Fixed Income Insights

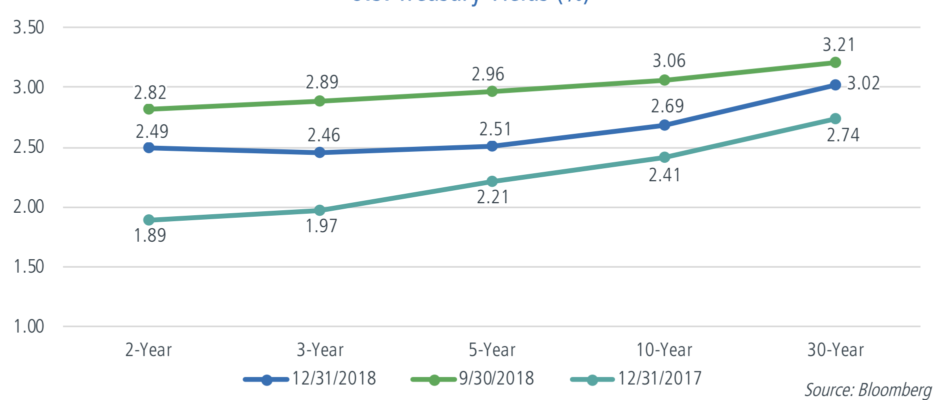
January 11, 2019

Dear Fellow Investor,

The adage that change is the one constant succinctly summarizes the financial markets in 2018. Placid environments, as we have written about in previous correspondence, invariably lead to more volatile and turbulent ones; although, timing is always unknown. The investment waters became decidedly more choppy last year, particularly in the fourth quarter, as the headline fears of the year (trade conflicts, slowing global growth, rising short-term interest rates and energy price declines) coalesced to a tipping point. December's decline in equity prices (the biggest monthly drop since 2009) gave it the dubious distinction of being the second worst December in history behind 1931. Credit spreads widened materially across all segments, particularly lower-quality bonds. The overall outcome for the year was a rare one, with cash winning the asset class performance derby as the vast majority of alternatives turned in negative returns.

The march higher of Treasury bond yields reversed course in the fourth quarter, ruining the predictions of many prognosticators who warned of a "perfect storm" and "bond bear market confirmed" for Treasuries in 2018. The chart below highlights the progression of select Treasury rates over the past quarter and year.

U.S. Treasury Yields (%)



Rates were up on the year but far less than many (maybe most) predicted. It was a good reminder for us that proclaiming absolute tops or bottoms in markets may make good headline material—but it is generally a loser's game. There is always someone who guesses right and garners a lot of attention, but typically they are a one-trick pony. Our goals will be to continue to focus on what we ***can*** know and remain disciplined in our investment process.

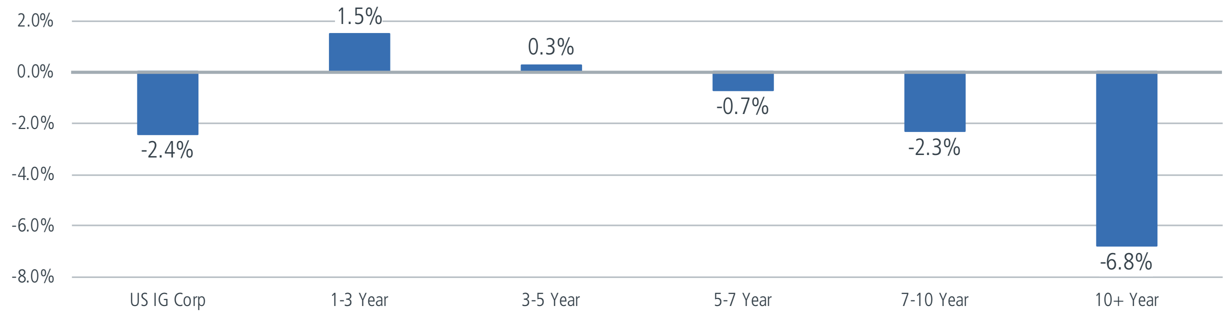
As mentioned, corporate bonds and other credit-sensitive securities had a tough year. They significantly underperformed Treasury bonds in the quarter and year as credit spreads widened, particularly for non-investment-grade or high-yield bonds. A broad measure of investment-grade corporate bond spreads, compiled by ICE BofAML, increased to 159 basis points as of December 31, up 46 basis points in the quarter and 60 basis points year over year.

The chart below, courtesy of Morgan Stanley, portrays total returns and excess returns as compared to U.S. Treasuries across quality segments of the corporate bond marketplace, from very high quality (AAA) to the lowest-quality segment (CCC). The chart shows in stark detail that there was virtually nowhere for fixed income investors to hide in 2018. Total returns were broadly negative, even worse when compared to Treasury bond alternatives as spreads widened, and 2018 returns were the worst overall since 2008.

2018 YTD Total & Excess Returns by Quality Bucket (%)

The next chart, also courtesy of Morgan Stanley, provides a little ray of light in an otherwise dreary landscape. It breaks out 2018 returns for investment-grade bonds across the maturity spectrum from short (1-3 years) to longer-term (10+ years) bonds.

