Large-Cap Value Webinar Transcript

CONFERENCE CALL PARTICIPANTS

Jo Ann Quinif
Weitz Investments – Director of Marketing and Client Services

Brad Hinton, CFA
Weitz Investments – Director of Research, Portfolio Manager

Dave Perkins, CFA
Weitz Investments – Research Analyst, Portfolio Manager

PRESENTATION

Jo Ann Quinif

Good afternoon, welcome to the first Weitz Investment Management webinar of 2016; my name is Jo Ann Quinif and I am here to kick off our call today. I have with me Brad Hinton and Dave Perkins, and we are going to focus on our large-cap value strategy, otherwise known as the Weitz Value Fund. We created our series of webinars to enable you to make good decisions about Weitz as your partner. Following our prepared remarks, we will off Q&A and you are welcome to submit questions via the prompter on your screen throughout the presentation. We will answer all the questions at the end. Before I hand our call over to Brad, I wanted to highlight a few other resources that are available to you throughout the year. We now have a team of six that are dedicated to serving you all year long, not just for these calls; John Gabriel, Kevin Joy, Yana Morgan, and Sean Mihal spend much of their time meeting with our partners across the country and certainly will be available to answer or help get answers to your questions. Jessica Nagengast and Grant Tesnohlidek – always a hard one for me, we'll just call him Grant T – are also great resources. We have added resources to our website, including a blog section where we post up to date market comments and helpful information. David Kratz and Rachelle Hill are great contributors here and occasionally our analysts and even Wally will have updates. Wally actually has a recent post available now. You can sign up to receive notices on our website about our blogs at weitzinvestments.com in the Financial Professionals section.

The ever-important disclosure slide before we get to the agenda. Back to the purpose of our call today, Brad Hinton joined Weitz over 14 years ago and Dave almost 13. They've worked closely together the entire time with Dave joining the Value Fund as co-portfolio manager at the end of 2011. I think you will throughout our webinar today that they work very well together. Brad is going to begin with reviewing our core principles and the performance before handing it over to Dave. As I mentioned, we will answer all questions at the end, but you are welcome to submit them throughout the call.

With that, I will hand it over to Brad.

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Brad Hinton

Thanks, Jo Ann, and welcome again to everyone on the webinar. As we always do, let's start out with a quick recap of our core principles. First, we are research-driven; our focus at Weitz has always been on investing, with valuation as our north star. Everything we do comes back around to Ben Graham's principle of margin of safety. What is the business worth and where does the stock trade are the two questions that we ask every step of the way. This emphasis on investing has allowed us to attract and retain very high quality, talented investment professionals, which results in a constant flow of good ideas and, over time, has resulted in very strong investment results. Our second core principle highlights the value of independence. We are active managers, so our portfolios always look different from the market. We don't have predetermined asset allocations or industry weightings. We believe that good ideas are rare, so we concentrate on our best ones. We run 25-35 stock portfolios where every holding matters. There is no closeting indexing here. We also try to manage with a Midwest sensibility, always focusing on common sense and flexibility. We take what the market gives us and we don't try to force things that aren't there, and when we do make a mistake, we admit it and are willing to move on. Finally, alignment, we are independently owned and in all that we do we think like business owners. This drives our long-term both in investing and in running our business. This longer horizon allows us to take advantage of fear and greed in the market. We think the value of this hedge is only increasing as the world becomes ever more short-term focused. The ultimate mark of alignment is that we all invest heavily in our strategies, right alongside you. That's not enough to guarantee success, but demonstrating passion and belief in what we do is a good start.

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Weitz Value Fund-Institutional Class (WVAIX) average annual total return for the one, five and ten-year periods ended December 31, 2015 were -4.30%, 10.67% and 5.10%. ***Past performance does not guarantee future results.*** *The returns in this presentation 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 1.08% (gross) of the Fund's Institutional Class net assets. Effective June 30, 2008, Value Fund adopted its current principal investment strategy of investing the majority of its assets in large-sized companies. The Investment Adviser has agreed in writing to limit the total annual operating expenses of Institutional Class shares (excluding taxes, interest, brokerage costs, acquired fund fees and expenses and extraordinary expenses) to 0.99% of the Class's average daily net assets through July 31, 2016. Institutional Class shares became available for sale on July 31, 2014. For performance prior to that date, this presentation includes the actual performance of the Fund's Investor Class (and uses the actual expenses of the Fund's Investor Class), without adjustment. For any such 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. The returns in this presentation also include fee waivers and/or expense reimbursements, if any; total returns would have been lower had there been no waivers or reimbursements. Portfolio composition is subject to change at any time. Current and future portfolio holdings are subject to risk. The investment return and the principal value of an investment in the Fund 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 www.weitzinvestments.com/funds_and_performance/fund_performance.fs.*

Comparative returns are the average returns for the applicable period of the S&P 500® Index and the Russell 1000® Index. 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 Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000® Index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership.

