April 3, 2017

Dear Fellow Investor:

News in the first quarter of 2017 was dominated by the initial activities of the new administration. Since the election in November, investors have been anticipating tax cuts, repatriation of stranded corporate profits, the announcement of massive infrastructure spending projects, and the dismantling of troublesome and expensive environmental and financial service regulations. The "Trump Bump" has propelled stocks higher, and our portfolios have participated.

As the quarter ended, however, a heated showdown between the newcomers and the DC establishment ended with a failure to "repeal and replace" Obamacare. Confidence was further shaken by foreign policy miscues and a widening investigation of Russian meddling in the U.S. election. Parts of the president's agenda will undoubtedly be enacted, but for now, confusion reigns.

Nevertheless, it was a good quarter for our funds. The five stock funds performed well. Our fixed income funds earned positive returns in a turbulent bond market. Core Plus is approaching its third anniversary and maintains its strong performance. Balanced Fund also turned in a strong quarter and continues to be a good alternative for individuals and institutions who want to delegate the stock/bond allocation decision.

The table on our website (https://weitzinvestments.com/funds_and_performance/fund_performance.fs) shows performance of our funds over various measuring periods since our founding in 1983. We remind investors that we believe the longer measuring periods are more meaningful.

Valuation—the Gravitational Force

In our last letter, we showed a graph of aggregate U.S. stock market value as a percentage of GDP. This ratio offers a very rough proxy for stock valuation levels. At year end, the ratio was near the high end of its historical range, and after a strong first quarter, it is even higher. This does not mean that stock prices must go down tomorrow—as we said, this indicator is a very blunt instrument for making market timing decisions. Nevertheless, knowing that stocks are expensive on a historical basis gives us some perspective on the attractiveness of available opportunities.

Our investment philosophy is based on the idea that a company's business value "reality" is measurable and evolves gradually (hopefully upward) over time, while its stock price may fluctuate widely based on investors' hopes and fears about the future. We believe that in recent years, money creation by the Fed and extremely low interest rates have fostered excess investor enthusiasm. Hence the relatively high level of stock prices.

We like to buy stocks at 60-70% of our estimate of business value, but in today's market, our portfolios are closer to full value in the mid-80% range. We believe that a company's business value exerts a "gravitational pull" on its stock price, so when stocks are expensive, we tend to invest more defensively and hold cash reserves.

Our investment team of ten analysts and portfolio managers continues to read, travel and "kick tires" in search of new investment ideas. Even in a generally expensive market, there are always individual companies undergoing business and/or price changes that offer us opportunity. In the meantime, we will be patient and disciplined about deploying your (along with our) capital.

Indexing—Active vs. Passive Investing

Over the past few years, the financial press has been obsessed with the relative merits of active vs. passive investing. As a result, we have been receiving lots of questions about indexing and ETFs (exchange traded funds). So, in this letter we will address some of the pros and cons of passive investing.

To simplify, an active stock fund manager is trying to ***beat*** a market index (e.g., S&P 500), while a passive investor is trying to ***match*** the index returns. Actively managed funds generally have higher expense ratios than index funds or ETF's, so mathematically, to the extent active and passive managers both, as groups, produce average results, the passive group will outperform the active group over time by the amount of the expense differential. In an extended period of steadily rising stock prices, where cash holdings penalize active managers, index funds and index ETFs tend to show good relative performance and attract investors.

Index funds can be part of a sensible solution for the individual or institutional investor who is not willing or able to select securities or fund managers on their own. Warren Buffett, one of the greatest active managers of all time, has endorsed the S&P 500 index fund as a good alternative to hiring active managers to try to beat the index. In addition to expense savings, buying and holding ***any*** fund eliminates the likelihood of reducing returns by "chasing performance." Studies of mutual fund investors consistently show that the tendency to sell last year's "loser" to buy last year's "winner" can seriously detract from long-term results.

As active managers, we acknowledge the paradox of asking our clients to believe we can remain among the minority of managers who have beaten the S&P 500 over the past 30+ year period. In ***The Superinvestors of Graham and Doddsville*** (available online—15 pages and we highly recommend it), Warren Buffett wrote about a group of professional investors who consistently beat the market. Their portfolios were very different from each other, but the common denominator among the group was that each had studied with, or had been heavily influenced by, Benjamin Graham. The idea that ***a patient investor could do well by buying shares of a business at a significant discount to its value ("margin of safety") to a long-term owner*** was the basis of their success. We do not claim to belong in the pantheon that Warren wrote about, but the common sense application of Graham's method has served us well for a long time. As long as human nature does not change, we believe that there will always be opportunities for value investors to buy mispriced securities.

Indexing—Other Observations

In thinking about index funds and ETFs, there are a number of considerations that receive less coverage in the press:

(1) The discussion of index funds above focuses on broadly diversified indices, such as the S&P 500, and anticipates that an investor would hold the fund for a period of years. There are sector ETFs that contain a narrowly defined "basket" of stocks from one industry, such as banking, biotech, airlines, home building, etc. Trading among sector ETFs, or even trading in and out of a broader index, is not "passive" investing. It involves active investment decision-making. That is not good or bad, *per se*, but it is not the subject at hand;

(2) To state the obvious, "matching" the index means losing money when the index goes down. A few years ago, the director of research for a large investment firm charged with creating active and passive fund models for his clients lamented to us, "Investors were surprised to find that in the 2008-09 bear market, indexing didn't protect them on the downside." Amazing.

