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PRESENTATION

Jo Ann Quinif

Good afternoon and welcome to our fifth Weitz Investment Management call 2015, thank you for joining us. My name is Jo Ann Quinif and with me today are Wally Weitz and Brad Hinton. Today's call is focused on our Multi-Cap Alternative Strategy, known to many of you as our Weitz Partners III Opportunity Fund. PIII, as we affectionately refer to it, is one of the original investment partnerships Wally started in 1983. We converted it to a mutual fund in 2005 and it is offered in an investor and institutional share class. Many of you know our firm as a boutique asset management firm that focuses on research and investing. We aren't trying to be all things to all people. This shows through in our deliberate and measured manner in which we grow our business, our decision to remain independent and employee-owned, and how we work as a team. We now have 42 employees, with 38 of us, including the entire research team, here in Omaha, Nebraska. This year we expanded our investment team by two; Nathan Ritz was promoted from research associate and Dan Walker joined us from Heartland Advisors. We have had no departures from our investment team.

Wally started our firm 32 years ago. He is our Chief Investment Officer and is the Portfolio Manager on all our equity strategies, except for the research fund. This year, as part of a long and deliberate process, he will be stepping off our Large-Cap Value Strategy, which many of you know as Value Fund. Long-time co-portfolio managers Brad Hinton and Dave Perkins will continue to manage the strategy. There are no other planned portfolio manager additions or transitions for any of our other strategies. As I mentioned, Wally is our Chief Investment Officer and, therefore, has influence over all of our investments. He co-manages our Multi-Cap Strategy with Brad and our Small to Mid-Cap Strategy with Drew Weitz. PIII is his truest investing pallet, as he is the full portfolio manager. Wally is 64 years young and often jokes, although I'm pretty sure he's serious, that he has a rolling 10-year time horizon. As we approach the end of 2015, I have confirmed that he has re-upped for yet another 10 years.

I mentioned briefly each of our equity strategies. With the Fed increasing interest rates for the first time since 2006, I can't pass up the opportunity to also highlight our fixed income team. Tom Carney and Nolan Anderson have positioned our Short-Intermediate and Core Plus bond funds to be able to take advantage in today's environment. If you weren't aware of our fixed income investment options, I encourage you to take a look at our website. In addition, Tom and Nolan hosted our last webinar, which is also available in the Financial Professional section of our website.

Before I turn it over to Wally and Brad to talk about how we got to where we are, where we are going, and for Wally to break out the crystal ball on the markets, I want to mention that we welcome your feedback on this series of calls and all of our communications. We hope it is helpful in understanding who we are, how we think, and what you can expect from your investments with us. We continuously look for ways to improve our communications, and I personally would appreciate your feedback, positive or negative. You can email me directly at jquinif@weitzinvestments.com. As we get started, please feel free to submit questions throughout the presentation. We plan to answer them following the prepared remarks. I think Q&A is Wally's favorite part of these calls and can be the most interesting.

With that, I will turn it over to Wally.

Wally Weitz

Thanks, Jo Ann. This is Wally here and I'm with Brad Hinton, and here's our agenda for today. We're going to try to go pretty quickly through the core principles and strategy, and get into the story of what's happened in 2015 and how things look for next year.

I think all of our long-term shareholders will know that our core principles are that we are research-driven, our focus has always been on investing as opposed to the business of investing, this allows us to attract and retain talented professionals and valuation is what we base our investing on. We think for ourselves. We're active managers, high conviction portfolio, driven by common sense, flexibility, intellectual honesty; we're aligned with our shareholders, because we are an employee-owned firm and we invest virtually all of our investable funds right alongside our investors, so as Buffett says, we eat our home cooking.

Our strategy that we're talking about today is the Multi-Cap Alternative, it's a long biased equity strategy with additional tools; shorting is one of the tools, but the strategy is not meant to be market neutral. The market cap and net exposure flexes over time. We use a concentrated portfolio, usually 25-40 stocks, and the top 10 positions usually account for 40-60% of total assets. We try to think like business owners. We have a long-term approach to business valuation and relatively low turnover; it was 41% over the last five years.