Brad Hinton

As we view the disclosure slide, we called that the title of last year's webinar was "Defense Wins Championships." The results from 2015 and early this year indicate that we had the right mind-set and approach. Even with a heavier focus on controlling risk, it's been a tough recent patch for [audio] investors. While absolute returns have been acceptable over the last several years, relative results simply aren't where we'd like them to be over longer stretches of time.

Let's talk a bit more about how we got here before we delve into where we are going. We carved the post financial crisis period into three slices of time to make several points. This first slide is titled "Bouncing off the Bottom" and it highlights returns coming out of the financial crisis. In the top left panel you can see that absolute returns were very strong and our relative results were exceptional as well. Many of our stocks enjoyed outsized gains during this period. You would expect these results, looking at the bottom left panel. Coming into this period, valuations were extremely compelling with price-to-values in the mid-50s and we were nearly fully invested.

This next slide is titled "Riding the Bull." After some rocky moments in the fall of 2011, we were off to the races again. Price-to-values had increased into the mid-70s at the start of this period, much higher levels than we saw in early 2009 when everything was on sale, but stocks were still pretty cheap. The markets and our strategy delivered annualized returns in the 20s over the next two years.

The final slide in this group is titled "Running out of Steam." After five strong years, price-to-values had risen to 90%. As a result, our cash levels increased substantially, as we sold fully valued stocks and found fewer qualifying opportunities to buy. In short, this was a lousy starting point for our investing approach and the returns reflect it. Market gains have slowed and our relative results have been poor. The broad market was actually pretty resilient through most of this period, though far more cracks have appeared in recent months.

With that backdrop, let's focus in on 2015. You've all heard the stories that value stocks were down and growth stocks were up, and while the average stock declined during the year, a few momentum stocks kept the broad market indices in the black. We're much more concerned with what our collection of companies did. The most apt description for last year in our opinion was absence of winners. We've had some price markdowns in energy and media content, a couple of areas dealing with crosscurrents and outright stiff headwinds. Dave will talk at length about both later in the call, but the punchline is that we see plenty of upside with favorable risk/reward trade-offs from today's price levels. Warren Buffett and John Malone also had tough years in 2015. We don't have any material concerns about these temporary price declines. In fact, the tougher the worth gets, the more opportunistic we expect Berkshire and the Liberty companies to be. We highlight drug price scrutiny in part to show how small the impact was despite the screaming headlines. Dave will talk more about our decision to sell Valeant and buy Allergan in a moment. The dead money stocks have been very good long-term investments for us and they're companies that have typically found ways to grind per share business value higher. They just didn't help results in

2015. The slow and steady cohort [audio] smaller than usual, but contributed modestly to results. Finally, we did have a few notable winners, companies who executed well, while riding strong tailwinds which helped cushion the impact of the red circles above.

Last year, we introduced you to our class of 2014 investments. The bottom line is that while our batting average has been pretty good, our slugging percentage so far has been poor. A few of the ideas worked quickly, including a pair of companies that have already been acquired. While positive reinforcement is nice, it is much more common for us to be early. The surprise has been the severity of the price declines, in particular with energy. While we'll never call the bottom, we have added selectively to companies like 21st Century Fox at what we think are even more compelling valuations. The 2014 class represents nearly a quarter of the strategy's net assets and given its large size, will continue to provide periodic progress reports.

Now, I will turn it over to Dave and he will describe our 2015 activity, including the newly minted class of investments.

