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***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](http://longleafpartners.com). Please read the Prospectus and Summary Prospectus carefully before investing.***

*Average annual returns for the Longleaf Partners Funds are their respective indices for the one, five, ten, and since inception periods ended September 30, 2016 are as follows:*

*Longleaf Partners Fund: 24.80%, 11.39%, 3.77%, 10.44% (inception April 8, 1987). S&P 500: 15.43%, 16.37%, 7.27%, 9.48%.*

*Longleaf Partners Small-Cap Fund: 24.09%, 16.49%, 8.70%, 11.05% (inception February 21, 1989). Russell 2000: 15.47%, 15.82%, 7.07%, 9.38%.*

*Longleaf Partners International Fund: 16.86%, 6.65%, 1.41%, 7.17% (inception October 26, 1998). MSCI EAFE: 6.52%, 7.39%, 1.82%, 4.06%.*

*Longleaf Partners Global Fund: 25.74% (1 year), 5.75% since inception December 27, 2012. MSCI World: 11.36%, 9.23%.*

*Returns reflect reinvested capital gains and dividends but not the deduction of taxes an investor would pay on distributions or share redemptions. Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by visiting [longleafpartners.com](http://longleafpartners.com)*

**The total expense ratios for the Longleaf Partners Funds are as follows: Partners Fund 0.93%, Small-Cap Fund 0.91%, International Fund 1.28%, Global Fund 1.54%. The funds' 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 1.5%, Small-Cap Fund 1.5%, International Fund 1.75%, and Global Fund 1.65%.**

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 may be more volatile than those of larger companies. As it relates to the Small-Cap Fund, smaller company stocks may be more volatile with less financial resources than those of larger companies. As it relates 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 Top 10 holdings of each Fund as of September 30, 2016 are as follows:

Partners Fund: FedEx, 8.6%; CK Hutchinson, 6.6%; Level 3 Communications, 6.4%; Wynn Resorts, 6.3%; Alphabet, 6.2%; CONSOL Energy, 6.2%; Chesapeake Energy, 5.4%; LafargeHolcim, 4.8%; Cheung Kong Property, 4.8%; Scripps Networks, 4.7%.

Small-Cap Fund: Level 3 Communications, 6.4%; ViaSat, 6.2%; Liberty Media, 6.0%; Wynn Resorts, 5.9%; CONSOL Energy, 5.8%; Graham Holdings, 5.0%; Hopewell, 4.8%; OCI, 4.5%; Scripps Networks, 4.4%; Rayonier, 4.3%.

International Fund: EXOR, 8.3%; LafargeHolcim, 7.8%; CK Hutchinson, 7.3%; Melco International, 6.8%; Great Eagle, 6.0%; Cheung Kong Property, 5.2%; CEMEX, 4.9%; OCI, 4.4%; Baidu, 4.4%; Sika, 4.0%.

Global Fund: Chesapeake Energy, 11.7%; LafargeHolcim, 6.7%; FedEx, 6.3%; CK Hutchinson, 6.3%; Melco International, 6.0%; Wynn Resorts, 5.9%; Level 3 Communications, 5.5%; EXOR, 4.8%; Cheung Kong Property, 4.7%; United Technologies, 4.3%.

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.**

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.

“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 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 U.S. & 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. The MSCI AC Asia Pacific Index captures large and mid cap representation across five developed markets countries and eight emerging market countries in the Asia Pacific region. An index cannot be invested in directly. An index cannot be invested in directly.

Definitions for terms used include:

EBITDA is earnings before interest, taxes, depreciation and amortization.

P/E (Price Earnings) Ratio is the market price of a company's share divided by the earnings per share of the company.

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.

Capital Expenditure (capex) is the amount spent to acquire or upgrade productive assets in order to increase the capacity or efficiency of a company for more than one accounting period.

Brexit ("British exit") refers to the June 23, 2016 referendum by British voters to leave the European Union.

Book Value is the value of an asset as carried on a company's balance sheet.

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

Earnings yield is the earnings per share for the most recent 12-month period divided by the current market price per share

Return on capital (ROC) is a calculation used to assess a company's efficiency at allocating the capital under its control to profitable investments.

Return on assets (ROA) is an indicator of how profitable a company is relative to its total assets and is calculated by dividing a company's annual earnings by its total assets.

Arb spread is a reference to merger arbitrage. Arbitrage is the simultaneous purchase and sale of an asset to profit from a difference in the price. Merger arbitrage refers to trading in stocks of companies that are the subject of a merger or takeover.

"A/B share structure" is a reference to a company with two classes of common stock, denoted as Class A and Class B.

"Haircut" is a reference to the amount by which an asset's market value is reduced or marked down.

"Short" or "shorting" is a reference to short selling, which is the sale of a security that is not owned by the seller under the view that the price will decline and can be bought back at a lower price.

Futures strip is a sequence of futures contracts for consecutive months traded as a single security.

"Equity surrogate" means a substitute for stock.

Convertible preferred stock is preferred stock that includes an option to convert the preferred shares into common stock.

Junior convertible preferred stock is convertible preferred stock that receives its portion of dividends only after other issues of preferred stock.

Cap rate (capitalization rate) is the rate of return on a real estate investment property based on expected income.

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*Gwin Myerberg:* Hello, and welcome to the Southeastern Asset Management and Longleaf Partners Funds webcast. We're delighted that you're able to join us today.

Lee Harper usually moderates the webcast, but she's lost her voice and unfortunately will not be able to join us today. We'll try our best to live up to her high standards.

My name is Gwin Myerberg, and I'm based in our London office. Let me start by introducing our research group in attendance.

Reflective of our global footprint and our close team interaction, several members of our Memphis team are joining from other offices today. Dialing in from Memphis are Mason, Staley and Brandon. Here in London are Scott, Josh, John, David and Naser. as well as Ross and Lowry from Memphis. And joining from Singapore are Ken, Manish and Yaowen, along with Jim Thompson from Memphis.

Our format today will be similar to our other webcasts. Following Mason's introductory comments, Ross, Ken and Josh will give brief regional overviews.

We'll spend most of our time on Q&A, which Brandon will moderate, and we'll try and address as many pre-submitted and live questions as we are able.

Before we dive in, two brief housekeeping items to cover. First, this webcast is meant to provide information to our investment partners. So, to the extent any members of the media are participating, please consider everything we discuss off the record and not available for distribution or reference.

And second, yesterday was the capital gains distribution date for the Longleaf mutual funds. As the chart here indicates the Partners and Small-Cap Funds had gains to distribute. For those of you who track our daily fund net asset values, we paid out the amount yesterday, which is the reason for the decline in the Small Cap Fund.