Exposure now is generally 70-100% gross long, 10-30% short, and 60-90% net long position. Sometimes we use individual company shorts, which I would call offensive shorts such as Sears a couple of years ago. Sometimes we use shorting to help with special situations like the convergence trade between Liberty Media Entertainment and DirecTV, but typically, in recent years we've used broad-based index ETFs, not individual stocks. The idea is to neutralize a portion of the market exposure and invest more in our favorite longs against those shorts, so the idea is that our stocks against the average ones. This requires courage and discipline, and certainly at times like now patience, but over time, what we're trying to get is excess return without unnecessary risk. Really, this slide is the story of performance in 2015. Our stocks have not beaten the averages. It's a lot like… it reminds me at least of 1999, but we'll elaborate more on that. Now, Brad will give you some of the details.

Brad Hinton

Thanks Wally and thanks everyone for joining us today. First up the disclosure slide, always a highlight; as you'd imagine, these presentations are a group effort and we'd like to offer special thanks this time to Gina Ladd in our marketing department for crossing the T's and dotting the I's down the stretch.

So let's start with the long view. Compounding capital at high rates over long periods is the ultimate litmus test; as always, in our view, the longer the timeframe, the more relevant the results. The top panel shows annualized returns after all season expenses for Partners III Opportunity Fund along with comparative returns for the Russell 3000 and the S&P 500. The bottom panel is the goal that we're really after. It shows annualized excess returns for the fund over the indices over various periods. Wally and the team are proud of its wealth-compounding track record.

Let's fast forward to more recent history. 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 the 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 of time, valuations were extremely compelling with price-to-values below 50%, and our net long position was fairly high.

The 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 have increased to around 70% at the start of this period, much higher levels than we saw in early 2009 when everything was on sale, but stocks were still cheap. The markets and our fund delivered returns in the 20s annualized over the next two years.

This final slide of this group is titled "Running out of Steam." After five strong years, price-to-values has risen to 90%. As a result, our net long position was under 60%, reflecting a much more cautious view of valuations. In short, this is a lousy starting point for our investing approach and the returns reflected. Our results have been poor and market gains have slowed. In aggregate, the broad market has actually been pretty resilient, though more cracks have started to appear, especially this year.

Let's turn to this year. We've called it the "double-whammy." Our stocks have been down and they have done worse than the market – the exact opposite of what we're trying to do with this strategy. You can carve 2015 up in a lot of different ways, but here we've shown the period through the 10% market correction in August, the period after it, and then the full year-to-date. Through late August, we had some puts and takes, but overall results were not that unusual. We started the year strong, faded some into the summer, and then held up well during the market drop due to our conservative positioning. Since then, short-term results have been very poor. The bulk of our relative shortfall for the year happened in this latest period. The market has been up and our stocks have been down. You can see the primary reasons listed on the slide and we'll get into these more shortly.

Here is the full year-to-date picture through last Friday. We were right to be cautious, but our execution has been sub-optimal. It's clearly not been our market with FANG and other momentum stocks leading the way. It's been tough out there for all value investors, but we've made a few unforced errors as well. All that said, we like what we own heading into 2016.

While year-to-date is a very short time period and one that we don't typically put a lot of weight on, we've been very out of step, so here is some more detail. The size of the circles reflects the contribution impact, so unforced errors are primarily those where our business value estimates come down materially. Impaired value is a bucket that reflects valuation declines that we think are permanent. While a few of the business lines, like Iconix Brand Group, are worth less than we thought, the core brand management business continues to generate free cash flow. New management is focused on extending debt maturities and improving the culture. Avon's turnaround is proving more difficult than anyone expected, with currency headwinds and emerging market competition not helping. Barton was encouraged by recent meetings with loca management down in Brazil. We recently sold long-time holding Cumulus, a radio company with a stretched balance sheet. It's an example of where we may have been too stubborn with the small position size. In aggregate, we think we have a decent chance to shrink the size of this red circle, but the colour is not likely to change.

