VALUE MATTERS

For period ended June 30, 2015

Weitz | INVESTMENT MANAGEMENT®

Dear Fellow Investor:

We are at the halfway mark in 2015 and the stock and bond markets have made very little progress so far this year. The stalemate between buyers and sellers has been going on for several quarters.

The lack of net change in market averages does not mean that nothing is happening in the world, though. There have been many political and economic developments that affect both investor confidence in general and the profitability of companies in a number of industries. The investment landscape is always "uncertain." However, it seems that there are a number of ongoing "standoffs" between bullish and bearish forces and that this extended period of ambiguity is causing growing investor anxiety.

Federal Reserve

One of the most visible standoffs for American investors is the debate within the Federal Reserve over when to end its policy of "extraordinary accommodation" and allow market forces to reset interest rates at more normal levels. Investors love very low interest rates—they can borrow cheaply personally to speculate, and their companies can raise money cheaply for acquisitions, stock buybacks and to repair weak balance sheets. On the other hand, they worry about the potential for future inflation and the possibly negative impact of higher rates on the economy and securities prices.

In our opinion, the Fed's decisive actions during the financial crisis were necessary and successful. At some point, though, its intentional inflation of securities prices (in pursuit of a "wealth effect" that would stimulate the economy) through "quantitative easing" became unnecessary and probably counter-productive. To the extent that securities prices were bid up to artificially high levels, some of investors' recent profits have been borrowed from the future. This is no disaster but may lead to near-term disappointment for investors with unrealistic expectations.

As for interest rates, it is safe to predict that they will go up at some point. Very high interest rates can be damaging to the economy and would depress valuations of stocks and bonds. We believe we are a ***very*** long way from damaging interest rate ***levels***, but investors tend to react to the ***direction*** of changes in rates. We do not expect tight credit to be an issue for the companies we own (or for business in general) for years to come, but investors are subject to panic attacks.

International Tensions

On the geopolitical front, we have literal standoffs around the globe: Russia and the NATO countries over the Ukraine; China and its neighbors over disputed islands in the South China Sea; Sunni and Shia factions all over the Middle East. The standoff between Greece and its Eurozone creditors intensifies as I write. The danger, not to mention the pain and suffering in each of these arenas, is real. Any of these situations could trigger a bout of market volatility at any time, but from a narrow, investment point of view, we think our companies are well-prepared to insulate themselves from foreign hostilities.

Energy

Another type of standoff is taking place in energy markets. Oil and gas prices have always been volatile. For perspective on the continuing drama of supply and demand imbalances, we recommend Daniel Yergin's classic, *The Prize*. New discoveries and advances in transportation and technology create gluts and then new markets for energy (e.g. cars and emerging middle class consumers) cause shortages. New technology for extracting oil and gas from shale deposits has once again upset the supply/demand equation. The collapse in energy stock prices has created some apparent bargains in companies with very valuable reserves.

What is a little different this time is that the lead times required to bring new production on stream in the U.S. has been shortened considerably by the new technology. This ***may*** mean that oil and gas price recovery will take longer than usual. If this is the case, it will be important that energy investors own companies with very low production costs and strong balance sheets (and that they have plenty of patience). We think our choices of Range Resources (natural gas), Pioneer Natural Resources (oil) and Core Labs (oil field services) fit these criteria.

Lower fossil fuel prices have a negative impact on the development of alternative energy sources. We would like to find wind or solar investments that could be profitable for our investors. At this point, these alternative sources require government subsidies to generate good economic returns. We do not own any "pure plays" in wind or solar power, but Berkshire Hathaway has made substantial investments in both through its utility subsidiary. We will continue to look for opportunities in this area.

Media

In the media world, there are several sets of cross currents that are unsettling investors. The cable "bundle" is under attack. Some cable subscribers and their advocates have argued for the choice to buy channels on an *a la carte* basis. ESPN has the clout to charge about $6 per month per subscriber and to insist on being carried on the "basic" tier of channels. Aside from the value of collecting subscriber fees from ***all*** subscribers, including many who watch no sports programming, ESPN is able to demand premium advertising rates because of its "reach." Non-sports fans would like to save the $6, but it is quite possible that individual viewers' overall cable bills would go ***up*** under *a la carte* as cable networks priced to offset declines in numbers of subs.

Cable providers are facing defections of video subscribers, both from younger "cord-nevers" and "cord-cutters" who cancel video service and watch "over-the-top" streaming services like Netflix or Amazon Video delivered via broadband. The result is a loss of video revenue for the cable operator, and both subscriber fees and advertising revenue for the cable networks.