Dave Perkins

Thanks Brad. I'd now like to recap portfolio activity during the calendar year. The first 10 months or so of 2015 were similar to the past several. Stock prices were generally elevated, as investors feared missing additional gains more than the possibility of loss. As we entered the fourth quarter and the US Federal Reserve enacted its first rate increase in over nine years, however, risks that had been largely ignored in preceding months began to seem less benign. We took advantage of selling opportunities over the course of the year, trimming several positions on strength, including Google (now Alphabet), Wells Fargo, Express Scripts, and Valeant, among others, and closing investments in the seven portfolio companies listed on this slide. As the internal rate of return column on the right demonstrates, each of the fund's outright sales during 2015 was a profitable endeavor over its investment lifecycle, with several stocks providing outstanding multi-year returns. Most of these businesses we continue to find attractive, but with the exception of Valeant, which we will talk about in more detail shortly, each reached our estimate of intrinsic value, resulting in the exercise of our sell discipline. While we never know the direction a stock's price will take after we choose to sell, it is perhaps worth noting that each of the companies sold during the year now changes hands below the price at which we parted ways. In fact, we came close to repurchasing one of the companies on this list several days ago 30% below our sale price last September.

We wanted to spend a brief moment on Valeant Pharmaceuticals, given its importance to the fund over the past several years, the amount of press and political attention it has garnered, and to highlight our investment process at work in real-time. Entering September last year, the large-cap strategy had sold approximately 70% of its position in Valeant at a weighted average price north of $150 per share. As concern over the rising cost of prescription drugs continued to gain prominence and news of potential improprieties at Philidor Rx Services surfaced, we gave considerable thought to these developments and proactively challenged our thesis. A combination of factors ultimately led us to close the remainder our position, including concern that the company's aggressive acquisition pace had stretched management oversight too thin, questions around how payers would treat Valeant drugs going forward, and elevated balance sheet leverage, following the Salix Pharmaceuticals acquisition. An additional factor in our decision, however, was the availability of another attractive pharmaceutical business that had declined in sympathy with Valeant – Allergan. We had spent time getting to know [audio] Allergan during Valeant's hostile pursuit of the company in 2014 and came to better appreciate the durability and growth potential of its assets. We also had had the opportunity to speak with Allergan's current CEO, Brent Saunders, while he was in-between jobs as part of our due diligence on Bausch & Lomb's business and we came away impressed. The lack of self-inflicted payer scrutiny, likelihood of a clean balance sheet following the sale of its generics business to Teva, and possibility of additional strategic activity [audio] Allergan a compelling alternative. After weighing the various pros and cons, we decided to change pharmaceutical courses to what we believed is a more attractive risk/reward.

In addition to Allergan, we initiated positions in three other new stocks during 2015. Monsanto is a leading global provider of agricultural products to farmers. It boasts what we believe is the broadest and deepest portfolio of ag-biotech intellectual property in the world. The company's Seeds and Traits business holds attractive market share in most geographies where Monsanto has a presence, with nearly every soy seed and 90% of the corn seeds planted in the US generating revenue for the company. The return on investment for a farmer using Monsanto's seed is clear and compelling, enabling the company to capture a portion of the additional value it provides the global food chain for shareholders. Following corn and soybean prices, and foreign exchange headwinds, led to a slowdown in earnings growth in fiscal 2015 and projections of a decline in earnings per share during fiscal 2016. Our thesis calls for a return to growth in fiscal 2017 with a potential for $9+ in annual earnings per share by 2019, driven by key technology launches, the continued rationalization of Monsanto's cost structure and thoughtful deployment of the company's excess cash flow. Any meaningful improvement in global corn or soybean prices could provide an additional boost. We also broadened and modestly increased the fund's energy exposure during 2015, as commodity prices and energy stocks continued to slide. Halliburton represented an initial and relatively modest foray into the energy services sector. We fully acknowledge that the outlook for capital spending on the part of energy producers in North America remains bleak in the near term. The key question for investors is what the pace of eventual healing looks like. Our forward earnings expectations have come down from already depressed levels over the past six months, but we believe Halliburton shares remain inexpensive, assuming more normal spending patterns return within the next three to five years. We will dig into EOG Resources later in the presentation.

Brad will now provide some context for the how the large cap strategy is positioned as we enter 2016 – Brad?

Brad Hinton

Thanks, Dave. Okay, portfolio positioning, the overarching message from this slide, and really this entire call, is that after a few years in the valuation desert, stocks are finally starting to look cheaper. We have called it the cusp of opportunity – big gift card for the catchy title. The lower price-to-value starting point is helpful on two fronts. First, we have the chance to earn better returns from our existing investments and, second, the competition for spots in the portfolio heats up, both are welcome developments.

