Intro to Southeastern and Value Investing

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Confidential

Long-Term / Concentrated / Engaged / Value

Disclosures

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Partnership Investing

Partnership is core to all that we do – within our firm, with our investors and with company management teams

100%	Employee owned
3 generations	Consistent culture and leadership
$1.5 billion	Alignment via Southeastern employees’ related capital
17 Years	Average tenure of like-minded client base
5+ years	Expected investment horizon

Southeastern Overview

We are long-term, concentrated, engaged, value investors

Since

1975

$10.5 billion

Total assets under management at 12/31/20

$2.4 billion U.S. Large	$3.2 billion Global	$1.8 billion Non-U.S.
$1.9 billion U.S. Small	$1.2 billion Asia Pacific	

$1.5 billion Southeastern employees and related capital

Memphis / London / Singapore / Sydney

Dr. Athanassakos’s Questions

1. What principles does Southeastern apply in searching out investment opportunities for detailed study?
2. What kinds of information and securities is Southeastern seeking?
3. What kind of investor irrationalities does Southeastern consider?
4. What periods lead to greater or lesser investments?
5. How does Southeastern define and estimate value?
6. How does Southeastern factor in asset values, related security transactions, industry economics, firm strategies, management behavior?
7. How does Southeastern, if at all, account for differences between market prices and intrinsic values? What collateral information does Southeastern examine?
8. How does Southeastern define and manage risk?
9. How does Southeastern make overall portfolio decisions and determine asset allocations?

Questions #1, 2, 5, 6 and 7 can be answered with 7 words …

Which will be covered over the next two slides

Our Investment Approach

The same fundamental disciplines have guided our approach for over forty years

Long-Term — 5+ year investment horizon

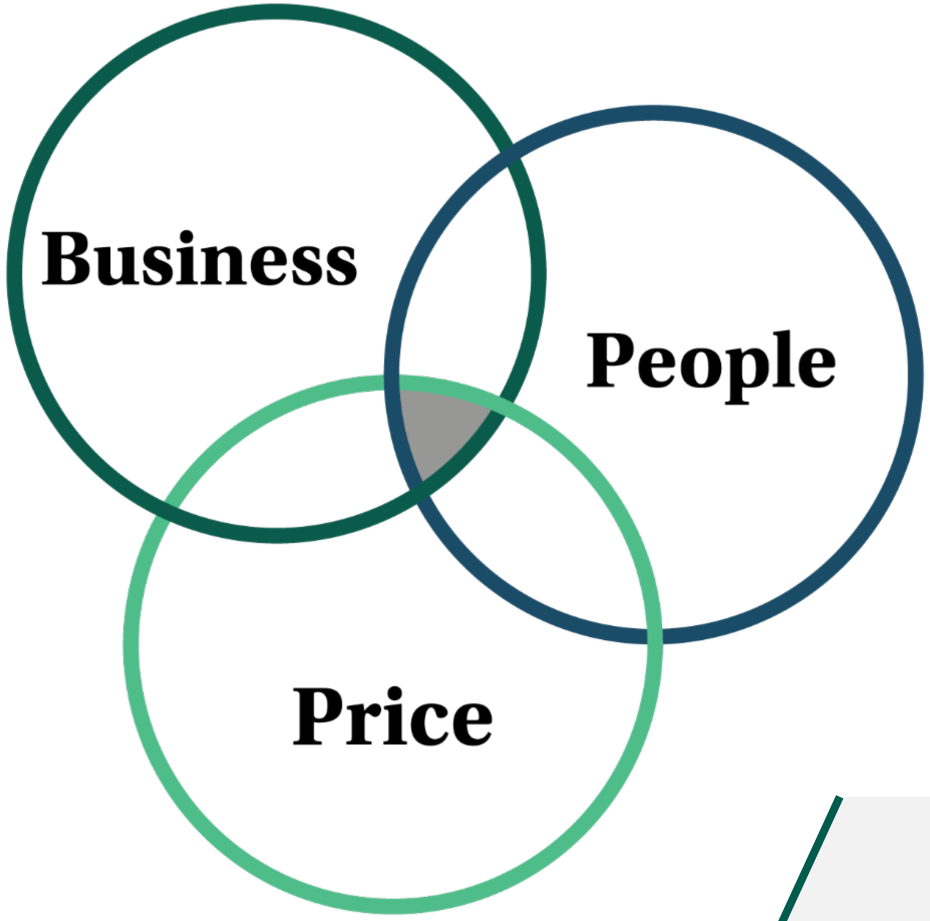
Concentrated — 18-22 most qualified investments
(10-12 in some highly concentrated portfolios)