Next bucket, we have several companies facing stiff headwinds, largely reflecting challenges in their end markets. These winds range from gale force in the case of energy to less severe in the case of mortgage investing over at Redwood. We think the companies we own here are built to weather the storm. A few of our large holdings like Liberty Global and Berkshire Hathaway are down double digits this year. We have no concerns about business value progression. Our shorts have not helped, especially as they have done better than our longs. Like most years, a few of last year's losers have been winners this year. It does provide hope for a few of the red circles above, but particularly in the case of something like Angie's List. Finally, even in a tough year, we have had some companies whose businesses and stocks have done quite well – a few of the examples are listed.

All right, enough about where we've been. Where are we today and where are we going? I will set the stage with a few portfolio snapshot slides then turn it back over to Wally for more portfolio detail and the outlook. We've talked about the last two years being tough, so let's compare and contrast the starting points. At the end of 2013, price-to-values were 90% and we thought all stocks were pretty fully valued to outright expenses. As a result, our long position was very low at just 73%. We weren't crazy about either the market or our stocks. Since then, price-to-values have come down from 90% to 80% and we've increased our longs from 73% to 94% at the most recent quarter end. We have accomplished this largely by raising our top 10 longs from 38% of the portfolio to 51%. The message here: we like our stocks. But we think broader market valuations remain elevated, so we've also bumped up our short exposure from 15% to 29%, which has left us with net exposures that are still near the lower end of the historical range.

With that, we'll turn it back over to Wally for more detail on the longs, shorts, and his outlook.

Wally Weitz

Okay, thanks Brad. This next slide is just a graph of the last several years with our gross long positions, the blue line at the top, the effective net long position, the green line at the bottom, and the grey shaded area representing our shorts. This is through the end of September, because that's the most recent reporting period. As I go forward from here, I'm going to talk more about where we are today, so those of you who are particularly attentive may find that some of the numbers don't exactly mesh, this 94 and 65.

At the moment, we are short close to 29%. The shorts are more weighted to larger company indices and that is where, as Brad mentioned, the FANG stocks and a handful of others, we think, have made both the S&P and the NASDAQ more expensive relative to our stocks.

The slide shows our top five positions. You can see particular weighting to Berkshire, Liberty Media, and Liberty Global. I should also add that Liberty Broadband at almost 5% really represents an investment in Charter table and assuming the merger goes through between Charter and Time Warner and Bright House, Liberty Ventures, which is a 4% position, will be half Charter also, so assuming that works in the first or second quarter, we'll have about a 7% position in Charter indirectly.

Okay, portfolio activity after the quarter end, we have one new stock that's been added; that's Colfax. This is a company that we've been watching for three or four years. We really like the management. It's built from scratch by the Rales Brothers, who have built Danaher over the last few decades, but the stock… there were others who were similarly interested in the Rales Brothers and the stock was too expensive for us until recently. After it fell 65-70%, we decided to take a small position and we're hoping that we'll be able to expand that position at lower prices going forward. It's exposed to some industries that are very challenged these days, so we're not in a rush, but we think that this one could be a good holding for us over the years. We eliminated five stocks, four out of those… Brad mentioned Cumulus as a loser, but four of the five were profitable trades. Then more of the general themes, we have higher exposure than usual to our top 10 positions and we're just generally positioned fairly conservatively. I'll get some more detail on that in a minute.

Okay, our outlook, our take for the last few years really has been that monetary policy in the US explicitly targeted higher asset prices and it succeeded. Stocks rose to very expensive levels by the end of 2013. Since then, the market averages have moved modestly higher, but there's been some divergence among types of companies.

Predictable earnings growth has been richly rewarded with very high valuations; even mildly disappointing results have been punished severely. A narrow group of mega-cap superstars, the FANG stocks are written about every day, but Facebook, Amazon, Netflix, and Google have become very expensive relative to other stocks, because they've seemed like a safe hiding place. I don't know the number today, but something like 3-4 percentage points of S&P outperformance has been driven by those four stocks. On the positive side, the divergence means that there's a growing number of stocks with modest valuations and we're finding more things to get serious about. As Brad said, our approach to investing is based on buying stocks at a discount to business value. At the moment, our weighted average price-to-value of the portfolio is about 80%, which is roughly fair. It compares to 90% at year-end '13, as our business values have grown, and as long as our companies continue to grow in their business value, we're showing good returns even from an 80% price-to-value starting point, so on that basis, the outlook over the next few years is just fine.