With that, I'll hand it over to Mason to give a Southeastern progress report.

*Mason Hawkins:* Thanks Gwin. It's also my privilege and pleasure to welcome everyone to this year's Southeastern Asset Management fall webcast. We're always happy to spend time with our investment partners. Our prepared remarks will be kept brief, so we'll have time to address most of your questions.

For those of you who are new clients of Southeastern or shareholders of the funds, we think it's important for you to know we are a long-term, concentrated, engaged, intelligent – in Ben Graham's vernacular, partnership investors.

This slide expands on these descriptives. The intelligent investing bullet is the most important one. Quantitatively, we believe it's imperative to purchase businesses significantly below what they are worth; and, qualitatively, we believe businesses must be competitively advantaged and managed by ethical individuals who have operating prowess and who wisely and prudently allocate capital to build value per share.

Our global research team is deeper and more talented, complementary, experienced and properly incented than it's been in our 42-year history. Most importantly – and I believe uniquely – our Singapore, London and Memphis analytical associates are communicating and collaborating to effectively vet critical investment criteria in the ever-changing world of business threats.

Also, as we highlighted in our recent quarterly letter, various members of our research team have taken on more managerial responsibilities to allow Staley and me to focus our time and thought on investing. Ross Glotzbach is doing a terrific job coordinating our global research process and talents. Jim Thompson, most thankfully, is overseeing more of Southeastern's managerial duties. In Europe, Scott Cobb and Josh Shores, and in Asia, Ken Siazon and Manish Sharma have assumed responsibility for distinct investment strategies that have generated most profitable investments for our global and international portfolios.

It's my strongly held view that no investment management organization is operating more productively to produce excess returns for all of their investment mandates than Southeastern is today. As this slide depicts, all five of our investment strategies' returns have more than doubled their market benchmarks in 2016. And, as the horizontal dotted line indicates, each has materially exceeded our absolute performance goal of inflation plus 10 percent.

One of Southeastern's long-term and supporting clients described these results as "deferred gratification for those of us who knew our investees' growing intrinsic values would be priced more fairly." We're

most grateful for all of us that Mr. Market has begun to weigh our companies more appropriately.

In spite of this progress, our P/Vs remain compelling, and our management partners are building their businesses' values and their advantages. We said a year ago we thought our active management results would significantly surpass the market's passive returns over the next five years. We're more certain now of that outcome than we were in 2015. That is because today, like then, we believe the investment characteristics of our holdings are demonstrably superior to those of the market.

Ross.

*Ross Glotzbach:*

All right, thank you Mason and hello from London everyone.

The dominant market themes in the U.S. over the last few years have been low interest rates and index investing. The low rates resulted in a flight to dividend-paying stocks and perceived-as-safer stocks. The increased indexing also pushed up a lot of these stocks, plus it gave larger momentum stocks another boost.

At Southeastern, we have remained bottoms-up stock pickers, like we have for over 40 years. We are not trading in and out of indexes or sectors or factors, nor did we focus on Hillary stocks or Trump stocks. It's a hard environment to invest in, so our cash levels are higher than usual, but we have been pleased with our progress this year and think that conditions will be more favorable going forward as interest rates rise and indexers who have never been through a downturn lose their nerve.

On the stock-picking front, let me tell you, we got really excited as contrarians when we saw this headline in *The Wall Street Journal* on "The Dying Business of Picking Stocks." And sure enough, the importance of stock picking has only been increasing as the year has gone on.

A good example is the fact that we only highlighted two U.S. stocks with their own slides during our webcast one year ago: CONSOL Energy and Wynn Resorts. You can see here that we laid out their dramatic undervaluation at that time.

Now, on this slide you can see what's happened since. Last year, CONSOL was viewed as a dying coal company that could never unlock its declining value.

Earlier this year, it was even kicked out of the S&P 500. Quite the opposite of indexing.

Now the market is beginning to realize that CONSOL's growing value, which largely consists of a low-cost natural gas company, is being unlocked by smart moves by its board and management.

Last year, Wynn was viewed as a Chinese gaming stock with an uncertain future, worthless non-earning assets that wouldn't produce near-term cash flow and a controversial founder/CEO. Now, Macau has stabilized, non-earning assets like Wynn Palace in Cotai and Wynn Boston Harbor are turning into cash flow or projects that are closer on the horizon, and Steve Wynn himself stepped up with over \$100 million worth of insider buying, alongside our own purchases.

Both stocks have improved their results since last year and are still some of our larger weights across our portfolios.

You might now be asking the question, "If you're so good at picking stocks, why do you hold so much cash right now?" It's not a macro call driven by fear over politics or something else. Rather, we focus most on absolute returns, so we prefer to sit tight if there aren't enough qualifying investments on business, people and price.

As you can see on this slide, we have shown patience before and been rewarded for it more often than not. Using the S&P 500 as an example of the opportunity set today, a quarter of the weight in the index might have a low price-to-earnings ratio but does not qualify for us qualitatively. Think of low PE stocks like banks, airlines or big tech and health care companies that pay dividends.

Another quarter of the market are higher-priced stocks that might qualify for us qualitatively, but they don't meet our price-to-value hurdle. Think some of the perceived safer stocks like consumer staples, utilities and real estate or some of the high-flying tech and biotech stocks that remain growth favorites.

But, that still leaves other opportunities. We've added some new holdings to our portfolios this year and this quarter. While our on-deck list is smaller than usual today, it does have some solid potential candidates that just need slightly better prices.

Given global uncertainty, we believe our patience will be rewarded again and that future volatility will allow us to put the cash to work.

And now Ken will talk about Asia.

*Ken Siazon:* Thanks Ross. Good morning from Singapore.

In the last webcast in May we talked about how attractive Asia is relative to other regions. In the third quarter, the MSCI AC Asia Pacific Index – returned 9.25 percent; the International Fund returned 12.55 percent; and the Asia Pacific Fund returned 14.58 percent.

Strong performance from our Hong Kong real estate and Macau gaming businesses, core Asian positions in the International Fund that were highlighted on our last webcast in May, have helped to drive these positive results.

Despite the recent price strength, we believe Asia remains the most attractively valued region globally. We believe that macro uncertainty is likely to result in further volatility and create additional investment opportunity in Asia.

Since I highlighted it on our last webcast on May 17<sup>th</sup>, our gaming exposure through Melco International returned about 22 percent. The Macau industry gross gaming revenues increased for the first time since May 2014 in August of this year. Third quarter industry gross gaming revenues actually grew one percent year over year versus shrinking minus ten percent in the previous quarter.

