July 5, 2016

Dear Fellow Investor:

During the second quarter, the U.S. stock market continued its sideways movement, interrupted occasionally by sharp, temporary dips like the one after the Brexit vote. Our funds followed a similar pattern, and all but one showed modest gains at mid-year. The table on our website shows the full 33-year history of our funds.

We have been rather negative about the outlook for bonds in these quarterly letters, and we continue to feel that way. In spite of it all, the fixed income team managed to bring in solid positive returns so far this year. These gains were earned through opportunistic trades in corporate bonds when a temporary credit panic created some real bargains. (The Balanced Fund also saw success as bond profits contributed to its gain year to date.) What our fixed income managers have ***not*** done is try to squeeze out trading profits from long treasuries as rates have moved towards zero. We believe this is like picking up quarters in front of a steam roller, and while it has worked recently, we leave that game to others. The portfolio managers offer further information and perspective in their quarterly fund commentaries.

Stock Market Commentary

The clear winners among S&P stock sectors during the first half were utilities and telecom. The companies in these groups, in our opinion, are not great businesses, but their stocks exhibit low volatility and have high dividend yields. These attributes make them close analogs to treasury bonds, which were star performers during this period. The runner up group was energy. After the price of oil fell from over $100 to around $25, a rally to $50 gave new life to oil and gas stocks. Another category of first half winners includes a handful of companies with highly predictable near-term earnings growth. Predictable growth has been so rare that these stocks developed a bandwagon effect ("momentum stocks").

We hold modest positions in energy stocks and added to them as prices fell, so we benefitted from their rally. The yield and momentum plays, though, hold little attraction for us. In an environment in which investors are frustrated and impatient for income and profits, there is a temptation to buy "what's working" to avoid being left behind. We try to remain flexible and realistic, but we believe that sticking to our valuation discipline has been the key to our performance over the past 33 years. We manage our funds as we would our own money (and, in fact, virtually all of our investable capital ***is*** in our funds), so we are loath to chase near-term performance.

Our focus is on individual company business values, but the macro environment impacts those values over time. Economic and political changes tend to unfold gradually (the recent drama surrounding Brexit notwithstanding), so we tend not to react to day-to-day news. However, we need to understand the environment in which our companies compete. It is impossible to do justice to these topics in a few paragraphs, but we will respond to some of the questions we have received from clients.

Brexit

The 52-48 vote in the U.K. to leave the European Union surprised investors, set off a firestorm of political wrangling in the U.K. and triggered a market selloff that lasted all of two days. (Two weeks after the vote, some of the specific consequences seem to be dawning on stock and real estate investors.) Britain's relationship with the EU is important, and if they do withdraw, there will be consequences. London's future as a financial center is in question. The U.K. had never adopted the euro currency, but at a minimum, there will be a period of confusion and disputes over rules and regulations, trade contracts, etc. There will be headaches all around, but most of our companies should be able to navigate the changes.

More broadly, Brexit is part of a larger question about the viability of the whole "European Project." From the outside, the EU may seem to be merely a political and commercial arrangement to make trade and daily life more convenient. For many, though, it represents nothing less than a mechanism to ensure permanent peace among historical rivals. There are serious strains among member countries over governance, fiscal and immigration policies, and the inevitable conflicts arising out of the use of a common currency by a group of countries in very different financial situations. So, there may be "exit" votes in other countries in future months. In an interconnected world, a breakdown of the EU and the Euro currency zone would cause financial disruption. Change generally comes slowly in the EU—the first Greek "debt crisis" arose in 2010—and hopefully, our companies will have time to adapt.

Quantitative Easing (QE)—Negative Interest Rates

The concept of negative interest rates seems like an oxymoron. Picture a bond with $100 face amount (par value), that pays $1 of interest per year (1% coupon) for the next five years (5-year maturity), and whose price has been bid up to $110 in the open market. The "yield to maturity" of that bond is negative: ***-0.95%***. Today's buyer who pays $110 will receive $5 in interest over the next five years and then a check for $100. The buyer will lose $5. If it seems peculiar that investors and central banks would willingly enter into this transaction, you understand why many of us are uneasy about what the path back to "normal" financial markets might look like.