But investor sentiment is really changing. There's causes for concern that have been present for some time, but have been ignored, and it seems as if the 'don't fight the Fed' attitude and the 'Yellen put' idea is giving way to 'gee, maybe we should worry about Euro debt crisis, China slowdown, commodity price collapse, wars, terrorism, end of QE, prospect of higher interest rates' and so on, so earnings disappointments are getting more attention. The strong Dollar has caused foreign exchange losses for a lot of companies that do global business and that depresses reported earnings. For the most part, that's not a long-term problem, but it optically makes people nervous to see the earnings depressed. Low commodity prices are hurting producers and the related services and shipping etc. Deteriorating credit conditions are causing severe distress in the high yield market. We've seen Third Avenue's problems this week and several hedge funds. There's fear – the word "contagion" is cropping up again and people are wondering about their counterparties and who they're doing business with. It's a tough atmosphere to look for confidence among investors.

Our current portfolio is built to deal with a sluggish global economy and possibly a mild recession in one area of the world or maybe across the board, but we're not expecting a repeat of the Great Recession. We don't have a big important industry like housing and it's going to be swallowed up, as it was in '08 and '09, but things could be slow for a while, so we particularly like companies that are able to make their own breaks through M&A and capital allocation moves, and as we said, our net exposure is very defensive.

Now, on the next slide I've broken down the portfolio; I made a different arrangement of it. I like to take different cuts of the portfolio just to… I find it helpful, so I've divided up the long positions into five categories. The first being companies where the management thinks really like private equity portfolio managers and we have Buffett and Malone that are fabulous at that, and stocks in this category account for about 23% of the portfolio. The average price-to-value of those stocks is in the 75-80% range.

The second one is cable and I've broken that up into distribution and programming. On the distribution side, we have Liberty Global; we have Charter as I explained through a couple of other companies. On the programming side, we have QVC, Discovery, and Fox, so the cable-related companies add up to 21%. They're all subscription businesses. They generate excess cash flow and their managers are happy to do buybacks when the price makes sense.

The third category would be compounders, MasterCard, TransDigm, Google, Texas Instruments, Wells Fargo; these are companies that regardless… all companies are cyclical, but regardless of the economic environment, we feel very comfortable about these ploughing ahead and compounding their business values.

A fourth category would be smaller, more cyclical companies. They're cheaper, but they're also more volatile. Brad mentioned Redwood Trust. There's also National CineMedia, Wesco Air, ADT, Fossil, and so on.

Then there's a small category at the end that's a couple of energy companies and a couple of turnarounds, and Brad has mentioned those. They have plenty of upside if the conditions are right, and they're cheaper, in fact 50-60% of value, but they're much more volatile, so that adds up to 93% and here's where we're going to be a little different from the quarter end number.

Total longs are 93%, shorts 33%, and net exposure 60%, so our outlook… of course, you know, we never know about what's going to happen quarter-by-quarter, but I think I'm looking for turbulence and buying opportunities first, and stronger returns after that, so our guess is that uncertainty and fear, and in some cases distress and liquidity issues, will lead to lower price-to-values for stocks in general and we would like to see the FANGs lead the way, but we don't know, and we expect our companies to continue to hold up and grow their business values even if we have a recession, so we feel great about the two or three-year outlook, but we just don't know about the next months and quarters.

Now, I think that's enough of us talking and we'll open up the call for questions.

Jo Ann Quinif

All right, so we do have a couple of questions submitted already, but I do encourage you, if you have additional questions, there's an 'Ask a Question' button over to the top left of your screen there. The first question that has come through this afternoon is, "What is your cash position and please talk about redemptions?" Do you want to handle that one, Wally?

Wally Weitz

Yes. The cash position today… for this fund, really, I think the relevant number is the net exposure and that 93% long and 33% short netting out to 60% that was in the slide is really where we are today, possibly 1% more invested there. We have had redemptions. I don't track the exact numbers, but there's been chronic dribbles of redemptions out most of the year, really, and I think that's one reason that some of the biggest positions have gotten to be 7% or 8% instead of 5% or 6% or 7%, but as the cash went out and those positions got to be larger, we made the conscious decision that we liked them larger, so we did not adjust. There's never been a time in the 32 years where we've ever had to make a transaction because of redemptions. We like to keep plenty of room, so that doesn't affect how we managed the portfolio.