More importantly, mass market gross gaming revenues grew ten percent year over year in quarter three, led by Macau Crown whose mass business grew 27 percent, which was helped by the wrap-up of Studio City, whose mass revenues grew 24 percent quarter over quarter.

In the third quarter, Melco's luck-adjusted Macau property EBITDA increased by about 19 percent year over year. Macau has stabilized, and the Cotai Strip, where Macau Crown's two main casinos are located, is a primary driver of growth in Macau.

In the last two years, Macau's transformed from an industry dominated by VIP business to an industry that's now dominated by the more profitable and more stable mass business.

Similarly, our Hong Kong real estate holdings – Great Eagle and CK Property – returned 17 percent and 14 percent respectively in the same time period. Despite some recent weaknesses caused by the introduction of further stamp duties on Hong Kong real estate by the government and sharply higher U.S. bond yields in recent days.

Private market transactions in Hong Kong are trading at record high prices. Unlike in other stock markets, however, Hong Kong property



companies trade at significant discounts to their underlying net asset value. The arbitrage between prices implied in the capital market and the prices of which physical real estate transacts in Hong Kong has never been wider.

So, as highlighted in the right-hand chart, properties are trading at gross rental yields below three percent and in some cases below two percent. In contrast, developers like CK Property are trading at an almost 13 percent EBITDA yield today.

Opportunistic Hong Kong real estate developers, including our management partners, are selling record amounts of real estate at high prices. On the other hand, the purchases of expensive land have all but stopped, so we would expect managements to return more capital to shareholders and increase value per share primarily by reinvesting sales proceeds into repurchases of company's higher yielding, deeply discounted to stock.

This is already occurring, as we have seen increased share buyback activity by Hong Kong property companies this year and higher dividend payouts including at Cheung Kong Property and Great Eagle.

Our Hong Kong property holdings are deeply discounted, even when considering higher prospective interest rates. The markets rarely offer up such a strong arbitrage opportunity for long-term investors.

As shown on the price chart, the MSCI Asia Pacific Index has declined about three percent since the beginning of November, reflecting primarily nervousness about the effect of Donald Trump's policies on Asian companies, as well as a steep rise in U.S. interest rates.

Emerging market shares have sold off, bond yields have increased sharply, EM currencies have weakened and the fears of a Trump administration enacting protectionist policies have weighed on markets there.

How a Trump administration will affect Asian companies is still too early to tell, but we are stress testing our exposures to ensure that we are aware of potential risk in the portfolio. Protectionist measures, such as higher tariffs in Chinese imports, will have a significant effect on Chinese exporters. The Trans-Pacific Partnership is unlikely to pass, and China's economic and political sphere of influence continues to grow within Asia as inter-regional trade expands. Chinese domestic businesses such as Baidu should be relatively insulated from any potential trade conflict.

Our Macau gaming business could be impacted as an export slowdown could impact Chinese consumers. But at the end of the day, Chinese

visitors to Macau represent less than five percent of the total, call it 300 million middle-class Chinese that are wealthy enough to visit Macau.

Similarly, CK Hutchison in the global port operations could be affected by slower Trans-Pacific trade.

It's interesting that CK Hutchison today repurchased shares for the first time in decades, if not the first time since the beginning of this company, which we believe speaks strongly to the confidence that management has in the business in those prospects.

Despite these macro considerations, we're confident that our companies are well-positioned to navigate potential events given the dominate industry positions, well-capitalized balance sheets, strong management partners and the margin of safety resulting from the current discounted prices.

We're particularly focused on aligning ourselves with owner-operators who are highly incented to create value and to capture that arbitrage between price and value as aggressively as possible.

Hong Kong, Japan, and other Asian markets remain cheap on an absolute and relative basis.

As you can see on the chart, Hong Kong is still trading at just over book value, and the earnings yield is about seven times the ten-year Hong Kong bond yield.

The Japanese market is trading below historical averages, and earnings yield there is seven percent versus zero for Japanese sovereign bonds.

With the downturn in the Japanese market this year, we spent a lot of time evaluating investment opportunities in Japan, especially given the increased focus on ROE and capital allocation.

In the Asia-Pacific fund, we invested in a number of small and mid-cap companies in Japan. Some of the larger and more liquid Japanese invested candidates are eligible for inclusion into the non-US and global strategies and could be funded by the higher cash levels in these portfolios should these candidates suffer from short-term market volatility.

In the Asia-Pacific portfolio we're almost fully invested with five percent cash and portfolio P/V's in the mid-60s, reflecting the regional opportunity set and also the ability to go into smaller and mid-cap stocks.

Several Asian businesses are potential on-deck candidates for our broader portfolios but we are aware of managing the regional and sector exposures within global and non-US mandate. Having said that, in the past week we've initiated two new Asian investments for the funds.

We expect the macro uncertainty will continue to honor new investment opportunities and our cash position will allow us to quickly act to take advantage of these opportunities.

Josh.

*Josh Shores:*

Thank you Ken. Since we spoke in May, our performance in Europe has remained strong, led by companies such as LafargeHolcim, Sika, and Exor.

Over the last six months, we have continued to widen and deepen our network and capabilities. Approaching the world from the perspective of a circle of competence is one of the critical core beliefs of a value investor.

Since Warren Buffett popularized its usage, the term has become so commonplace in the investing world that it is easy to forget how central this concept is to a successful investment strategy.

A circle of competence defines the boundaries of an individual's investable universe. The circle is defined by the ability to understand a business's quality and durability well enough to appraise and evaluate it correctly.

This step is a prerequisite to being able to purchase a company with a margin of safety. A situation that is outside of a circle of competence is speculative for that investor. The circle is not a fixed concept: it should be dynamic and ever-growing. Varied experiences intentionally evaluated with consistent feedback and continuous learning will grow and deepen an investor's circle over time.

The circle is not a hard boundary across different investors. A situation can be investable for some and a speculation for others. What is important isn't having the biggest circle, but what is very important is staying inside the lines of your circle and endeavoring to grow it.

At Southeastern, we benefit from carefully developed and geographically diverse overlapping circles of competence across varied backgrounds, experiences and world views that improve our overall understanding and broaden the investable universe.

For 42 years, Southeastern has been investing people and resources in expanding and deepening our corporate circle. We have invested in Europe for decades and have had a local presence since Jim Thompson opened the London office in 2001, through Scott and me taking over leadership of the office in mid-2009, up to our current footprint of five investment people.

Asia has followed a similar trajectory. From the 1998 opening of that office to the three investment people now in Singapore. In May's webcast we talked about one aspect of deepening our circle in Europe via focusing in on an ownership mentality and the potential to engage and encourage European companies to put that philosophy into practice.