Governments around the world responded to the 2008-09 financial crisis by creating new money and injecting it into their economies by buying government bonds (QE). Liquidity was restored and credit markets began to function again. The pace of recovery was unsatisfactory, though, as the fresh cash was invested in securities rather than productive assets. So, QE was continued. The U.S., Europe and Japan have different issues and different programs, but trillions of dollars, euro and yen have been created and pumped into the bond markets. As a result, there is currently over ***$10 trillion*** of sovereign debt trading at ***negative*** yields.

There are theoretical explanations for why this is OK, but intuitively we find it disconcerting. The collective experience of holders of over $10 trillion of government bonds will be financial loss. Banks and other lenders cannot earn adequate "spreads," insurance companies have inadequate investment income to pay future claims and savers are penalized for their delayed gratification. On a more theoretical level, money is a commodity and interest rates are the pricing mechanism by which the market allocates capital among alternative projects. With "free money" available to borrowers, it seems inevitable that some uneconomic projects have been funded. This is wasteful at best but, more seriously, foreshadows future credit losses.

This current chapter of monetary history represents a huge experiment. We assume there will be unintended consequences. Many companies are taking advantage of this situation by extending the maturities of their debt and lowering the cost. Others may be tempted to over-borrow. We do not know when interest rates will return to normal levels. We are using less favorable interest rate assumptions (higher interest expense and less availability) to stress test our earnings and balance sheet models to make sure our companies are not sowing the seeds of future financial strains.

China

China is important. It is big, growing and its fortunes are intertwined with those of all of the world's developed and developing economies. It is also opaque in many ways. Its reported economic data is considered unreliable due to both honest inaccuracies and intentional manipulation. Its command economy is managed by political leaders whose policies are subject to abrupt change, and the leadership itself is subject to change. The "rule of law" is suspect. It is dangerous and cumbersome to do business there, but it is too important of a market to ***not*** do business with. Many companies find themselves between a rock and a hard place—the classic "double bind."

Bears believe China has overspent and overbuilt infrastructure, factories and housing in an attempt to keep its economy growing. They expect a slowdown in activity and massive defaults on debt used to finance the building. Bulls think the economy is big enough and the leadership nimble enough to grow right through any economic problems. China is such an important factor in many commodities markets that uncertainty over its future raw material needs causes severe forecasting problems for commodity producing companies and countries.

We cannot know enough to make accurate predictions, but we need to learn as much as we can about the country

and how our companies are coping with the challenges of doing business there. Our analysts continue to visit China and see the dynamic changes first hand. It is unlikely that we would make direct investments in Chinese companies, but many of our businesses produce in, or trade with, China. Many also do business in other emerging markets that are dependent on the health of the Chinese economy. China is significant enough in the global economy that it is important to have a sense of the outlook for business (and politics) there. This is a challenge.

Outlook

Finally, the most frequently asked questions are, "What happens next?" "How will the 'standoff' between positive and negative forces be resolved?" "Will the next move be up?" The short-term answers depend on market sentiment. The long-term answers are related to valuation.

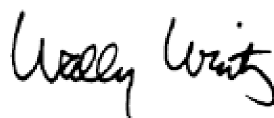
We have been surprised over the past few years at how resilient the general market has been. In a generously-priced market, news and threats that would ordinarily trigger corrections have repeatedly been shrugged off. Various crises in the Eurozone, the failure of monetary intervention to get the global economy going again, and China's travails are on investors' minds but have not triggered significant selling. Our impression is that while investors are not confident or enthusiastic about their holdings, they believe the Fed's QE safety net allows them to stay fully invested and avoid the risk of "missing out."

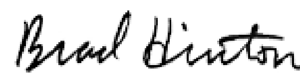
The more important factor is valuation. Although economic growth has been subpar, and many of our companies' growth rates have moderated, their business values continue to grow, albeit at a slower rate than we had expected. Our core belief is that stock prices eventually reflect the value of a business to a private owner. Alternatively, if a stock languishes below its business value long enough, there is a good chance that a buyer of the whole company will reward us for our patience by buying the company.

We like to think about a valuation "floor" under our stocks. Prices can temporarily fall beneath that floor but generally do not stay there. Meanwhile, the floor is rising as the business grows and earnings power increases. When stocks go sideways for an extended period, that rising floor should eventually lead to higher prices. Our stock funds hold cash reserves of around 20% that we look forward to investing as bargains surface.