Jo Ann Quinif

Why don't we go with the next question is, "How does an oil price of $35 per barrel impact your valuation? At this price or what price would you be a buyer of certain oil stocks?"

Wally Weitz

When our models for valuing the energy companies have to assume some price for oil and for gas, and the number that we have assumed has come down over time, what we're trying to figure out is what the numbers will look like over the next five years or more, because what we're looking are the future cash flows, but in today's world where OPEC, for the first time, has not made a move to constrain supplies and we have the new shale revolution in North America, it is a lot less clear when the prices will go back up again.

We have owned Pioneer Natural as an oil company and we have owned Range, which is a gas company. We own them because we think that the resources they have in the ground will be worth plenty to justify the prices over time, but more importantly, we have picked those because we think their balance sheets can sustain them, even if it takes two or three or four more years to get prices going up again. We're watching every day as new price… if one talks about the market throwing you pitch after pitch after pitch but there are no called balls and strikes, so we have been not anxious to expand our energy holdings, but we're looking at a lot of possibilities.

Brad Hinton

Yes, well, I was just going to add a little bit of the research perspective on top of the portfolio management angle. Now, is exactly or definitely the right time to be looking, even if we're not buying, and we have kind of a multi-pronged effort in the energy space. Dave Perkins has followed the E&P companies for a long time, as Wally said, focused on companies with the best ROC and a lot of staying power, kind of an equal effort between oil and natural gas. Jon Baker, during the course of the year, has been spending a lot of time on the services companies. We have a couple of new names on deck in the last several months, neither of which we have purchased, but trying to get smarter in that space as well, to the extent that this dragged out any longer. As Wally mentioned, our fixed income team has added a lot to our effort.

The high yield market in energy, in particular, is dislocated in a very material way and they're looking at it opportunistically from an offensive perspective, but also helping us make sure that we're looking at companies with the right lens. They are looking at businesses in the oil patch that have really clean balance sheets that are trading down and those would be the same kinds of companies that we would be looking for on the equity side.

Jo Ann Quinif

We had a couple additional questions come in as you guys were talking about oil and energy here, and so the first one is specifically, "What price per barrel are you using in your valuations for future cash flow analysis?"

Brad Hinton

Real quickly, the latest round is we have been assuming a rebound up into the low 50s, probably the latter half of next year, 65 or so in '17, and our view of the marginal cost long-term is still quite higher than here. It has moved down some year over year, but we are still of the belief, I think, that over the long haul, 35 or anything close to is not sustainable, so it would be a lot closer to the 70 range.

Jo Ann Quinif

The other question that came in with conjunction – and I am not sure we actually have much of a view on this or thoughts on it, but I will throw it out there just in case you do and feel free to take a pass, but, "What do you think about the US now being able to export oil and natural gas and the fact that Congress passed that bill? Have you heard anything about that law and how it was structured to sell energy abroad?" I feel like that is kind of a Dave Perkins specific question. I am not sure that it is one that we really spend a lot of time on.

Wally Weitz

The world's oil supply doesn't change in the aggregate and it might be helpful to individual companies that have a new market, but I also believe it is true that we have exported quite a bit of oil already. It is not as simple as the headlines indicate, but it is no panacea, it doesn't fix the chronic oversupply problem, I don't think.

Jo Ann Quinif

Maybe the next question that we could go to, kind of skipping over to media, it has just been another kind of hot button over the year this year. "Where do you see Discovery in five years and what are your views on cord-cutting in regards to Discovery and other programing providers?"

Wally Weitz

We have been investing in media companies and cable companies at least since the 80s, and there has always been a tug of war between the distributors and the content people, that is one reason I broke that cable – the category up on that slide. The cable companies do have broadband service and that gives them some protection as to changes in the way they get paid for video. I think there is a realization among content-creators that they sold their content to Netflix too cheaply and you will see a swing back, I think, in the cost structure for Netflix. It is an evolving situation and everything is in flux, but the great content, we think, will be paid for and the Discoverys of the world will find a way to hold onto their value. Discovery is in a better shape than many, because it has a big international operation, but each of them has their own set of issues.