We believe the ownership focus and theme that we emphasize across Southeastern is particularly applicable in Europe. Managers and boards who think and act like owners, and ideally are significant personal owners, tend to behave differently from agents.

In the last call, we mentioned companies where the recent share price performance had been disappointing but where we were confident in the outlook and owner mentality at work in the management suite and boardroom. From that date through Monday, Exor has returned 27 percent and LafargeHolcim nearly 30 percent. These are the two largest holdings in the International Fund.

Owners simply bring a different perspective. Exor is capably led by John Elkann. He and his family own over half of the company. Southeastern owns 5.5 percent of the company. We love being a partial owner alongside this group. John has presided over a string of bold and value-realizing moves.

A not-exhaustive list would include:

- splitting Fiat into today's auto focused Fiat-Chrysler and agriculture equipment focus CNH in 2011, which is what initially attracted our attention to Exor;
- then Fiat Auto led by Sergio Marciano acquiring control of Chrysler on attractive terms in a patient process spanning 2008 through 2014;
- Exor selling its 15 percent stake in Swiss TIC company SGS in June of 2013 at a great price; and then selling Cushman and Wakefield in September of 2015 in a good deal;
- spinning Ferrari out of FCA in January of 2016 and realizing a multiple of the value previously attributed to the group prespin while capturing that increased value upstairs at Exor;
- reallocating capital into a cleverly conceived deal to acquire complete control of PartnerRe in what was affectively a no-premium takeover earlier this year;

- and finally, announcing a redomicile of the company from Italy to the Netherlands that helps set the stage for the next phase of group development.

We believe this is merely a midpoint of the Exor story. We have owned shares for four years. These shares have compounded very well, but still retain an appreciable discount because our appraisal of value per share has compounded at a 12 percent annual rate.

We look forward to the multiple levers still to pull on creating and realizing value in the years to come.

Today, we have several other owner-led companies that are currently out of favor just as Exor and LafargeHolcim were six months ago. We have been increasing our positions in some of these over the last quarter and anticipate a similar market recognition of their value.

In our view, Europe is not broadly cheap with our universe hovering around a 100 percent price-to-value ratio.

As shown on the country value chart in the presentation, it sits between the richly valued US and more discounted Asia ex-China markets. But within Europe, the dispersion of overvalued versus undervalued companies is wide, such that the list of potential investments is appreciable and has grown over the course of 2016.

More than half of the Europe universe is overvalued, but there remain several dozen companies discounted enough to keep us busy looking for the select few.

The cash levels in the International Fund are not indicative of the lack of opportunities in Europe and Asia but are more a reflection of the lumpy process of reducing several very successful investments before the right new investment has fully developed.

Since the end of October, multiple companies have qualified and we are establishing new positions in Europe and Asia while adding to existing ones.

Both Brexit and the US elections were remarkably light in new investment opportunities. Typically, geopolitical events of that magnitude throw up interesting dislocations, things that we love to take advantage of. We had a priority list prepared and orders ready, but it failed to get much despite the seemingly surprise outcomes.

We remain patient. Cash levels are an opportunity as much as a headwind and are not something that concern us. We will continue to

practice our disciplined, bottom-up approach to evaluating investment qualifiers and are confident that cash will be productively employed.

Performance in the International Fund has been good over the last year, significantly outperforming the benchmark and ahead of our inflation plus 10 percent goal, but we are far from satisfied.

The three and five-year returns for the fund are disappointing. As the largest investor in that fund, employees of Southeastern have felt it keenly. We believe the corner has been turned as our strong teams across the world build on Southeastern's 42-year history of widening and deepening our collective circle of competence in the art of value investing.

Thank you for listening today. I will turn it over to Brandon in Memphis for Q&A.

*Brandon Arrindell:* We want to address as many of your questions as possible.

We've received some ahead of the webcast via the online submission process, but for those of you who would like to submit questions now, there is a Q&A box on the left side of your screen where you can do so, and we'll do our best to get to as many as we can.

We'll start off with some of the questions that we received ahead of the call, and there were a number related to Level 3's pending merger with CenturyLink. There were concerns that Level 3 is increasing its exposure to a lower-quality business and that Level 3 isn't receiving fair value for the quality of its assets. And some people are worried about the pro forma balance sheet.

Staley, can you just talk about how you view the proposed combination and why it's value accretive for Level 3 shareholders?

*Staley Cates:* Sure. And you can tell that this is the company we get a lot of questions about by already preparing our answer slide. So let's start by talking about CenturyLink – or CTL – because most of you as shareholders know the case on Level 3 and have heard us talk about that for a long time.

But as we look at CTL, they have two main assets going forward; the biggest one, or the most valuable one, is the old Qwest network which as you can imagine, we've followed closely for a long time as shareholders of Level 3.

And then more than half of the cash flow and yet less than half of the value is their traditional landline business: their access lines, most of which are rural.

When we valued this company just on a standalone basis about the time that this deal first surfaced, we got a value or an appraisal very similar to the stock price, which was around \$28.00 which then became the reference price for the deal, as you can see on the table.

So now as they get together with Level 3 of course the main show, is having that – the Qwest fibernet get together with Level 3's fiber network.

And as we talked about – and at the very top of that – strategically valuable. What that means is really a few things. One is the network as you have that many more on-net access points, it simply becomes a more valuable network.

The second thing would be the global offering. Part of the beauty of Level 3 and of Qwest is getting to take share from the giants of AT&T and Verizon, and yet their non-US offering actually makes that a better sales pitch much of the time. Because as large as AT&T and Verizon are, they cannot always match that capability offshore.

So when you look at the synergies in the right part of this slide, a couple of important things about that. First is, we think they are very highly achievable – this would be based on the track record of Level 3 having done many of these kinds of deals before.

More importantly, this would be based on the fact that a lot of this is moving your own traffic onto your own network: it is more easily achievable than you see in other industries where it's more about cutting headcount or those kinds of synergies.

The other interesting thing about it is it includes no revenue synergy, so to the extent that you do have a better network, to the extent that you can offer better prices because you have more costs under your control, and to the extent that you do have – that a Qwest sales person can now offer much better non-US capability – all those kind of things will lead to better revenues, but that is not included in these synergy numbers.

So when you take those numbers, and you project them onto the new company, and you put whatever multiple you choose on those, standalone CTL value is then obviously going to be a lot better than 28 – we think that works up into the mid to high-30s – and then when you put the exchange ratio on that and add the cash component, that makes LVLT worth something more like mid to high-70s on that math.