Engaged — Collaborate with management partners to build long-term per share value

Value — Own high-quality *businesses* run by capable *people* at a discounted *price*

Cheap is not Enough

The discounted *Price* provides opportunity, but the *Business* and *People* drive our long-term outcome



Business

High quality company with sustainable competitive advantages, strong balance sheet and expected Free Cash Flow growth

People

Managements who act like owners, and are growing value per share through intelligent capital allocation

Price

P/V is 60s% or below with future value growth potential

Every business must meet our quantitative *and* qualitative criteria

Our Global Footprint

Operating as one team benefits all our strategies by combining our global cumulative investment experience with our regional expertise and networks

Local Perspective, *Global* Expertise

North America

- 46-year presence
- 6 research professionals focused on region

Europe

- 21-year presence
- 3 research professionals focused on region

Asia

- 23-year presence
- 5 research professionals focused on region

OK, but doesn't everyone want all this stuff?

Well, yes and no, which is how we answer the remaining questions. Thankfully, we have human emotions working in our favor over the long-term.

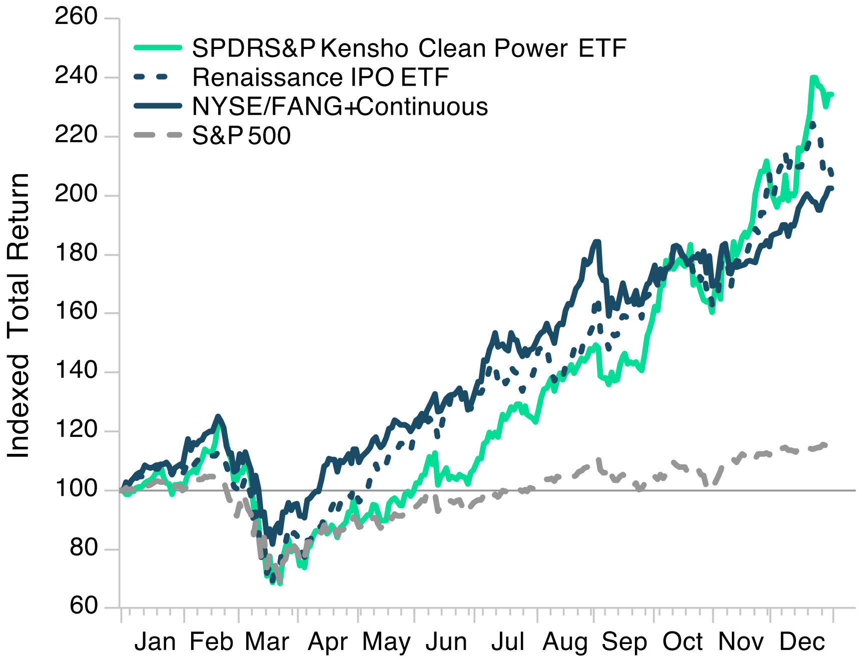
Investment Environment

Markets were volatile last year, have been volatile before, and will be volatile many times again, yet values rarely change as dramatically

Momentum on Fire

A few hot areas (technology, alternative energy, SPACs and IPOs) are fanning the flames of momentum trading and indexing mania