Do you want to elaborate on that?

Brad Hinton

The only thing I would add on Discovery is for the next several years we think they have the opportunity grow earnings per share at a double-digit rate, both really operating income and then bottom line and should be able to buy back an awful lot of stock at what we think are discounted valuations as the landscape evolves.

Wally Weitz

One of the things we really like about Discovery is the management at the top, both directly running the company and others in the orbit, like John Malone that are very good at capital allocation, and that may give Discovery, as a stock, an edge over a lot of the other competitors.

Jo Ann Quinif

The next question that we have is, "Can you think of a company that you love, but it never is the right price to invest?" love is a strong word.

Brad Hinton

Love is a strong word, and I don't think this is my favorite stock of all-time, but an example of waiting a long time might be Core Labs. Dave did work on Core Labs three, four, five years ago and it was only in a deep drop in oil prices, I forget when that was, months ago, but we were able to buy Core in the $80-some a share down from 200 and some. It is a very high quality oil service company, very good balance sheet, we were very comfortable with it, but now it has bounced all the way back up to 100c on the Dollar and we're probably not able to keep it.

There are names that we even joke about in our research meetings, great companies, but the price gets in the way. Do you have a sample, Brad?

Brad Hinton

Danaher, I think you could argue, Amazon at different points in time. We could elaborate the samples.

Jo Ann Quinif

There was a question that came in via email as well here, but it is in regards to you broke out kind of growth and value and the divergence between the two, and it has kind of been a growth year. Do you anticipate a switch next year? Do you think that next year is the time for that, or what is your view on that?

Wally Weitz

Well, I am tempted to go into the routine about growth is not the opposite of value; Buffett says they're joined at the hip and so on and so on. Companies that grow faster are worth more than ones that grow slowly. They are all on a continuum and we look at the business value and we're willing to pay up for companies that are growing. I think what has happened is not so much fast growth being valued as predictable growth, just as the late 90s, a handful of tech stocks attracted huge percentages of S&P money, and the same thing is happening now with the bank stocks and a few other software companies and so on. It is not so much that they're really worth that much more, but they're a place to hide, and I do think that as conditions change, it will prove… when a wonderful company gets grossly overvalued, it can go down very sharply too and scare the people who have been hiding there.

I do think there are so many quarters of cheap stocks doing well and alternating back and forth, it is something that happens over the years, and it will happen again.

Jo Ann Quinif

Do you want to add anything Brad, no comment?

Brad Hinton

I think energy will have a lot to do with it, when it rebounds, whether it is '16 or later, certainly hope the value...

Jo Ann Quinif

Good point.

Wally Weitz

Another thing, another group that is, I think, a big part of many value indices is financials, banks and in a period of zero interest rates, spread lenders… I mean, that is a much more mundane and less volatile sector, but it is hard to make net interest margin in a low interest rate environment, so that will probably help at some point.

Jo Ann Quinif

Okay, so the next question we have here is, "Why did you eliminate Valeant?" do you want to start with that one, Wally?

Wally Weitz

Okay, I will start. Valeant we owned for about four years, we started buying it in the 30s, we knew that the people and the business plan were aggressive, but they executed beautifully and the stock got up to about 240 or 250, we never wanted the position size to get beyond 5 or 6% on general principles, so we trimmed all the way up and we eliminated most of our position in the 230/240/250 range. We held remnants of it, hoping to get to 1st November for tax purposes in some cases, when we had the two big drops, first that came with the political discussions about drug pricing, and as we evaluated Valeant exposure and the likelihood of rule changes and so on, we didn't think that was going to be a really big issue for them. But the second controversy was the Philidor Pharmacy and my take on the way they arranged their ownership of Philidor was that they started with the rules about where they could do business and how, and reverse engineered a kind of convoluted structure. At that point, we decided we just didn't want to be involved and that is where we sold the last of our shares.

It was a company that was no fun the last few months, but we did triple our money in it and I think our attention to valuation is what got us out of most of the stock near its size. It was a good financial experience, even if it wasn't an enjoyable one.

Jo Ann Quinif

Okay, so the next question we have is in regards to a real estate mix within the portfolio, and besides Redwood Trust, which we have owned for a very long time, are you seeing any values in that area?