The next six months should be interesting. Global stock and bond market volatility has been on the rise and may give us some opportunities in the second half. The political process at home promises to be colorful, but the American "system" ought to be able to withstand any potential outcome. Please feel free to call or write with questions. Thank you again for entrusting your savings and investments to us.

Sincerely,





Wally Weitz
wally@weitzinvestments.com

Brad Hinton
brad@weitzinvestments.com

Past performance does not guarantee future results. *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 for the Funds' one, five and ten year periods ended June 30, 2016 were: Value–Investor Class, -6.96%, 9.04%, 4.47%; Partners Value–Investor Class, -8.11%, 7.75%, 5.50%; Partners III Opportunity–Institutional Class, -7.25%, 7.35%, 6.79%; Research, -8.66%, 8.26%,6.90%; Hickory, -4.43%, 6.88%, 5.43%; Balanced, 2.22%, 6.01%, 4.77%; Short-Intermediate–Institutional Class, 2.76%, 2.09%, 3.97%; Nebraska Tax-Free, 1.90%, 1.95%, 2.98%; Government Money Market, 0.07%, 0.03%, 0.98%; respectively. Average annual total returns for Core Plus–Institutional Class one year and since inception periods ended June 30, 2016 were 6.41% and 4.71%; respectively.*

These performance numbers reflect the deduction of annual operating expenses which as stated in the most recent prospectus, and expressed as a percentage of each Fund's or Class's net assets, are: Value–Investor Class, 1.15%; Partners Value–Investor Class, 1.18%; Partners III Opportunity–Institutional Class, 1.69%; Research, 1.60% (gross); Hickory, 1.23%; Balanced, 1.09%; Short-Intermediate–Institutional Class, 0.61%; Nebraska Tax-Free, 0.75%; Government Money Market, 0.68% (gross); Core Plus–Institutional Class, 2.55% (gross). The returns assume reinvestment of dividends and redemption at the end of each period. Total returns shown include fee waivers and expense reimbursements, if any; total returns would have been lower had there been no waivers and/or reimbursements. The investment adviser has agreed, in writing to limit the total annual fund operating expenses of the Value-Investor Class, Partners Value-Investor Class, Research Fund and Core Plus–Institutional Class (excluding taxes, interest, brokerage costs, acquired fund fees and expenses and extraordinary expenses) to 0.99%, 1.18%, 0.90% and 0.65%; respectively, of the Fund's or Class's average daily net assets through July 31, 2016. The investment adviser, has agreed in writing to limit total expenses (excluding taxes, interest, brokerage costs, acquired fund fees and expenses and extraordinary expenses) of the Government Money Market Fund to 0.20% through July 31, 2016, and voluntarily limited expenses to 0.05% for the year ended March 31, 2016. The voluntary limit may be changed at any time. 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 www.weitzinvestments.com/funds_and_performance/fund_performance.fs. Starting January 1, 2011, the performance numbers reflect the deduction of the Research Fund's actual operating expenses. For periods of time prior to January 1, 2011, the performance numbers reflect the deduction of annual pro forma operating expenses of 1.50%.

On the last business day of 2006, the Nebraska Tax-Free Income Fund succeeded to substantially all of the assets of Weitz Income Partners Limited Partnership (the "Partnership"). On the last business day of 2010, the Research Fund succeeded to substantially all of the assets of Weitz Research Fund L.P. (the "Partnership"). The investment objectives, policies and restrictions of the Nebraska Tax-Free Income and Research Funds are materially equivalent to those of their respective Partnership and the respective Partnership was managed at all times with full investment authority by the investment adviser. The performance information includes performance for the respective Partnership. The respective Partnership was not registered under the Investment Company Act of 1940 and, therefore, was not subject to certain investment or other restrictions or requirements imposed by the 1940 Act or the Internal Revenue Code. If the respective Partnership had been registered under the 1940 Act, the respective Partnership's performance might have been adversely affected.

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.

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. Portfolio composition is subject to change at any time and references to specific securities, industries, and sectors referenced in this letter are not recommendations to purchase or sell any particular security. Current and future portfolio holdings are subject to risk.

Weitz Securities, Inc. is the distributor of the Weitz Funds.