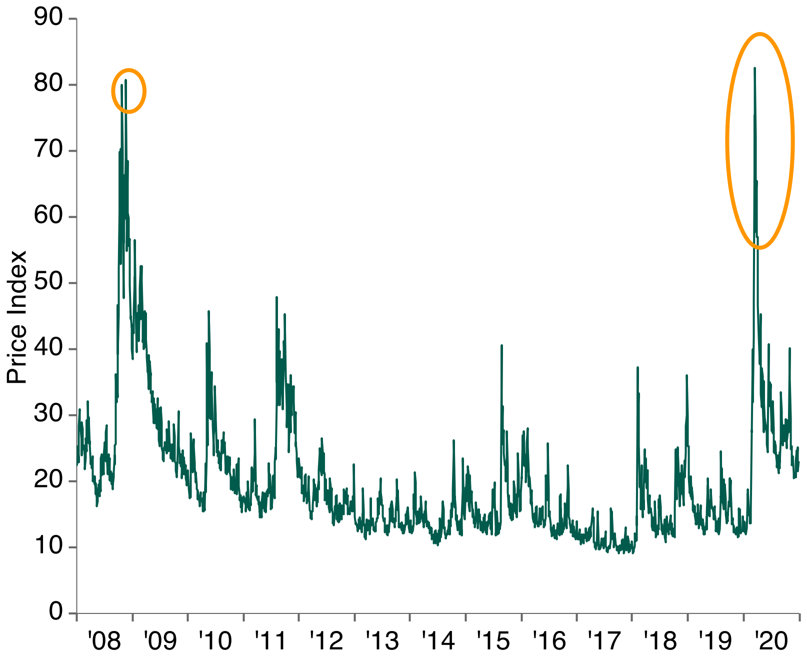
1-Jan-2020 to 31-Dec-2020



Market Volatility Index (VIX)

Volatility remains elevated but pulled back from the levels we saw in the spring, which were comparable to the Financial Crisis

31-Dec-2007 to 31-Dec-2020



S&P 500 Sector Total Return as of 31-Dec-2020

	Avg Index Weight	Contribution to Return
Information Technology	26.4%	12.03%
Consumer Discretionary	10.8%	3.99%
Communication Services	10.9%	2.67%
Health Care	14.4%	2.15%
Materials	2.6%	0.57%
Consumer Staples	7.1%	0.54%
Industrials	8.4%	0.47%
Utilities	3.2%	-0.28%
Real Estate	2.8%	-0.36%
Financials	10.7%	-1.50%
Energy	2.8%	-1.88%
	Total	**18.40%**

Source: FactSet
Past performance does not guarantee future results and current circumstances may not be comparable

Loss Aversion

Losses are "felt" twice as much as winners; therefore, concentrated investing is almost mathematically guaranteed to feel bad

Negative Investor Sentiment				Positive Investor Sentiment		
2	**x**	**2**	**>**	**3**	**x**	**1**
# of Losing Investments in a Portfolio of 5		"Feeling" Multiple of Losers		# of Winning Investments in a Portfolio of 5		"Feeling" Multiple of Winners

In 1979, Amos Tversky and Daniel Kanheman published Prospect Theory: An Analysis of Decision under Risk, where they proposed that people prefer avoiding losses and later, in Advances in Prospect Theory: Cumulative Representation of Uncertainty, suggested that losses are felt at least twice as much as gains.

Global Equity Profile

Portfolio Holdings

Company	Weight
EXOR	10.3 %
Lumen	7.6
Prosus	6.4
General Electric	6.0
Melco International	5.2
CK Hutchison	4.8
Fairfax Financial	4.7
CNX Resources	4.4
Comcast	4.3
FedEx	4.2
Williams	4.2
LafargeHolcim	3.8
DuPont	3.5
CK Asset Holdings	3.2
MGM Resorts	3.2
Millicom	3.2
Hyatt	2.3
Accor	2.2
Affiliated Managers Group	1.0
MinebeaMitsumi	0.9
Cash	14.6
Total	**100.0%**