2018 Investment Grade Total Returns



IG=Investment Grade

Source: Morgan Stanley

While most investment-grade bonds posted losses in 2018, generally those that were shorter term (particularly 1-3 years) weathered the storm. Investors who have followed our portfolio updates over previous quarters will note that we have intentionally shortened the duration of our credit exposure as we viewed the risk/reward stacked against us in longer-term bonds. This decision to "take the market's temperature" over the course of months and quarters meaningfully helped all the Weitz fixed income funds, particularly Core Plus Income Fund, generate positive returns in a year where such results were scarce. On the following page is the scorecard for how Core Plus Income Fund has performed since its inception in 2014 compared to industry peers.

Please see the **Quarterly Commentary** for all funds on our website for additional information regarding fourth quarter 2018 portfolio activity and current positioning. Our investment philosophy in fixed income is straightforward: we believe the key to winning is not losing. Permanent losses of capital are a bane to long-term compounding—and *especially* so in fixed income investing. We avoid making bold or specific predictions about the direction and pace at which interest rates or credit spreads might move in the future. Caution has arguably always been our calling card in managing fixed income assets. As investors, we want to be appropriately compensated for any risks we assume. We are index agnostic and prefer to concentrate in our best ideas—those that we believe offer attractive risk-adjusted returns, taking into consideration the general level of interest rates and the credit quality of each investment.

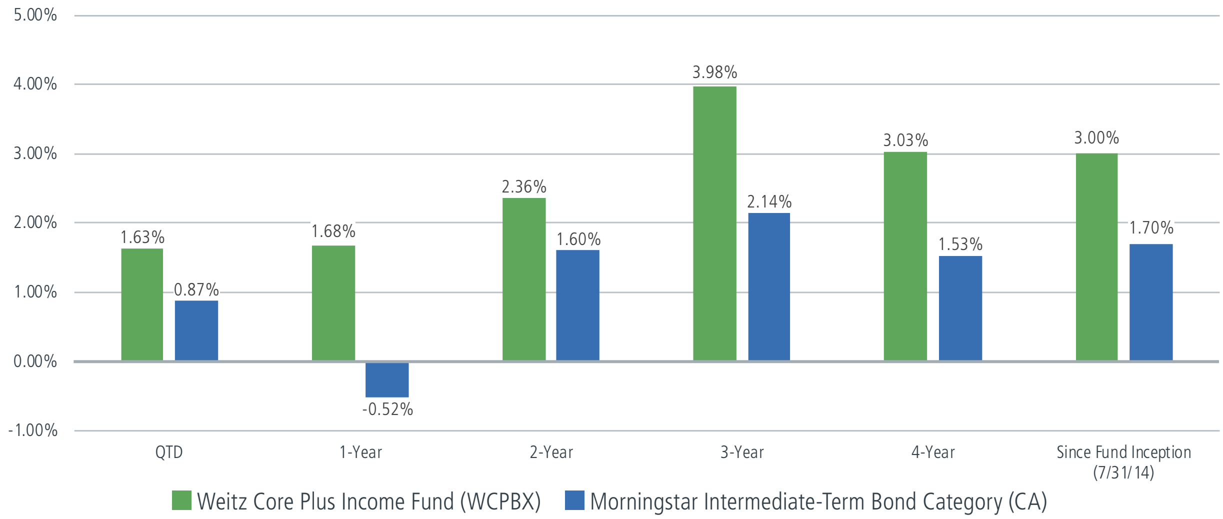
Time will tell, of course, whether the recent widening of credit spreads is the beginning of something more ominous or simply a scene out of the Institute for the Very, Very Nervous from the Mel Brooks classic comedy *High Anxiety* (1977). Either way, we view volatility, and the fear that sometimes accompanies it, as the investor's friend—particularly when it results in a disconnect between price and value. We look forward to taking advantage of any valuation disparities that may develop in 2019 and hope to continue to earn your investing trust.

Sincerely,

Tom Nolan

Tom Carney **Nolan Anderson**

Core Plus Income Fund Scorecard
Total Return Comparison as of 12/31/18



As of 12/31/18			ANNUALIZED			
WCPBX	QTD	1-Year	2-Year	3-Year	4-Year	Since Fund Inception (7/31/14)
Percentile Rank in Category	18	4	12	4	3	4
Morningstar Rating™				★★★★★		

Performance data represents past performance, which does not guarantee future results. *The investment return and the principal value of an investment in the Funds will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. 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* ***weitzinvestments.com****.*

Returns assume reinvestment of dividends and redemption at the end of each period, and reflect the deduction of annual operating expenses, which as stated in the most recent Prospectus are 1.09% (gross) of the Fund's net assets. Returns also include fee waivers and/or expense reimbursements, if any; total returns would have been lower had there been no waivers or reimbursements. The Investment Adviser has agreed in writing to waive its fees and reimburse certain expenses (excluding taxes, interest, brokerage costs, acquired fund fees and expenses and extraordinary expenses) to limit the total annual fund operating expenses to 0.40% of average daily net assets through July 31, 2019.

Core Plus Income Fund's Institutional Share Class had a percentile ranking against the following number of Intermediate-Term Bond funds for the time periods as follows: QTD 18 out of 1,072 funds; 1-year 4 out of 1,021 funds; 2-year 12 out of 958 funds; 3-year 4 out of 878 years; 4-year 3 out of 806 funds; and Since Fund Inception (7/31/2018) 4 out of 789 funds all as of December 31, 2018. Source: Morningstar Direct

The Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. Core Plus Income Fund's Institutional Share Class was rated against the following numbers of Intermediate-Term Bond funds over the following time periods: 876 funds in the last three years as of December 31, 2018.

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