So, this deal headline price of \$66.50 we actually view internally as more of a \$66.50-plus, and that's not that inconsistent with what you've

heard us tell many of you as long-term clients about our appraisal of LVLT before all this started.

So then what has happened? Why is CTL down so much, why is Level 3 tracking accordingly? That would be several things. The arb spread on this deal, like in a lot of deals these days, is just gigantic, and that is letting some people short CTL despite the huge dividend cost of shorting it, to create this arbitrage, which is one thing kind of putting pressure on CTL short-term.

And then taking that further we hear three main negatives. We hear about the business mix getting worse because of access lines of CTL, we hear about management worries because Level 3's management is so highly regarded there are question marks about the management going forward, and then we hear worries about the balance sheet because Level 3 has just gotten to a point of very strong financials and a lot of free cash flow and surplus cash, and now some people worry this puts you back into a tougher balance sheet mix.

So let's take those one at a time. The first thing would be that on the business that we would agree is challenged and we would accordingly put very low EBITDA multiples on, which is the rural access line business – that's going to be about 20 percent of the appraisal of the new company. That will be a bigger percentage of cash flow because it's worth a very low multiple, but it is not a big part of this value going forward.

Secondly, on management, I think people have lost sight of the fact that first off you have Sunit Patel, the CFO from Level 3, who will be CFO of the combined company. You also have yet-to-be determined more Level 3 involvement at the key manager level, which I think will become clearer over time. And also importantly, you do have four board members moving from Level 3 to represent all shareholders on the combined board.

Then on the balance sheet – again, this gets back to if you believe the synergies or not – but if those synergies are achieved, which we think they will be, the pro forma leverage would still have debt to EBITDA being less than four times, which is very solid and appropriate for both companies and a very strong balance sheet.

So where we are today with the fact pattern, with the worries over the deal and the lack of belief in the synergies, that leaves CTL at a nine percent dividend yield, which is hard to believe in this day and age.

And finally, as we look into 2017, the deal should close at the end of the third quarter. But with a new administration and with a breakup fee that is just kind of average, there's nothing to keep other people from



looking at the company, especially the longer it stays at a price that's this far below what we think any kind of normal exchange ratio should look like.

*Brandon Arrindell:* Okay. There were a number of questions regarding the results of last week's presidential election. Ken touched on a number of the uncertainties in Asia as it relates to a Trump administration, but Jim, how if at all, do you believe the Trump administration might impact our other businesses and generally our opportunity set?

*Jim Thompson:* So, there's two parts to that. I would say let's talk about the opportunity set first, and then I'll talk about the current business.

Within the opportunity set – and I will include Brexit in this too – with the Trump election and Brexit, what you've seen is some degree of rejection of status quo and that creates uncertainty. And we believe in time, that could create volatility. And that volatility is something we have historically taken advantage of. We are well-placed to take advantage of that given our cash levels, given our DNA, which is to look for companies that are mispriced through this volatility, and our global footprint which will allow us to find companies that may not be in the United States: they may be impacted elsewhere.

Again, Ken talked about the impact on our current businesses, but I would add we'll continue to monitor these things – it's early days, it's speculative – but things like corporate tax reform would improve the valuation of some of our companies. We'll look at restricted trade policies which could impact some of our businesses. But until he's in office, this is a lot of speculation. We'll continue to monitor this very carefully and change our valuations accordingly.

*Brandon Arrindell:* Thanks Jim.

We have a question regarding LafargeHolcim, which we own across the Partners Fund, International Fund, and Global Fund. Lowry, can you touch on how a European cement company qualifies for the Partners Fund and just give your outlook for the business?

*Lowry Howell:* Sure. Thanks, Brandon. So, we have the ability to hold up to 30 percent of the Longleaf Partners Fund in non-U.S. holdings, and LafargeHolcim is a strong qualifier on our core tenets of business, people, and price.

It's a Swiss-based company but it does have strong ties to the U.S., given it's the largest cement producer in North America with around a 30 percent market share. In terms of the business outlook on business and people, the competitive advantage and barriers to entry on cement, aggregates and ready-mix are intact.

And then with current execution – Eric Olson, our CEO is gaining traction on achieving pricing gains in excess of underlying cost inflation.

In fact, in the U.S. and Mexico, we're getting double-digit price increases. Eric and his team are also ahead of plan on achieving their synergy targets from the merger. So now we've got pricing success, cost controls and lower capital spending, which is resulting in much higher free cash flow generation. Year to date they have generated a billion Swiss Francs more in free cash flow than 2015.

Eric and his team have also been divesting non-core assets to focus only on markets where they have the strongest competitive advantage, and they've sold over \$4 billion in assets this year and used the proceeds to get the balance sheet to solid investment grade levels.

Finally, on price we still think there's substantial upside from the current price to our appraised value. On normalized free cash flow power, Lafarge Holcim is still only selling at around ten times free cash flow which is inexpensive on an absolute basis and relative to a lot of their peers.

At this point with improving fundamental performance, a rock solid balance sheet and better free cash flow generation, we believe the management team also has the ability to meaningfully increase dividends and share repurchase which should help our value growth.

I'm in our London office today, and tomorrow I'll be meeting in London with Eric Olson, LafargeHolcim's CEO and other members of the management team and really look forward to getting a further update then.

*Brandon Arrindell:* Thanks Lowry. There are a few Macau-related questions. Ken, you touched on this a bit in your prepared comments but can you just start us off with just a general update on our Macau investments and our comfort with the exposure there, and then pass it on to Manish and Ross for any comments they might have?

*Ken Siazon:* Actually, Manish do you want to just fill in on my prepared comments?

*Manish Sharma:* So Macau it looks like it is recovering as Ken mentioned. Mass market is clearly bouncing back. So what has happened basically over the last year or so is we've had new projects hitting the market, and that has increased room capacity. As you might know, the Macau market is roughly four times the size of Las Vegas market, but in terms of room capacity, it just has roughly one-fifth of the number of rooms in Las Vegas.

And in the past, just getting rooms for the visitors was an issue, but that seems to be taking care of itself as new projects are going to hit the market and add to room capacity. So with that, basically the number of visitors is increasing, and on top of that, the average daily stay of the visitor that's also increasing, and they're spending more as they stay for a longer period of time in Macau.

So at the end of the day, this is our bet on the mass market. VIP is somewhat of a black box, and we don't really put high multiple on that at all – and mass is coming back, especially with room capacity and the new infrastructure that's going to hit the market.

Ross, do you want to add something to that?

*Ross Glotzbach:*

Sure. I know you all have really touched on it well. We were all over there together just about three or so months ago. It is clear the market is stabilizing and transitioning to growth.