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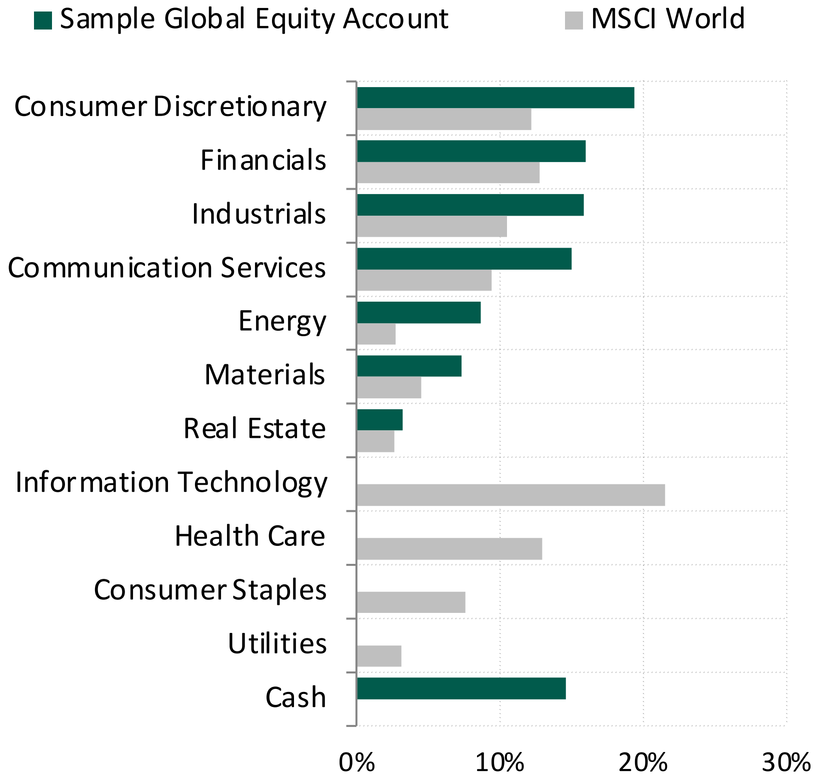
Portfolio Statistics*

# of Securities	21
Twelve-month turnover	34.6%
Wtd. avg. market cap	$47.6 billion
Price-to-Value (P/V)	Mid-60s%

Sector Weights



Country Weights

	Acct	MSCI World
United States	40.7%	63.7%
Netherlands	16.7	1.7
Hong Kong	13.2	0.9
Canada	4.7	3.2
Switzerland	3.8	3.3
Sweden	3.2	1.0
France	2.2	3.2
Japan	0.9	7.8
Rest of World	0.0	15.1
Cash	14.6	0.0

*Portfolio information based on Sample Global Equity account at 12/31/20. Portfolio makeup will vary depending on many factors including client guidelines and market conditions.

Why We Believe Value Will Work Again

Not going to do the whole thing now but would encourage you to read it at: southeasternasset.com/thought-pieces/

Business

Sonic was an understandable, branded fast food company with a focus on franchising and a high return on capital (ROC)

- Largest U.S. drive-in chain with unique concept
    - System-wide sales of ~$4.5 billion
    - >3500 drive-ins in >45 states
    - Core market South Central U.S.
- Franchise business model (~90% of stores) generates high margins with limited capex requirements

Competitive Advantages

- Strong brand with unique experience
- Diverse menu skewed towards beverages and desserts; all day business

People

CEO Cliff Hudson was almost like a founder given he'd been at the company for about 30 years with a great track record.

- Cliff Hudson – Chairman and CEO since 1995
  - Presided over nationwide expansion
  - Repurchased ~20% of stock in last few years
- Our network said good things about him
- Ownership mindset and great capital allocation track record with double-digit share buybacks
- Early 60s good time to start engaging a long-term CEO/founder about transition plans

Price

Stock traded at low double-digit multiple of Free Cash Flow for a strong brand, high ROC and store growth

- Price was low because Sonic was out of favor due to weak results, the resurgence of McDonald’s and a general lack of investor awareness

- Our Appraisal was $35-40/share
  - Price to Value = mid-60s%
  - “Margin of Safety” was good

- Bought for our Small-Cap fund and eventually owned over 15% of the company

“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 P/V ratio represents a single data point 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.