So how does that translate into portfolio themes and trends? Here are the broad portfolio buckets we showed you last year, and here is how those have changed year-over-year. We have less exposure to media distribution largely because AT&T acquired DirecTV. Our specialty Pharma weighting is down due primarily to the Valeant sale. PDM and aerospace exposures are also down due to the takeouts of Catamaran and Precision Castparts. Our E&P weighting is about the same, whilst significant buys of 21st Century Fox have increased our media content weighting. One takeaway: even in a low turnover, high conviction strategy, the portfolio is constantly evolving as conditions change. Our job as portfolio managers is to fine-tune and optimize it in real-time.

How about some of the trends coming into 2016? Recurring revenue models are always our bread and butter and, as you can see, they're very heavily represented coming into ’16. While we are willing to bear some cyclical risk, we do it selectively and with companies that have staying power in case the valleys are long and deep. Built to grow is an important theme for us. If our companies execute in line with our projections, the stocks will take care of themselves. We have made a tactical effort to lower our exposure to companies with high leverage. The financing environment has become more challenging and we do not want to bear liquidity risk if credit becomes even tighter.

Finally, our companies do a lot of business outside of the US. Long-term, selling into higher growth emerging markets should be a good thing, but it has been a headwind more recently. If the Dollar strength eases, many of our companies would benefit.

Here’s a chart of historical portfolio price-to-values shown by the red line and residual cash levels shown by the blue bars. Both price-to-values and residual cash were at peaks back in late 2013, early 2014. As you can see, both have drifted lower over the past two years and as we've discussed, the red line has taken another leg down over the past six weeks. If these market conditions hold, it would be natural to see the blue bars trend down in coming quarters as well.

With that, let’s move down from the portfolio level to the company level. I will turn it over to Dave to provide an update on our energy and media content holdings.

Dave Perkins

Great. As Brad mentioned a few moments ago, energy remains an area of focus in the portfolio. In light of recent pressure in both the oil and natural gas markets, we wanted to provide an update on our thinking and remind investors of the approach we take to commodity businesses as stewards of your capital.

To state it plainly, we cannot consistently accurately predict commodity prices in the near term. We use marginal cost ranges to frame our forward expectations for producers and ultimately to derive our low base and high case valuation scenarios. During 2015, our marginal cost estimates for both crude oil and natural gas came down over the course of the year. Technology and process knowledge on the part of producers continues to drive meaningful efficiency gains, enabling the energy complex to earn adequate returns at lower selling prices. While each of the domestic producers we own has been at the forefront of driving drilling and production efficiencies, our business value estimates have come down for all three, as commodity prices have fallen faster than costs, resulting in cash flows and net asset value being pushed further into the future. The path of marginal costs going forward remains the subject of much debate in the energy community. We believe future costs, and therefore prices, are more likely to move lower than higher and have incorporated such thinking into our value estimates.

To say that the past 18 months has been painful for oil producers would be an understatement. This graph of West Texas Intermediate oil prices over the past five years provides some context for how significant the price declines have been, even since the beginning of 2015. While this felt longer for many, the period of adjustment to Saudi Arabia's strategic shift towards protecting market share, and the downshifting of North American shale production, is still less than 15 months old. One can certainly be guilty of oversimplifying price movements, but we believe the red bars we've overlaid on this chart reflect current oil producer reality. Above $80 per barrel, everything works; between $40 and $80, many assets work, but the best are likely to outperform the more marginal; and below $40, precious little, if any, drilling activity outside of the Middle East earns an adequate return. With oil prices having spent the past two and a half months below $40 per barrel, even the most efficient producers are being forced to pullback. From the outset, we have intentionally focused our capital with oil producers we believe have the ability to outperform in a $40-80 oil price world. Perhaps more important, we believe each also has the wherewithal to weather a prolonged period of low prices, without permanently impairing per share business value.

We first bought shares of Pioneer Natural Resources during the first half of 2014, believing the company owned some of the most attractive oil assets in North America. We liked the company's balance sheet flexibility and management's 'protect the downside first' approach to funding the development of its resource space. Oil prices have fallen further and stayed lower than we anticipated at the onset of our investment, but our assumptions about the quality of its Midland basin acreage and management's willingness to remain conservatively capitalized have proven accurate thus far. Our base case intrinsic value has come down fairly meaningfully from mid-2014 levels, but importantly, remains above what we paid for our shares in the company and well above where they presently trade. We believe Pioneer remains well positioned to emerge from the present downturn playing offence, with the opportunity to resume double-digit per share NAV growth with oil prices north of $50.

