Weitz | INVESTMENT MANAGEMENT

Value Matters

January 11, 2019

Dear Fellow Investor,

After a relatively uneventful first nine months, the U.S. stock market dropped sharply in the fourth quarter. The S&P 500 fell nearly 20% from its late-September high and finished the year down just over 4%. Small- and mid-cap indices were harder hit and generally finished the year with double-digit losses. Our stock funds were not immune, but we came into the quarter with some cash reserves and were very happy to have the opportunity to buy some great businesses at very attractive prices. The performance **table** on our website (weitzinvestments.com) shows results for our funds and their benchmarks over various time periods, and our **Quarterly Commentary** for each stock fund provides considerable detail on securities holdings.

The bond market faced a mixture of positive and negative forces in the fourth quarter. The U.S. Treasury market rallied as "risk free" bonds offered safe haven in the midst of equity volatility. Credit spreads widened, though, depressing corporate bond prices, as fear of defaults rose, especially in weak sectors such as energy. Fixed Income Portfolio Managers, Tom Carney and Nolan Anderson, had positioned our bond funds conservatively, and they provided positive returns for the quarter and the year. We have added a separate fixed income letter (**Fixed Income Insights**) this quarter in addition to the regular bond fund Quarterly Commentary.

The financial press has been obsessed with the near-term outlook for the economy, Fed policy and trade tensions. (Even the Styles section of the *New York Times* speculated about a coming recession one Sunday in December.) Political wrangling is likely to intensify as Democrats take control of the House and the 2020 presidential race begins in earnest. Headlines will probably continue to roil the market. We are more concerned with the three- to five-year outlook for our companies. For most, business values rose in 2018 while stock prices fell late in the year, making their valuations much more attractive.

Our goal is to invest in a way that does not depend on making short-term market calls. Volatility can be our friend, as investor fear and greed lead to mispricing of stocks and bonds. It is important, though, that we and our clients not try too hard to sidestep temporary drawdowns.

One way to avoid counterproductive trading in our portfolios is to think like owners of private businesses. Private companies don't trade on a stock exchange each day, and their managers can make decisions in pursuit of long-term growth of the business rather than short-term, market-pleasing moves. We aspire to own companies whose managements think like private owners. In fact, one of our favorite questions for public company managers is, "If you and we owned the whole business, would you manage it differently?"

Viewing our Portfolios through a Private Company Lens

Our largest stock holding is ***Berkshire Hathaway***, and we are pretty sure Warren Buffett manages it just as he would if it were private. It holds a portfolio of marketable securities (which we are happy to own), dozens of operating businesses, and (at 9/30/18) cash equal to over $40 per B share. Berkshire companies and securities generate billions of dollars a year in excess cash, and the insurance companies provide a growing pool (currently over $100 billion) of virtually free float (premium money collected but not yet used to pay claims). This cash is reinvested in the business or used to make acquisitions.

We believe that Berkshire is currently selling below its intrinsic value per share and that its value will grow by 7-10% per year ***on average*** for many years to come. Drilling into the underlying businesses and investments, we like what we own. Its fortress balance sheet, its diversified portfolio of businesses and above all, its culture of disciplined capital allocation should make it a solid core holding well beyond Warren's tenure. The stock price will fluctuate with the market and with Berkshire-related headlines, but we would expect its price to reflect its intrinsic-value growth over time.

> We enter the new year relatively fully invested and feel very good about the businesses we own and their valuations.

The Liberty Media family of businesses is a group of individual public companies whose corporate roots extend back to John Malone's Telecommunications, Inc. (TCI). The original Liberty Media was created from a collection of TCI assets and spun off to shareholders in 1991. Liberty could have remained a single company and turned into a cable and media version of Berkshire Hathaway, but Malone and Greg Maffei took a different path. Using creative financial engineering, they carved out parts of the original Liberty and created a series of publicly traded entities. The idea was that investors would prefer "pure plays" on the various types of businesses and that the aggregate value of the many pieces would be worth more than a unified whole.

Over the past 27 years, a shareholder of the original Liberty Media who retained all the companies that have been spun out would have earned wonderful aggregate returns. The keys to success were not the financial engineering but the private-owner mindset and disciplined focus on long-term results. Sometimes investors lose patience with Liberty's dogged pursuit of value—***Liberty Broadband's*** shareholders are getting restless and some of ***Liberty Global's*** seem to have given up entirely—but we believe that these companies own good, underappreciated assets. We trust Malone and his managers to help us realize those values, and we expect to see some progress on multiple fronts in 2019.

We also own several holding companies, sometimes dismissively referred to as conglomerates, that might be thought of as smaller, narrower versions of Berkshire. ***Markel***, sharing some of Berkshire's traits, has its roots in insurance and invests in both securities and operating businesses. ***Danaher*** (life sciences), ***Thermo Fisher Scientific*** (healthcare), and ***TransDigm*** (aerospace) are companies with strong reputations for excellence in manufacturing and growth by acquisition. Each has a strong culture and financial and operating disciplines that should keep its business value growing steadily, regardless of its stock price gyrations.

Other holdings are more clearly focused on one industry but share the management mindset that we admire. Their stocks are perhaps more susceptible to the market whims as sectors come into and out of favor. Nevertheless, we believe they have competitive advantages (moats) that make it highly likely they will maintain or strengthen their advantages over competitors through each economic cycle. We believe that ***Mastercard*** and ***Visa*** (payments), ***Charles Schwab*** (wealth management, banking), ***CarMax*** (used car retailing), ***LabCorp*** (diagnostic testing), ***Texas Instruments*** (analog semiconductors), and ***Black Knight*** and ***Guidewire*** (specialized software for the mortgage and insurance industries, respectively) will withstand temporary market adversity and serve us well over time.