Investment Outcome: Business

"Time arbitrage" was important here because nothing good happened for a while

- Comparable sales were weak almost the entire time we owned it
  - Down -2% right after we took a stake
  - Then 7 straight quarters of negative comps before finally turning up after most short-term investors had given up
- Completed re-franchising effort, but somewhat disappointing
- Good cost control and the tax cut helped during this time

Investment Outcome: People

Cliff turned out to be a great partner, but it wasn't always easy

- They bought back shares at a double-digit pace our entire ownership

- Uncertainty around where Cliff wanted to take the company
  - Changes at the executive level
  - Worries over operations and branding
  - Questions around the app rollout

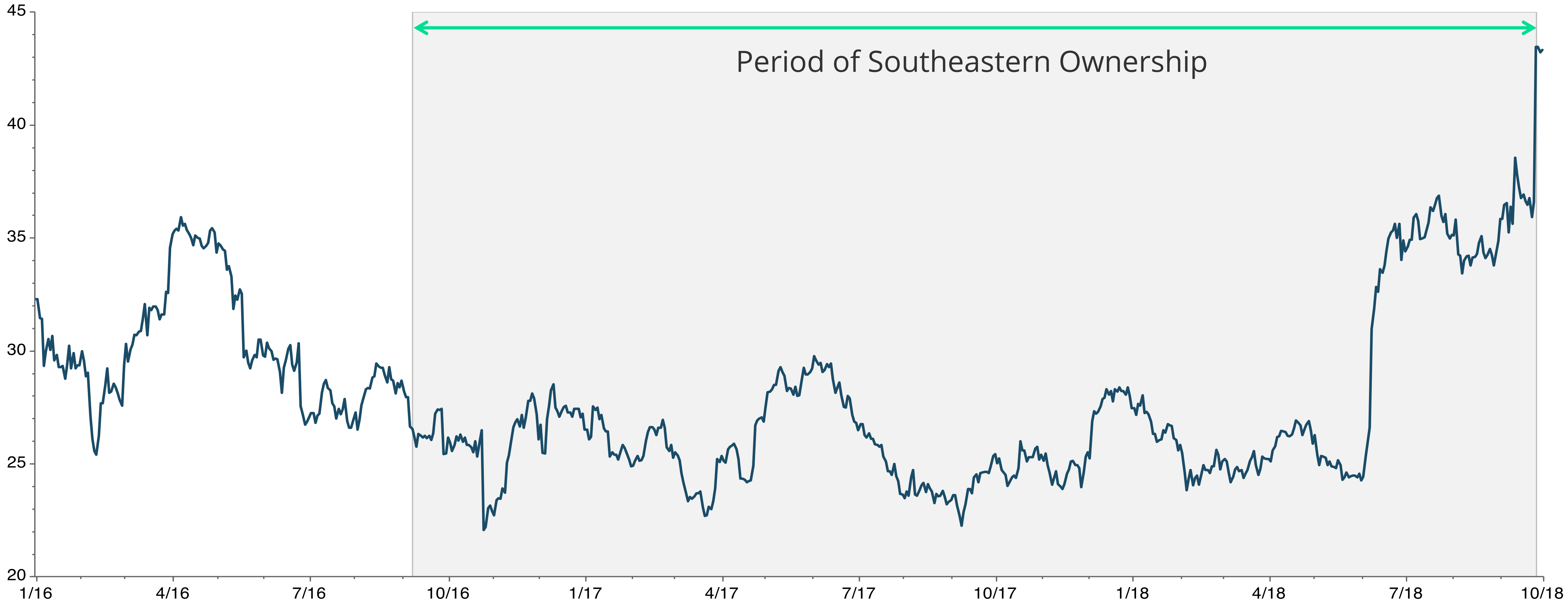
What Happened:

In late 2017, we collaborated with the company and filed a 13D, so we could speak more freely with Sonic and other parties. Management started a strategic review process that resulted in...

Price History

Sonic Daily Price Chart

1-Jan-2016 to 30-Sep-2018



Source: FactSet

Questions