sectors

	Utilities Sector				Consumer Staples Sector			
	Dividend Yield *(LTM)*	Volatility *(1 year beta)*	P/E Ratio		Dividend Yield *(LTM)*	Volatility *(1 year beta)*	P/E Ratio	
			Current	10-year Average			Current	10-year Average
S&P 500	3.4%	0.4	22.2x	15.8x	2.6%	0.7	20.0x	16.8x
MSCI World	3.7%	0.5	19.5x	15.8x	2.4%	0.7	21.5x	16.8x
MSCI EAFE	4.2%	0.8	16.7x	16.0x	2.4%	0.7	23.6x	16.8x

Source: Factset data as of 9/30/16. Past performance does not guarantee future results.

This market environment does not change our "Business, People, Price" investment discipline, which focuses on the qualitative fundamentals and values of individual companies. However, the environment does impact our opportunity set and resulting Fund positioning. Higher market levels after five years of double-digit annual returns are making it difficult to find companies that have an ample margin of safety between their prices and our underlying business appraisals. With our strong returns this year, we have trimmed or sold a number of businesses that became more fully valued. Consequently, our cash levels are higher than normal. While we prefer to be business owners, we have seen in previous similar periods that the antidote for high cash and limited qualifiers is patience and discipline, along with hard work to uncover deeply discounted opportunities that meet our investment criteria.

Not only do we have higher cash levels, but the Funds contain few companies in the perceived "safe" sectors because those businesses that meet our qualitative criteria have little or no margin of safety in their prices. Conversely, many of our holdings have more economic sensitivity with higher betas because those are the businesses available at discounted prices. (We reference beta simply as a volatility measure. We do not share the academic view that volatility equates to risk of loss, and beta does not impact our investment decisions.) Additionally, although a number of our companies have attractive free cash flow (FCF) yields, many of those that reinvest the coupon at good returns have been penalized relative to peers that are seen as more stable and distribute large dividends, particularly in the U.S., where yield chasing is pervasive.

An example is Level 3 Communications, which is among the largest positions in the Partners, Small-Cap and Global Funds. This fiber network provider reinvests its excess cash into high margin growth rather than paying a dividend, has a beta of 1.5, and only trades at an adjusted 8x earnings before interest, taxes, depreciation, amortization (EBITDA) for expected FCF growth in the teens. By contrast, AT&T and Verizon have dividend yields over 4% with betas of 0.6 or less and trade at 7x EBITDA, with growth prospects limited to mid-single digits. Likewise, FedEx, another large holding in the Partners and Global Funds, shares a duopoly with UPS in the U.S. ground business, yet trades at a 13.9x price-to-earnings ratio (P/E), while UPS is at 18.0x. FedEx has lower labor costs and more growth potential as it takes share from UPS and integrates its recent purchase of TNT. FedEx has a dividend yield of less than 1% and a 1.2 beta, while UPS has a 2.9% dividend yield and a beta of 0.7.

This pursuit of yield has contributed to the opportunity to own select gaming companies across the Funds. In the U.S., Wynn Resorts, which we own in the Partners, Small-Cap and Global Funds, trades at 9.5x projected EBITDA and has a dividend yield of 2.1%. Its comparable peer, Las Vegas Sands, has a dividend yield of over 5% and trades at 15.0x EBITDA. Similarly, in Macau, Melco Crown, the operating business for the casinos we own in the International and Global Funds through Melco International, has a dividend yield of 0.5% and is dramatically cheaper at 9.2x EBITDA than its competitor, Sands China, which has a 5.9% dividend yield and trades at 15.6x EBITDA.

Our non-U.S. companies have higher dividend payouts than most of our U.S. holdings, but, like in the U.S., the premium for price stability has created opportunity in more volatile stocks. In the International and Global Funds, for example, most of our Hong Kong real estate companies trade at much lower multiples than their real estate investment trust (REIT) peers. Our companies develop and own commercial properties, their dividends are dependent on managements' capital choices, and they trade at higher betas as a result. REITs are required to return most of their free cash flow in dividends, supporting less volatile stocks. In International, Global, and Partners, we own Cheung Kong Property, one of the largest developers in Hong Kong with an extensive portfolio in mainland China and other countries. The company has a dividend yield of 2.5%, a beta of 1.1, and a P/E of 11.7x, while LINK, the largest REIT in Asia, has a 3.6% dividend yield, a beta of 0.5, and a P/E of 25.2x.

Prolonged low interest rates have also contributed to broader five-year stock market returns that are over 400 basis points above historic U.S. averages and 300-400+ basis points over historic local returns around the world. If rates remain at current levels for a sustained period, markets are probably fairly priced

and returns above the long-term averages are warranted. If interest rates increase, many predict that equity markets will decline in general, especially among the stocks substituting for bonds. We believe our holdings would likely not be immune from a market downturn, but our cash should provide a price buffer and the liquidity to go on offense. If higher interest rates also reflect an environment with more economic growth, our stocks with more economic sensitivity and higher betas also may benefit more than the indices.