This chart provides some context for where our three oil and gas producers sit relative to their independent domestic peers from a balance sheet perspective. The metrics used for this chart are net debt to consensus EBITDA forecasts for calendar 2016 and 2017. Note specifically, Pioneer and EOG Resources on the far right, highlighting each company's capacity to suffer should the present environment drag on or even worsen. We also own shares of natural gas producer, Range Resources, which looks less favorable in the context of this exercise. An extremely mild winter this year has exacerbated supply problems in the domestic natural gas market, pushing prices to especially low levels and the transportation constrains northeast markets. Range has several options at its disposal to protect equity value, including the possible sale of additional non-cash flowing assets. We continue to monitor its progress in this area closely.

During the fall, we used the proceeds of some tax loss harvesting in Pioneer Natural Resources to further diversify our oil and gas exposure via the addition of EOG Resources. EOG is among the most highly respected operators in the industry, combining both top tier oil and gas properties and a unique return-on-capital-focused culture. EOG is as good or better than any large scale E&P at doing more with less, as the [audio] on this chart demonstrate. While EOG is not immune from the present drop in oil prices, we believe its business is likely to outperform peers both during and after the present downturn, thanks to superior well economics and a visible runway exceeding 10,000 wells in the Eagle Ford and Permian basins alone.

A prolonging of the present supply/demand imbalances in oil and domestic natural gas remains at the top of our list of worries. At present, suppliers are responding to low prices and the debt capital markets are removing the temptation for producers to meaningfully outspend cash flow. If demand growth holds, both oil and gas prices should improve in time, perhaps even as soon as later this year. If demand wanes or even declines, however, the present environment has the potential to get worse. Our goal in owning oil and gas assets is not necessarily to be contrarian, but to compound capital at attractive rates without unnecessary risk. With both commodities trading meaningfully below the levels necessary to incent sustainable production, and most investors unwilling to brave the energy waters, we believe the present risk/reward skews in favor of the patient investor.

Shifting gears to media content, we continue to find shares of 21st Century Fox and Discovery Communications attractive. With the growing popularity of subscription video-on-demand platforms like Netflix, and the continued shift of advertising Dollars to mobile, we do not believe all broadcast and cable networks will necessarily fare equally well moving forward. We believe, however, that we have identified two unique content platforms that should continue to attract loyal and valuable audiences, despite a rapidly evolving media landscape. Given time constraints, we are going to focus our discussion, specifically, on 21st Century Fox, as it is now the strategies second largest position and a stock we have been adding to during recent market volatility.

Given our preference for subscription like cash flow streams, it is not likely not surprising that we find the cable network affiliate fee model attractive. Of course, not all affiliate fee streams are created equal, as certain content is more durable and valuable to cable and satellite providers and advertisers than others. Fox's collection of 22 regional sports, news, general entertainment, national sports, and international networks are anchored by significant internally developed and/or exclusively licensed content. News and sports are generally must-have channels for most content bundles and are valuable platforms for advertisers, given their increasingly unique ability to deliver live and engaged audiences. Fox shares have been under pressure over the past year following several negative revisions to its fiscal 2016 profit forecast. It is important to note that foreign exchange headwinds have accounted for over half of this nearly 20% downward revision, with the more lumpy television and film segments representing the bulk of the remainder. Fox's core cable network earnings have largely performed as planned.

Going forward, we believe expectations are now more manageable, and that Fox's stock embeds considerable pessimism following these doses of disappointment. [Audio]… Star India and Hulu should begin to bare needle-moving fruit in the years ahead. Neither asset contributes meaningfully to Fox's profitability today, but each has significant earnings potential. Management is targeting 1 billion in EBITDA by fiscal 2020 for Star India, on an estimated base of roughly 100 million today, and Hulu is emerging as a viable over-the-top or OTT offering with over 9 million subscribers, a 50% increase versus last year. Credit Suisse estimates Hulu could generate as much as 1.5 billion in EBITDA by 2020, with Fox owning a third of this cash flow. Subtracting the value of Fox's 39% stake in European satellite distributor, BSkyB, Fox shares presently trade below 10 times our estimate of free cash flow. We believe that price point is compelling for a skilled creator and advantaged licensor of content, with multiple avenues for future per share growth.