Broadband is a more profitable product for providers, as it shifts the burden of programming costs to the consumer. Thus, it may be possible for the cable provider to price its broadband service to be just as profitable as video plus broadband. However, cable companies face broadband competition from telephone company DSL, and in some markets, from alternate providers like Google Fiber. In addition, the FCC is considering changes in regulation that might prevent such price increases for broadband service.

The issues are very complicated. The players are large and powerful. The regulatory environment is in flux. The amount of money involved is enormous. Hence a titanic standoff. It is very important that we understand the evolving balance of power because we have investments in cable operators (Liberty Global and Charter, via Liberty Broadband) and cable networks (Fox, Discovery and QVC). We believe we own companies with the right combination of competitive position, financial strength and savvy management, but we are watching developments very carefully.

Healthcare

A political standoff over the Affordable Care Act has moved to a new stage. The recent Supreme Court decision removed a threat to the law itself and clarified the coverage status of millions. This was welcome news to healthcare providers and removes a significant layer of uncertainty to the immediate outlook for various kinds of healthcare businesses.

On the other hand, the law still has flaws. It also has opponents who will continue to try to dismantle it. Dave Perkins is our resident expert on all things healthcare and we look to him to help us understand which companies are best positioned to navigate the changing political and regulatory environment. Our primary exposure to healthcare is in providers of necessary products and services that face relatively less regulatory, reimbursement or "patent cliff" risk. They include LabCorp (medical lab tests), ExpressScripts (a pharmaceutical benefit manager, or PBM, which helps employers manage costs of prescription drugs for employees), and two specialty pharmaceutical companies, Valeant and Endo (generic and branded drugs).

Healthcare accounts for roughly 17% of the American economy. Demand is stable and growing. Competition is fierce but fairly predictable. Regulation, government reimbursement and insurance practices are wild cards. We are looking for companies with reasonably predictable, growing cash flows and the ability to "make their own breaks" through sensible acquisitions and buying back their own shares to increase ***per share*** business value.

Outlook

As we talk to our companies and revise our estimates of their business values (at least) every quarter, we are generally struck by two things: (1) the companies are doing well, they are finding profitable ways to reinvest their profits, and generally, their business values are growing; but (2) their stock prices, along with those of most companies we follow, have already risen to reflect those gains in business value.

We have blamed this predicament on the Fed and its "fire hose" of freshly created money pumped into the bond and stock markets. The explanation is certainly more complicated than that, but the conclusion is the same—stocks are "reasonably" or "fully" valued. That is okay but not exciting. We prefer to buy stocks at cheap enough prices (discount to value) that we can win two ways—from the growth in business value over time and from an upward valuation of the stock (closing the discount).

The U.S. stock market has not experienced a 10% correction in over three years. That size dip is normal and inevitable. When it happens, all the negatives that have been apparent for years may suddenly seem important (and possibly insoluble). Some speculators will be caught short and will have their own personal liquidity crises. All of this is a normal part of investing. Anything can happen in the stock and bond markets in the short run. Fear causes selling and selling can feed on itself. The trick is to watch calmly as it unfolds and take advantage when securities are being sold at distressed prices.

There were serious structural problems in our economy going into the 2008-09 mortgage crisis/Great Recession. (The same was true in 1973-74 and 2000-2002.) We do ***not*** believe that we have comparable conditions today. We have a ***valuation*** problem—stock profits borrowed from the future—but not an ***illusion of value*** problem like we had seven years ago. We own companies with staying power and we are holding considerable "dry powder." Cash reserves are 15-20% of the long-only stock funds (Value, Partners Value and Hickory) and Partners III Opportunity's net exposure to stocks is 67%. We have no idea what the markets will do in the short run, but if we do happen to experience some stock market turbulence, we believe we are prepared to take advantage of it.

Investment Team Update

We announced at our annual meeting in May that I would be stepping down as co-manager of the Value Fund at the end of 2015. A very nice article in the *Omaha World-Herald* ran under a headline that gave some the idea that I was retiring. That is not the case. I'll continue as Chief Investment Officer of the firm and manager or co-manager of the Partners Value, Hickory and Partners III Opportunity Funds. Me stepping down as co-manager of the Value Fund is part of a long-planned evolution of our team and reflects the fact that Brad Hinton and Dave Perkins (co-managers with me for nine and three years, respectively) have consistently demonstrated over time the ability to manage the Value Fund. I am not going anywhere, although since I am 66, shareholders should expect further gradual sharing of responsibilities with other team members over coming years.