I'll just talk a little about Wynn Palace particularly because fears over its ramp-up have held the stock back over the last few months.

Wynn historically ramps up its projects a little bit slower than others do. We know that it's an extremely high-quality property – it's not just us, competitors say that as well and people on the ground there – so Wynn's taking a very deliberate approach to ramping it up. We're seeing some positive signs here, and it's certainly still not reflected in the stock price today on that one.

*Brandon Arrindell:*

Okay, Ross, we have a question here about Google. "Can you please talk about what you like about the business, how cheap it is and any thoughts on our alignment with the management given the A/B share structure?"

*Ross Glotzbach:*

Sure. So business, people, price on Google – or Alphabet, I guess is what it's called now. On the business, we continue to have a very strong position in the core search market. When we bought into the stock almost two years ago, the concern was that mobile would weaken that business; actually it's entrenched our competitive position even more.

You look at the continued market share gains of Google and Facebook together in the online advertising market: we're only getting stronger. And YouTube as well is just an incredible, under-monetized, not-yet-at-normal-margins asset that we think is not fully captured in the stock price yet.

We also made a bet when we invested that they would allocate their capital wisely and that the Other Bets, as they have now called them, would be both disclosed better – which has happened subsequent to

our investment – and that these could be some very interesting opportunities on their own.

You know, many people agree that they are at the forefront of driverless cars and many other interesting, yet hard-to-put-into-a-spreadsheet opportunities. We like, you know, not paying much for them.

When we get to the people side of things, you have Larry and Sergey who are still very large owners of this company. They have proven that they think unconventionally. They don't care quarter to quarter, they don't hold people's hands on guidance and silly items like that. They're focused on building value per share.

We've seen some stock buybacks since we've purchased, which a lot of people thought was never possible. We also love that even though this company is enormous and very profitable, it does not pay a dividend. The market might not like that much. We think that's why we're getting a good shot here at Alphabet versus some of the other large tech companies that pay a larger dividend.

So very aligned, business is getting stronger, but still undervalued. It's not as undervalued as when we initially purchased, but we do still think there is a way to go between price and value, especially after some of this fall-off after the last week or so that we do not think is warranted.

And so we remain very excited about it, and it's one of our more important holdings.

*Brandon Arrindell:* Thanks. Mason, you mentioned that we still have attractive upside in our portfolios even with the strong run. Can you provide an update on the current price to values?

*Mason Hawkins:* Sure. And we'll just take them across the various investment strategies. Our large cap US P/Vs are in the low 70s, the global portfolios are in the mid 60s, small cap high 60s, international mid 60's. Ken already has referenced, Asia-Pacific also mid to low 60s, depending on which portfolio you look at.

But, yeah, they're discounted.

Certainly these portfolios are very discounted vis-à-vis the various respective indices. But more importantly I think for our co-investors, our partners in the Longleaf Funds and our institutional separately managed accounts, it's not just the quantitative. We have never had more focus on the qualitative in our history in terms of aligning with great managements that not only can create the free cash flow coupon of these businesses and grow them but also on wise capital allocation. On

the businesses themselves, qualitatively, we want really competitively entrenched companies that are going to grow their advantages through time. It's both attractive P/Vs and qualitative qualifiers, if you will, that we think you should focus on.

*Brandon Arrindell:* Okay. We've received several questions on energy prices and specifically on Chesapeake. Ross, maybe if you could begin by reminding everyone of the commodity price assumptions that we embed in our appraisals. And, Staley, can you give an update on Chesapeake broadly and discuss the different securities and parts of the capital structure that we've invested in to express our views?

*Ross Glotzbach:* Yeah, I'll start it off here. You know we don't try to be heroes on the commodity prices themselves: we generally use the lower of the futures strip pricing or the marginal cost for a given commodity. And we think the marginal cost today is above the futures strip, which does make us more optimistic, but again, we ground ourselves in the reality of the futures strip.

So I'll turn it over to Staley to talk specifics.

*Staley Cates:* Thanks, Ross. And before really explaining this, I would point out that certain things we did with the Chesapeake stock, bonds and convertible preferred stock kind of varied across what we did with our separately managed accounts based on guidelines.

And so this kind of looks different depending on which bucket we're talking about, so I'll try to keep it as general and relevant as possible overall.

But a couple of main phases that I would highlight from this slide and the timeline: the most ridiculous point was in February. In February, there were actual rumors that this company would file bankruptcy, and as our clients know, we never thought that was possible. The management certainly never indicated that was possible. We believe there were outside interests with an agenda that were fostering rumors and stuff like that but basically, in late February you had debt that was going to come up in March – you know, the closest maturity possible i.e. measured in weeks, trading under 90 cents.

So at that point, when people thought that was possible, all of the debt got so ridiculously priced that even though we continue to love the management team and the board, and we certainly love the properties, and nothing about our assumptions had changed, as Ross just went through, this was just ridiculous to compare the risk-reward of the debt to the equity: i.e. we could still like the equity, but the debt, while being safer because it's a contract, still had the same kind of upside as it

would get close to par before a common shareholder could make any money.

So that became kind of the first point of distress leading us to like the bonds more than the equity.

Then you see on the slide that the company has strengthened the balance sheet by issuing equity for some of those distressed bonds.

Well, just like we often talk about we want to see a company and their insiders buying stock as we do so that we're aligned, think of this as really the same activity – in other words management and boards still have confidence in their own company but because the bonds were even cheaper than the stock, they did issue stock to buy the bonds at a huge discount. And that was rational - that's what we were doing with our own money.

That leads to the second phase, which is as they did that, and as they did the other things you see on the bullet points to strengthen the balance sheet, then the convertible prefs changed entirely their goggles. By that I mean early in the year, when people were processing bankruptcy possibilities and lumping in how junior convertible preferred is alongside equity, these things were traded and quoted as equity surrogates – i.e. the convertible preferreds were. And with the common stock getting very cheap, that made those very cheap.

Well, as we bought those, they were not only kind of an equity-plus because you get the coupon way to own Chesapeake and even better than the equity. As we got later into the year and as the balance sheet got strengthened, the goggles changed to compare those to a fixed income obligation that all of a sudden the world realizes is going to pay off.

And so to have the kind of coupon they had, which is just below 6 percent – and those things had gotten under 20 cents on the dollar – those remained a huge screaming bargain even though the straight debt or the convertible debt had already traded towards par. So that worked itself out as well.