Before concluding today's call, we wanted to provide an update on the investment landscape as we presently see it. For the better of the last two years, we have communicated our frustration with overall valuation levels, and the seemingly high correlation between asset prices. While the Weitz team has done an excellent job identifying pockets of value, most of the Large Cap Strategy's purchases have been accompanied by the sale of an existing holding at full value. Residual cash has remained stubbornly high as a result. Volatility has returned in recent months, however, and investors once again appear to be considering risks and opportunities in a more balanced fashion. For the first time since the fall of 2011, our on-deck valuations are becoming more interesting, almost across the board. The Large Cap Strategy has already added one new holding thus far during the first quarter. Five additional on-deck ideas presently boast price-to-value ratios within our 70c on the Dollar or lower strike zone, with another 5-10 stocks within 10% of hitting our bogey for purchase. We have been gradually deploying excess capital in recent weeks and are excited about the increasingly heated competition for the Strategy's residual cash. While near-term volatility and price declines can be unnerving for some, we have been patiently awaiting this kind of opportunity and have ample reserves ready to take advantage of bargains as they arise.

On behalf of the entire Weitz team, we would like to thank you for your ongoing confidence in us. We look forward to updating you on our progress throughout the course of 2016.

Jo Ann Quinif

Hi everyone, I am back and we're ready for Q&A, but so far, we must have done a really thorough job of giving everybody an update, because we have no questions yet on the slate. We will give a couple of minutes here for people to submit questions, and you can do that via your screen, otherwise we will consider it a job well done and let you send those questions off to the individuals we named earlier in the call.

Our next conference call – while we're waiting here for a few minutes – will be on our Hickory Fund, our small to mid-cap strategy, and we will have information out there for you on that within the next couple of weeks, and most of you, I think, are signed up to receive our updates and information. We certainly appreciate that you have taken the time today to listen in on the call and we do appreciate your confidence in us and… actually, a question… if you ad-lib long enough, a question will come in because people will get tired of hearing my voice.

The first question that came in, "Is there any particular areas that are becoming more attractive, other than the industries that we discussed?" are there any other areas besides oil, energy, media, that have crossed your…

Dave Perkins

This is Dave, absolutely, thank you for the question. I would say here within the last several weeks, we have seen, really, stocks across the board shift down. We have been spending some time with a couple of industrials. There are a couple of large-cap technology businesses that have become a little bit more interesting to us as well, and then even some kind of global consumer brands that we have been paying attention to here over the last year or two, have, we think, become a little bit more interesting. That would be, of course, in addition to a number of the things that we have already been adding to within the sectors that we did spend some time discussing here this afternoon.

Jo Ann Quinif

Thanks, Dave. The other question that came in is about our valuation on Berkshire and what percentage of the portfolio is that today.

Brad Hinton

This is Brad, I will start, Dave you can chip in. Berkshire is one of our larger holdings, it is in kind of mid-5% range I think at the end of the year. We don't have rolled-forward information available at this moment, but it is something that is very large within all the strategies where it is eligible. But book value at September 30th was just a little over 151,000 a share, so we're trading at basically 1.3 times an older book number that we will get a new look at here in a few weeks, which that will not include the closing the Precision Castparts deal either, so quite a bit of movement in Berkshire Hathaway that will still be reported here over the next several weeks, but I think our general view, our valuation, we come at it a number of different ways, but it is in the – on the A-share is kind of in the mid-250,000 per share, so a fair cushion between price and business value and a company that is really built for an environment like this one, to the extent that volatility is going to pick up a little bit. They are well poised to take advantage of that. Very, very comfortable, we have been… we would be comfortable adding in this range, given the overall environment as well. The valuation is really… it is kind of a blend of we try to value the float and the deferred tax asset on a present value basis, incorporate the net value of the investment portfolio and then apply a valuation on the operating businesses as well, so pretty standard approaches that we typically don't go into detail on the specifics of each one of those.

Dave Perkins

Maybe just one other thing to highlight, I know there has been a lot of conversation around what kind of capital Berkshire might have left to deploy after swallowing such a big – or shooting, I guess, such a big elephant, to use Buffet terms with Precision Castparts. We still think there is probably something around 20-25 billion in excess capital that they have and, obviously, growing every month with cash flows coming off the business, and that is assuming that they keep the standard 20 billion in dry powder ready in case there are activities within the insurance business.

Jo Ann Quinif

Another question that came through is from Tom [Paling] who sends kudos to both of you for the call. Thanks, Tom, for that. He is asking about big banks. Any interest in the J.P. Morgan, Goldman, the others, are you looking there?