We do not know exactly what rates will do or what short-term price reactions will be, and we therefore remain focused on our companies' underlying business appraisals that should drive our long-term results. We believe that the intrinsic values of our companies are not widely vulnerable to interest rates returning to longer-term norms for three primary reasons.

First, we have maintained discount rates in our free cash flow models of 8-9% in USD terms, based off of the long-term risk free rate. Second, a number of our businesses have net cash and/or some type of float that should earn more with higher rates. Third, a majority of our businesses have pricing power and/or the ability to raise revenues greater than fixed costs, so they should be able to increase margins at a time when many other companies are already at peak margins. In the event of rates rising from higher GDP growth, which our appraisals do not currently assume, better top-line growth should drive higher values at our companies.

Most importantly, our successful results in 2016 indicate that we do not require higher interest rates and economic growth for our companies' intrinsic values to be recognized. The market often focuses most on the rate of change in a given metric. Much of the flight to yield and perceived safety has occurred already and is therefore "in the numbers." As the yield and low-volatility seeking momentum tapers, we see more room for the fundamentals of our companies to be recognized. Our strong businesses and their growing FCF over the next few years should continue to drive their underlying values higher. Our capable management partners continue to productively reinvest the cash flow coupons of their businesses, successfully monetize assets, and prudently steward their balance sheets for the long term.

Organizational Update

Southeastern's four-plus decade mission has been seeking to deliver superior investment results to our clients. To that end, our organization is structured to:

-Achieve the highest research productivity and effectiveness,
-Retain our most talented investment team members,
-Align our interests with those of our clients, and
-Develop an experienced bench for future succession.

As we reported six months ago, we shifted some managerial responsibilities from Mason Hawkins and Staley Cates to allow our two most senior investors to focus their time on investing and to tap the talents and broaden the experience of others on the team. Ross Glotzbach, Deputy Director of Research and a twelve year Southeastern veteran, has coordinated our global research process and team effectively to the benefit of our firm and clients. Staley and Mason are completely engaged in investing, new investment idea generation has increased across the team, and existing holdings have been scrutinized even more thoroughly.

Another positive evolution started a few years ago, when we began letting our experienced analysts have portfolio management responsibility for their own distinct investment strategies where we believed there was ample long-term opportunity. We saw this autonomy as a way to generate better qualified ideas in larger quantity for Southeastern's clients, while also fulfilling longer-term career aspirations and tying incentives tightly to portfolio results. As a result, we seeded an Asia Pacific strategy that our Singapore team has been running since December 2014 as well as a highly concentrated European strategy that our London team has been overseeing since April 2015. When qualifying investment opportunities are presented, our Longleaf Funds are able to participate, and already have benefitted significantly. A wider array of investment ideas has surfaced for all of the Funds, and several of the higher conviction names in the regional strategies have been some of the largest contributors to the International and Global Funds' performance this year. In addition, having responsibility for their own mandates has increased the productivity, enthusiasm, accountability, and commitment of those team members.

Summary

We believe that the 34-year bond bull market will reverse at some point. When that occurs, we still expect our collective business values will grow because of our companies' competitive advantages. While we consider how rate changes might impact both investment opportunities and our current holdings, delivering strong results to our partners is imperative whatever interest rates do. We are pleased with the progress at our companies and that the market has more fairly priced those businesses in 2016. We are also happy with the progress our firm has made to insure a successful path for our next 40 years. All of your partners at Southeastern remain hard at work, searching for new qualified investments and encouraging our managements to prudently build their companies' per share values.

See following page for important disclosures.

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

RISKS

The Longleaf Partners 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.

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

Free Cash Flow (FCF) is a measure of a company's ability to generate the cash flow necessary to maintain operations. Generally, it is calculated as operating cash flow minus capital expenditures.

"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.

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

Gross Domestic Product (GDP) is the final value of the goods and services produced within the geographic boundaries of a country during a specified period of time.

Beta is a measure of how volatile an investment is compared to the overall market. A beta of 1 indicates that the investment will move with the market. A beta of more than 1 means that the investment is more volatile than the market. For example, if a stock's beta is 1.2, then theoretically it's 20% more volatile than the market.

Dividend yield is a stock's dividend as a percentage of the stock price.

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

Nifty Fifty" refers to a group of fifty growth stocks identified by Morgan Guarantee Trust in the 1960's and 1970's that were regarded as "buy and hold" stocks.

One basis point is equal to 1/100th of 1%, or 0.01%.

As of September 30, 2016 the holdings discussed represented the following percentages of the Funds- Level 3: 6.4% Partners, 6.4% Small-Cap, 5.5% Global; FedEx: 8.6% Partners, 6.3% Global; Wynn Resorts: 6.3% Partners, 5.9% Small-Cap, 5.9% Global; Melco International: 6.8% International, 6.0% Global; Cheung Kong: 4.8% Partners, 5.2% International, 4.7% Global. The following stocks discussed are not held in the Longleaf Partners Funds: AT&T, Verizon, UPS, Las Vegas Sands, LINK. 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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