(3) The construction of stock index funds and ETFs can also create unintended consequences. The fund is a basket of stocks, and investor capital is allocated among the component securities in a fixed proportion (usually based on the relative market capitalizations of the component stocks). When new funds arrive to be invested, shares of each stock are purchased in those proportions. So the largest companies receive the lion's share of new money, making their market caps even larger. This structural phenomenon caused extreme distortions during the tech stock bubble, which ended in 2000. When mechanical buying and selling exacerbates mispricing of stocks, opportunities are created for active investors.

(4) Another structural quirk of index funds or ETFs is that when investor buy or sell orders come to the fund sponsor, it must buy or sell shares of the component companies that day. The parties on the other sides of those trades can "see them coming" and may take advantage of the fund. In less liquid markets, the fund may get poor executions of their trades. This is not good for the index investor but can create opportunities for the active manager.

Index funds are an important part of the investment landscape. They can be useful to investors who understand their virtues and limitations. Nevertheless, we believe there is a case to be made for active management, and we intend to continue to do our best to add some extra value to our clients' long-term investment results.

Outlook

These are not normal times (!). The stock market has moved in one direction for the last eight years, with barely a 10% correction. Going forward, we expect more volatility and a market that makes meaningful moves in ***both*** directions. This should create buying opportunities for us, but we will be guided by valuation, not news headlines. We appreciate the patience our investors have shown over the past couple of years, and we look forward to rewarding that patience.

Best regards,

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Included above is a reference to the term "margin of safety". This term refers to purchasing securities at a price that is less than our estimate of intrinsic value. A potential "margin of safety" may limit downside risk and optimize the potential for growth.

Investors should consider carefully the investment objectives, risks and charges and expenses of the Funds before investing. The Funds' Prospectus contains this and other information about the Funds and should be read carefully before investing. The Prospectus is available from Weitz Investment Management, weitzinvestments.com, 800-304-9745 or 402-391-1980. Weitz Securities, Inc. is the distributor of the Weitz Funds.

***Past performance does not guarantee future results.** Current performance may be higher or lower than the performance data quoted. Performance data current to the most recent month end may be obtained at http://www.weitzinvestments.com/funds_and_performance/fund_performance.fs. The investment return and the principal value of an investment in any of the Funds will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost.*

Average annual total returns (in each case, for the period ending March 31, 2017) are (i) for the Partners Value Fund—Institutional Class, 11.39% (for the 1-year period), 9.22% (for the 5-year period), 5.18% (for the 10-year period) and 11.96% (since the June 1, 1983 inception date), (ii) for the Partners III Opportunity Fund—Institutional Class, 9.52% (for the 1-year period), 8.57% (for the 5-year period), 6.46% (for the 10-year period) and 12.54% (since the June 1, 1983 inception date) and (iii) for the S&P 500, 17.17% (for the 1-year period), 13.30% (for the 5-year period), 7.51% (for the 10-year period) and 10.91% (since June 1, 1983). The above performance numbers for the Funds (x) reflect the deduction of annual operating expenses which, as stated in the Funds' most recent prospectus and expressed as a percentage of net assets, are 1.07% (gross) for Partners Value Fund—Institutional Class and 1.95% for Partners III Opportunity Fund—Institutional Class., (y) assume reinvestment of dividends and redemption at the end of each period and (z) include fee waivers and expense reimbursements; total returns would have been lower had there been no waivers and/or reimbursements. The S&P 500 is an unmanaged index consisting of 500 companies generally representative of the market for the stocks of large-size U.S. companies.

The inception date for the Funds above refers to the inception date of the Weitz Partners II Limited Partnership and Weitz Partners III Limited Partnership. On the last business day of 1993, the Partners Value Fund succeeded to substantially all the assets of Weitz Partners II Limited Partnership. On the last business day of 2005, the Partners III Opportunity Fund succeeded to substantially all the assets of Weitz Partners III Limited Partnership. In each case, (i) the investment objectives, policies and restrictions of the Fund are materially equivalent to those of the respective Partnership, (ii) the Partnership was managed at all times with full investment authority by Weitz Investment Management, Inc., (iii) the performance information above includes performance for the Partnership, (iv) the Partnership was not registered under the Investment Company Act of 1940 (the "1940 Act") and, therefore, was not subject to certain investment or other restrictions or requirements imposed by the 1940 Act or the Internal Revenue Code and (v) if the Partnership had been registered under the 1940 Act, the Partnership's performance might have been adversely affected. Institutional Class shares for the Partners Value Fund became available on July 31, 2014. For performance prior to that date, the above returns include the actual performance of the Fund's Investor Class (and uses the actual expenses of the Fund's Investor Class), without adjustment. For this period of time, the performance of the Fund's Institutional Class would have been similar to the performance of the Fund's Investor Class, because the shares of both classes are invested in the same portfolio of securities, but the classes bear different expenses.