Brad Hinton

Yes, we haven't spent a tremendous amount of time. They certainly are looking cheaper than they have for a while, so it is not an unreasonable place to look for potential value. I think our concern – to the extent that we have had one – about the larger banks has always been, what will the return on equity profile be on a go-forward basis with additional capital requirements. Particularly, more cyclically, just in this very challenging interest rate environments where NIMs are under pressure. We may be in a lower-for-longer kind of world, or at least that would be one of the things that our fixed income guys would think is a possibility.

Not much to add, really. We own some Wells Fargo, it is a very small position. We have been trimming it in the mid to upper 50s, we would be potentially looking to add back to that, probably, in the lower 40s would be the best estimate on that front, and we have not been actively pursuing some of the other large banks that you had mentioned in the question.

Jo Ann Quinif

One other question that we had is about fund flows and I can probably chime in on that one.

As you might expect with some of the pressures on passive investing and especially in the large-cap space here, we have certainly seen our fair share of outflows. Those have slowed after the 1st of the year here, but they are still stubbornly and annoyingly modestly negative, but we're certainly still seeing enough people coming in as well, it is just that we are certainly seeing some out on that front.

Dave Perkins

From a portfolio management perspective, it has had no impact, really, on how we manage the portfolios. The flows have been, either way kind of steady and modest, so it is not anything that has impacted how we have had to manage money.

Jo Ann Quinif

Another question that came through is more specifically around the strong Dollar effect on our domestic holdings. It was mentioned in the call that if that goes our way, it certainly would be a tailwind for some of our companies, but what is the effect then on some of the current holdings.

Dave Perkins

This is Dave. I think our overall exposure, if you were to look through to the aggregate revenues of the Fund, across the board, I think this was one of the bullet points that we mentioned just a little bit earlier, it actually is relatively close to the S&P 500's weighting, our benchmark, so it is pretty similar there. There is no question the strong Dollar has been a headwind to a number of our media companies, really, anyone that is generating a significant amount of their earnings outside of the US, has had translational impacts that have been pretty material in some cases.

On the flipside, I would say, there are a number of companies that we have been looking at that have also been impacted and their stocks have come down as a result, and so the currency volatility and the strong Dollar, we think might actually create some pretty interesting opportunities for us, so stay tuned.

Jo Ann Quinif

Another follow-up question we had come in, "Are there any workouts currently being pursued?"

Brad Hinton

This is Brad. We typically do not pursue workouts actively as part of our investment philosophy. We're definitely looking for companies trading at discounts to our business value estimates, but we strongly prefer businesses that are growing along the way. We have a couple of situations outside of this strategy that might fall into more of the workout bucket, but we did not go into those looking for that piece of the investment thesis. Those would be more smaller businesses that are not in the Value Fund or the Large Cap.

Jo Ann Quinif

There is a tag-on question about M&A and if there are any… do you see any activity lessening or increasing due to the Fed's tightening in December?

Dave Perkins

This is Dave, maybe I will take that one, I will take a stab at that one anyway. We have owned, over the course of the last several years, a number of companies that have been pretty highly acquisitive, and I would say, at the margin, we own fewer of those – it has been a busy last year or two for a number of our portfolio companies, and we can kind of go down the list if people want to talk specifics. But broadly speaking, I think a number of our acquirers are in pretty significant and busy digestion mode, so from their perspectives, I think they have probably been planning on taking a breather anyway, and I think, really, more broadly it remains to be seen how companies are going to respond. I imagine a lot of that will be driven in part by the valuations being sought by sellers as well.

We will continue to watch with interest. I think from our perspective, always the most important thing is price paid for any of the companies that we own who are looking to go out and buy, and so whatever the broad environment is doing is of interest to us, but what is more important to us, really, is how choosy and how disciplined our managers are being at any given time.

Jo Ann Quinif

There are no other questions in the queue, so we will give a couple of additional seconds here for people to submit questions. I am guessing we have reached our time allotment with everyone.

Well, thank you very much for participating on the call today, and for your confidence in our style and what we do here at Weitz, we certainly appreciate it and we certainly appreciate your interest and are happy to answer questions any time that they may come up, but certainly relish the opportunity to do these calls and be able to proactively communicate.

Thank you and we look forward to seeing you on our Hickory call. Have a good day.