And as you see on the slide, at the end of September the company, again, doing a logical thing – even though they still liked their own equity and we do too – they issued that equity to take out some of these convertible prefs, which was really good on both sides because there was a huge gain compared to our cost, and yet that is a discount to par that does merit taking them out at a discount and using common.

So now I guess where we end up is just plain old ownership in the common stock that we got from those exchanges as well as what we've continued to hold throughout all this, even for clients that couldn't do these exchanges.

And the way we would leave this is to just point out that everyone has known that this company had fantastic land, undrilled locations, non-earning asset value, but there was, the question of would you ever realize that and/or would you have to take haircuts on that?

Well, now the company has bought themselves a whole lot of time and so we think they will have the luxury of time and being selective to sell non-core and non-cash-producing assets without changing their goals for production and EBITDA. So we think they've put themselves in a good position.

*Brandon Arrindell:* Thanks Staley. We have a question regarding OCI. Scott, can you give us your outlook for the business and its value growth opportunities?

*Scott Cobb:* Yeah, thanks Brandon. Well, clearly – I mean OCI's been a pretty big detractor in 2016. Our conviction and the quality of the company's assets and our confidence in our management partner Nassef Sawiris is unchanged.

The share price has tracked the steep drop in nitrogen prices over the past year, and the recent changes to the U.S. tax rules intended to stop so-called inversions led to the cancellation of our proposed merger with CF Industries, which also has had a negative impact on the share price.

Fertilizer prices are now back at 2004 levels, yet nitrogen remains an essential part of global food production and demand continues to grow by around two percent a year.

We expect the supply and demand imbalance will normalize sometime late next year, and that fact, combined with lower exports from China, is already leading to firmer pricing.

The industry requires a commodity price of around \$350.00 a ton to justify building a new plant. With prices today under \$250.00 a ton and the lead time from announcement to completion still around five years for a new plant, it's unlikely in our view that any new plants will be built in the medium term.

Despite trading at a material discount to its replacement value, OCI has some of the newest and most efficient plants in the industry. As an example, its Iowa plant, which will be fully operational in the coming weeks, is arguably the most strategic fertilizer asset in the United States

due to its location in the heart of the Corn Belt, which allows it to benefit from the Midwest premium pricing and its low operating cost.

OCI is now finished with its major capex spending with only its Greenfield methanol facility in Texas remaining. The combination of significantly lower capex, full year earnings from our Iowa plant, and our methanol plant coming online late next year is expected to lead to material free cash flow generation even at current spot prices.

That cash flow is in the hands of a great capital allocator in Nassef Sawiris

So despite a disappointing share price performance this year, I think as you've heard from the other presenters, we're confident and optimistic about our future returns in OCI from today's price level and have been opportunistically taking advantage of these low prices to add to our position.

*Brandon Arrindell:* Thanks Scott. Mason you mentioned in the last call that all of us have a healthy paranoia about our businesses and how it's not possible to be too vigilant in assessing threats that might impair intrinsic value. What do you see as the greatest threats to our portfolio today?

*Mason Hawkins:* Well, I won't answer it from the top-down or from the macro view but from the bottom-up because we firmly believe that each of our components in our portfolios are the most critical factor for determining our future performance. And each company has various degrees of exposure to various things that are uncertain that you might deem to be threats. But, I can say the word paranoia is pretty appropriate, Brandon. If we think about each of our investees, we look at all of the potential threats to each company, be they financial in terms of leverage, be they regulatory, or technological risk. We always want to know who's the number one competitor and what are they doing that could displace our advantage. It is not a simple, "Here are the threats, here is a threat," there are multitudes of threats always. It's a very dynamic world.

There is more global competition, there is more capitalism – quite frankly entrepreneurialism, than we've ever seen in our history.

It's not a simple, "Here is a threat that we consider to be material to our existence as long-term investors," it's multiple things that we address at each of our companies.

*Brandon Arrindell:* Staying on that topic of competitive threats, we have a question here about how a couple of our portfolio companies are positioned against their primary competitors. Specifically, Case New Holland versus Deere and FedEx versus UPS. Manish, can you discuss Case New Holland, and



then Staley can you discuss FedEx? And then maybe as a part of that conversation touch on the perception of Amazon as a potential threat as well?

*Manish Sharma:*

Sure Brandon, I'll start off with CNH. So the biggest value driver for both CNH and Deere is the agriculture equipment segment. What we love about this industry is that it's a rational duopoly with amazing pricing power.

One of the few industries which can actually push price increases even as sales volumes – especially for the high-horsepower ag equipment – have come down by more than 60 percent from its peak.

On competitive positioning, we believe CNHI and Deere are very neck to neck in terms of brand, distribution, product technology and such.

So there are a few reasons why we have chosen to partner with CNH over Deere. First one is valuation. When we value CNH and Deere using similar assumptions, CNHI turns out to be way more discounted. The market tends to focus too much on price-to-earnings ratio and not on the all-important cash flow multiples.

To give you an example, just quoting Bloomberg multiples here, Deere is changing hands at over 11 times EBITDA, while CNHI is at a mere 7 times. CNHI is the only company among its ag peers, which is not investment grade rated.

This leads to high interest charges and ties up, in our estimate, over \$1 billion US of excess capital. Management is focused on getting to investment grade rating, which will unleash this excess capital which can potentially be used for share buyback or increased dividends. It will also increase reported earnings and correct the valuation discount that CNHI trades at today.

Secondly, CNHI has an attractive commercial truck business and a construction equipment business, which are both operating at trough margins. These offer a lot of upside as demand recovers and management continues to optimize the cost structure.

And finally, we love our partners at CNHI. John Elkann and his family holding company Exor, they own close to 30 percent of CNHI. And as Josh shared earlier, John and his team are very smart capital allocators and are highly focused on increasing value per share and getting us paid.

Staley.

*Staley Cates:*

Well, as we talked about the first part of mine, which is FedEx and UPS, I think what Manish just said very much applies in terms of a rational duopoly and great pricing power: that's the main headline answer.

We compare FedEx and UPS. They're both incredible companies, and they're just physically well-positioned everywhere. Both of them benefit massively from e-commerce in the US.

And so then as we start to look at the differences though – if we start with FedEx's Express division, which is more airplanes than trucks, that is a division that still can do more improving on margins, and it's going to get a huge kick from the TNT deal which just closed earlier in the year, but where you won't see the benefits for a couple of years. But that creates much more improvement at FedEx Express than we would see in the UPS equivalent of that division.

Then going over to FedEx Ground, which you've heard us say on these calls is the most valuable part of FedEx. FedEx Ground will continue to grow faster than UPS because we think it will always take a little bit of share – it has for a very long time – we think it will continue for a very long time because it has a better cost proposition.