Another part of our evolution is the gradual expansion of our investment team. On this front, Nathan Ritz, who joined us as a research associate four years ago, has been promoted to analyst. Also, Dan Walker will join us as an analyst July 6. Dan has Omaha roots and returns home after several years as an analyst at a well-respected, valueoriented investment firm in Milwaukee. He also spent nine years in the advertising industry. We expect Dan to add depth to our coverage of small cap businesses in a variety of industries.

Dan will be the 12th member of the investment team. We each have specific areas of responsibility—industry coverage, credit analysis, portfolio management, trading—but we do not have the "silos" found in many investment firms. We all approach investing from a value perspective, everyone is encouraged to explore broadly for new investment ideas, and our incentives are based on overall investment success for our shareholders rather than individual achievements. This is why I have confidence that we will continue to produce solid investment results regardless of the occupants of the portfolio manager chairs.

Thank you again for allowing us to manage money for you. It is a pleasure for investment managers to work with

Sincerely,

Wally Weitz
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As of June 30, 2015: Range Resources Corp. ("Range Resources") represented 3.5%, 2.8%, 1.7%, 7.0%, 1.8% and 2.2% of the Value, Partners Value, Partners III Opportunity, Research, Hickory and Balanced Funds' net assets, respectively. Pioneer Natural Resources Co. ("Pioneer Natural Resources") represented 2.7%, 1.8%, 1.4% and 1.3% of the Value, Partners Value, Partners III Opportunity and Balanced Funds' net assets, respectively. Core Laboratories N.V. ("Core Labs") represented 2.3%, 2.5% and 1.0% of the Partners III Opportunity, Hickory and Balanced Funds' net assets, respectively. Berkshire Hathaway, Inc. ("Berkshire Hathaway") represented 4.7%, 4.7%, 7.7%, 2.9% and 2.7% of the Value, Partners Value, Partners III Opportunity, Research and Balanced Funds' net assets, respectively. Google, Inc. ("Google Fiber") represented 3.0%, 2.5%, 2.6%, 1.5% and 1.7% of the Value, Partners Value, Partners III Opportunity, Research and Balanced Funds' net assets, respectively. Liberty Global plc ("Liberty Global") represented 7.2%, 6.0%, 7.5%, 6.6%, 4.4% and 2.4% of the Value, Partners Value, Partners III Opportunity, Research, Hickory and Balanced Funds' net assets, respectively. Liberty Broadband Corp. ("Liberty Broadband") represented 1.4%, 1.5%, 4.2%, 2.1% and 3.0% of the Value, Partners Value, Partners III Opportunity, Research and Hickory Funds' net assets, respectively. Twenty-First Century Fox, Inc. ("Fox") represented 5.1%, 3.1%, 0.9%, and 3.1% and 2.5% of the Value, Partners Value, Partners III Opportunity, Research and Balanced Funds' net assets, respectively. Discovery Communications, Inc. ("Discovery Communications") represented 3.3%, 2.5%, 2.8%, 1.6% and 2.5% of the Value, Partners Value, Partners III Opportunity, Research and Balanced Funds' net assets, respectively. Liberty Interactive Corp. ("QVC") represented 3.9%, 3.3%, 3.7%, 4.1%, 3.7% and 2.4% of the Value, Partners Value, Partners III Opportunity, Research, Hickory and Balanced Funds' net assets, respectively. Laboratory Corp. of America Holdings ("LabCorp") represented 1.0%, 2.7%, 2.4%, 3.1% and 2.3% of the Value, Partners Value, Partners III Opportunity, Hickory and Balanced Funds' net assets, respectively. Express Scripts Holding Co. ("ExpressScripts") represented 3.5%, 2.8%, 2.1%, 3.0% and 1.6% of the Value, Partners Value, Partners III Opportunity, Research and Balanced Funds' net assets, respectively. Valeant Pharmaceuticals International, Inc. ("Valeant") represented 5.9%, 3.5%, 4.4% and 4.2% of the Value, Partners Value, Partners III Opportunity and Research net assets, respectively. Endo International plc ("Endo") represented 2.8%, 1.5% and 1.8% and 2.1% of the Value, Partners Value, Partners III Opportunity and Hickory Funds' net assets, respectively.

We define "Net Exposure to Stocks" as Effective Long, minus Effective Short.. We define "Effective Long" as common stocks, plus securities where the price of the security rises if the price of an underlying security or index rises. We define "Effective Short" as securities where the price of the security rises if the price of an underlying security or index falls. "Effective Short" also includes combinations of securities (an example could be a short call option and a long put option) which together are expected to create a "synthetic short" position.

Learn more at weitzinvestments.com or call 800-304-9745.