The common denominator among all of these investments is the opportunistic building and nurturing of companies by managers who eschew typical investor "short-termism" and build businesses with the mindset of a private business owner. Many of their most successful maneuvers were accomplished during periods of economic or market stress. For example, Berkshire's loans to Bank of America, Goldman Sachs and others during the financial crisis looked risky at the time but turned out ***very*** well for Berkshire shareholders. It was important to continue to hold, or to buy more of, these companies' shares during the scariest part of that bear market.

Outlook

It would be wonderful to be able to dip into and out of the stock market with perfect timing. The 10% corrections in early 2016 and 2018 ended abruptly, and waiting for an ideal "entry point" did not work for investors. This year's fourth-quarter decline, which measured nearly 20% by late December, gave us a great opportunity to deploy our cash reserves and rebalance portfolios into our highest-conviction ideas. We enter the new year relatively fully invested and feel very good about the businesses we own and their valuations.

Stock market declines can take on a life of their own. We are not going to guess where the bottom might be. It may have occurred in December. It may not come for many months. The keys to earning consistent, compounding returns over long periods are buying the right businesses at reasonable prices ***and continuing to hold them while they are building value.***

Investment success is about more than analyzing businesses and picking stocks. It requires a temperament that allows one to accept temporary declines with equanimity and to buy more shares as valuations become more attractive. As Buffett has said, "When it is raining gold, go out with a bucket, not a thimble." We believe that the financial system is much stronger today than it was ten years ago, so if the stocks of good companies continue to ***go*** down, we feel confident that they will not ***stay*** down. Both Brad and I added to our stock fund holdings in 2018, and we invite fellow investors to join us.

Thanks again for trusting us with your investments.

Sincerely,

Wally Weitz Brad Hinton

Wally Weitz
wally@weitzinvestments.com

Brad Hinton
brad@weitzinvestments.com

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****.*

Average annual total returns for the Core Plus Income Fund's Institutional and Investor Class for the one-, three-, and since inception periods ended December 31, 2018, were 1.68%, 3.98%, 3.00% and 1.48%, 3.78%, 2.80%, respectively. Average annual total returns for the Nebraska Tax-Free Income Fund for the one-, five- and ten-year periods ended December 31, 2018, were 0.67%, 1.06%, and 2.23%, respectively. Average annual total returns for the Short Duration Income Fund's Institutional and Investor Classes for the one-, five- and ten-year periods ended December 31, 2018, were 1.34%, 1.58%, 3.04% and 1.13%, 1.36%, 2.87%, respectively. Average annual total returns for the Ultra Short Government Fund for the one-, five- and ten-year periods ended December 31, 2018, were 1.77%, 0.54%, and 0.31%, respectively.

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: Core Plus Income Fund-Institutional Class, 1.09% (gross); Core Plus Income Fund-Investor Class, 1.65% (gross); Nebraska Tax-Free Income Fund, 0.85%; Short Duration Income Fund-Institutional Class 0.62% (gross); Short Duration Income Fund-Investor Class, 0.91% (gross); and Ultra Short Government Fund-Institutional Class, 0.60% (gross). 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 for: Core Plus Income Fund-Institutional Class, 0.40%; Core Plus Income Fund-Investor Class, 0.60%; Short Duration Income Fund-Institutional Class 0.48%; Short Duration Income Fund-Investor Class, 0.68%; and Ultra Short Government Fund-Institutional Class, 0.20%, of each Class's average daily net assets through July 31, 2019.

As of December 31, 2018, each of the following portfolio companies constituted a portion of the net assets of Value Fund, Partners Value Fund, Partners III Opportunity Fund, Hickory Fund, and Balanced Fund as follows: Berkshire Hathaway Inc.-Class B: 7.9%, 5.9%, 14.9%, 0%, and 2.5%. Black Knight, Inc.: 0%, 2.8%, 1.7%, 3.7%, and 0%. CarMax, Inc.: 3.2%, 3.0%, 2.8%, 0%, and 0%. The Charles Schwab Corp.: 3.2%, 3.1%, 2.4%, 0%, and 1.8%. Danaher Corp.: 2.4%, 0%, 0%, 0%, and 1.3%. Guidewire Software, Inc.: 0%, 0%, 0%, 3.8%, and 1.4%. Laboratory Corp. of America Holdings: 4.6%, 4.5%, 3.5%, 4.2%, and 2.2%. Liberty Broadband Corp.-Series A & C: 0%, 6.0%, 10.0%, 9.1%, and 0%. Liberty Broadband Corp.-Series C: 7.1%, 0%, 0%, 0%, and 0%. Liberty Global plc-Class C: 2.8%, 4.5%, 6.2%, 2.7%, and 0%. Markel Corp.: 0%, 0%, 1.9%, 0%, and 0%. Mastercard Inc.-Class A: 3.9%, 4.6%, 5.5%, 0%, and 1.8%. Texas Instruments, Inc.: 0%, 3.5%, 2.9%, 0%, and 1.0%. Thermo Fisher Scientific Inc.: 3.1%, 0%, 0%, 0%, and 1.9%. TransDigm Group, Inc.: 2.1%, 2.0%, 0%, 0%, and 0%. Visa Inc.-Class A: 4.1%, 4.7%, 4.8%, 0%, and 1.9%. Portfolio composition is subject to change at any time. Current and future portfolio holdings are subject to risk.

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.