So we look at faster top-line growth at all parts of FedEx; we look at better margin kick. We believe that on the margin, historically return on capital and operating margins have made people pay higher multiples for UPS, but those numbers are converging so much, that we would submit that the difference in value is crazy.

So UPS is at a 20 PE and 10 times EBITDA; FedEx is at 12 or 13 times PE when you adjust for TNT, and a 7 times EBITDA, but nothing about the capital profile or the return on assets, or organic growth, to us to back that up.

So obviously we're in FedEx and not UPS, while having a huge respect for UPS.

And then turning to the last part, which is the Amazon part – I put this in two categories. First is looking at Amazon as a customer. They're a few percent of revenues to FedEx and they're almost 10 percent of revenues at UPS. So it's interesting just as an aside that this question's usually posed about FedEx when to me, if anything, it's a bigger problem on the UPS side.

But even as a customer you can see from that low of a percentage that there's not some threat even if Amazon went away completely as a customer, which is not going to happen. So then you turn to "What about Amazon as a competitor?" whether that includes drones and daily

drivers and Uber and anything else they can dream up to put out in the PR realm, suffice it to say we are not worried about them as a competitor principally because of last-mile economics.

Even if Amazon succeeded in that, it would take a really long time as it has taken UPS and FedEx a really long time and just because you see Amazon, for example, buying planes that is just kind of a natural wholesale, if you will, smart, logistical thing to do. Other huge customers like Wal-Mart do things like that, but that doesn't change last-mile economics and that doesn't change anything about Amazon's ability to be a true competitor and put the hurt on FedEx and UPS.

So it's been something that we think is a little bit exaggerated in the media as does the company itself when you see Fred Smith use the word *fantastical* to describe this on his conference calls. So we're not too worried about it.

*Brandon Arrindell:* All right. We've received a question regarding how we assess our partners who are allocating our capital and operating our businesses. Specifically, "How do you determine whether an owner mentality is true versus just lip service?" Mason, would you like to begin and then others can weigh in.

*Mason Hawkins:* The first thing you do is go to the proxy statement and see what they own and how they get more ownership. Is it through grants from the company that are based on sensible kinds of reward systems based on performance? Do they get their ownership as we do through open market purchases?

There's no simple answer. We love owner-operators, as has already been said on this call. We like to have proper alignment with our boards and with our managements. And we pay close attention to incentives. We think they're critical to getting good performance all the way up and down the organization.

We pay attention to what they do much more so than to what they say.

*Ross Glotzbach:* And I would just jump in, you know, we do get great access to management, we go talk to them. Often the most valuable parts of those meetings are not when they're talking about themselves or their company and how great it is, but more so when they talk about their competitors, because there's often nothing as valuable as someone who's not incented to talk up somebody – you know, often begrudgingly giving them respect, and that's often the place where we find new ideas as well.

*Josh Shores:* This is Josh back on in London. I was going to echo Ross. I mean the network – you know, working the network and then having other people verify or confirm what we see on actual ownership and that we see on actual behavior and then have that qualitatively confirmed or denied by conversations with peers and other people who know, or are customers or the other way around, of these individuals, all adds up to a much more accurate and powerful assessment.

*Brandon Arrindell:* Okay. We have a question regarding the impact of a higher interest rate environment, which seems to be more relevant now as the ten-year picks up. Staley do you want to talk about how that might impact our values?

*Staley Cates:* Yes, although I bring extremely limited value to this discussion. But I would just point out I guess two things on the interest rate question. One would be on a higher level or a top-down environment that applies to all of our names, I would reiterate what we've said over many years, which is we have stayed with discount rates of 9 to 10 percent in our appraisals, which is an unlevered equity discount rate. That has always assumed that with wages that we see bottoms-up in our investees of a few percent and therefore long bonds that should be a few percent and not zero – we've always kind of keyed off of that in our appraisals overall. So that this rise that has partly happened and partly anticipated is what we've always talked about, and it's baked into those discount rates. So from an overall factor, we think that's accounted for.

Then the second part that's not that helpful as an answer for this call, but it's very company by company, case by case, is the specific impact. And so we'll have some companies where it's a bigger worry.

Like we've talked a lot about the property companies which we still love in Hong Kong, but of course we're sensitive to if cap rates track interest rates, we need to be cognizant of that, bake that into our appraisals – which we feel like we've totally done.

And we have other companies which, as Josh talked about Exor and their ownership in PartnerRe, as well as Everest Re in the funds.

Those re-insurers will benefit from rates going up as they reinvest their bond portfolios at better reinvestment rates. So we'll just have every analyst monitor name by name the impact that way.

And I guess the final piece would be just in the simplest form just what your interest expense does, just your cost of borrowing, as that runs through profit and loss statements. There we have such strong balance sheets portfolio wide that it's less of an impact happily because we have

strong balance sheets by design of people. If there is wreckage from rates rising, we think we have partners that can take advantage of it.

*Mason Hawkins:*

I might just add Bill Miller's position that the 35-year bull market in bonds likely has ended and it's because of many of the things Staley said. Hourly labor costs are pushing inflation a little higher – the one that matters most, not just commodity prices.

Bill said he thought that you had a move to almost 4 percent before it would be damaging to equity valuations at large. That's probably a pretty good observation, given where the indices are trading.

*Ken Siazon:*

Just to follow-up on interest rate effect on Hong Kong real estate. So we value actually Hong Kong real estate and commercial property in Hong Kong at the 6 gross or 5 net cap rate. And that's in contrast to transactions that are happening at the 2, 3 percent level.

So we're pretty confident that the book value of these companies we have are pretty solid and they're not going to go down if interest rates go up a lot.

And furthermore, you know, in Hong Kong it's the amount of liquidity and capital that is flowing into Hong Kong is also somewhat of a mitigating factor in terms of bond yields.

*Brandon Arrindell:*

Thanks, Ken. Well, we've run a bit over an hour here, that's probably a good note to conclude. Mason, do you have any parting thoughts?

*Mason Hawkins:*

Yes, in closing, we thank all of you – those of you that have joined us recently and especially those that have been our investment partners for much of our four decades of history for your support.

The tidal wave of capital allocation to passive has created valuation distortions that are beneficial for disciplined, intelligent, concentrated value investors. It won't disappoint us if the indexing herd mentality continues.

However, as is with almost all sound investment recommendations that are smart early, those recommendations almost always become dumb late.

For those whose questions we were not able to address on the call, we'll be happy to follow up with you subsequently. We hope to post a replay of this webcast and our slides to our website within a week.

So, thanks for joining us today and happy holidays to you all.