Wally Weitz

Well, we're seeing value in Redwood again. Redwood we have owned since 1994, I guess it was 1993 when it was a private company. Redwood has had – I mentioned financials having a hard time making a spread in a low interest rate environment, and that is what penalized Redwood's earnings, but it is an investor and a lender, and I think that may be different from what the question is after. At times, we have owned property REITs, the late 90s was a wonderful time, because everybody was mesmerized by tech, and we have really been forced, the last several years, to leave those alone, because by their structure they are higher yielding than other companies, and the desperation for return from dividends, we thought was driving those stock prices too high.

In today's world…

Brad Hinton

Yes, the one company that we have invested alongside that we don't own any longer in the strategy, but we did for a lot of this year is Equity Commonwealth, and I think we would generally lean towards the view of Sam Zell on commercial real estate, and they have been selling big chunks of their portfolios, particularly lower quality assets, because they like the bid and they are basically sitting back waiting to redeploy for a time when things get cheaper. That is why we don't own a lot more.

Wally Weitz

That is kind of a special situation too, because it was sort of a poorly managed REIT for a long time and Zell was able to get control and really clean house in the portfolio, so the stock was cheap, because it didn't pay a dividend and it had formerly been mismanaged, so we were able to make a trade in it, but it was more about the management and the game plan that he had to liquidate that real estate. We still own it in other funds.

Jo Ann Quinif

Okay, so one of the last few questions that we have here, "How do you feel about – this one might take a while, and I don't know if we want to open this can of worms – but how do you feel about the tracking stock structure used by Malone-related entities, like QVC and soon to be Liberty Media. Do you worry about the potential manipulation?"

Wally Weitz

I will take that one because we started investing with Malone in the late 80s and I certainly have watched carefully, especially in the early years when tracking stocks would be – assets would be separated into different trackers and assets reattributed and then brought back in, it is not an ideal format for the run-of-the-mill business, and I think Malone is the only one that we have been involved with that has done that in a serious way over time, but we have been investing within now for over 25 years. It seemed clear to us at every step that management has been fair with shareholders. Malone always owns the controlling share, the super-voting shares, and we want him to be in control. We do not want some rater coming to help him, but when there is a company – one of our companies gets sold, the super-voting shares have often gotten a 10% premium, and at first I sort of chafed at that, but I sort of explained it to myself as that was his 10% carry for doing a fabulous job for us. I have never done the complete attribution work, but I think over the last 25 years, a very substantial part of our outperformance has come from taking the trouble to understand all the various tracking stocks and different entities that Malone has been involved in, it has been very good for us and I think he has treated us very fairly over the 25 years.

Jo Ann Quinif

We have one last question, so if you have another question, now is the time to ask, you're going to miss your chance. The last one is much more related to where are you finding value now? You mentioned that there has been, the bank stocks have been driving the market, which implies that there has to be several stocks down, quite a bit year to date. Are there any themes or areas where you're finding good values now?

Brad Hinton

I will take the first crack at it. There really are not noticeable trends in where we have found value, but where we're looking for value is pretty widespread, and I think in a challenging year, one of the risks is that you spend a lot of your time and effort rechecking your assumptions on some of the things that haven't worked as well, and it can be a bit of a distraction, but I think the team has done a really good job of buckling down and continuing to accelerate the new idea efforts. I was just going through the math before we came in here, and I think in the last couple of months, as a team, we have gone through nine new investment ideas and it really is ranged, the gamut we talked about, John doing some work in offshore drilling equipment. We have looked at a company that Barton has been looking at, that is another example of a very aspirational one, that is a very fast growing software company. We have been looking in the media space, at the railroad, we have been looking at several other advertising services, Colfax would have come out of that round of new ideas, so it is really pretty fun and wide, and I think we have put more resource behind industrials, broadly, as they come down. We haven't done a lot of activity in that area yet, but it does seem to be, if you think about energy being in close to a depression, industrials are probably moving certainly into their own version of recessionary territory, so it is fertile ground to at least be trying to understand where we would like to own the very best companies in that world. That has certainly been a research focus for us.

Anything you would add?

Wally Weitz

There is a lot of new ideas that we're discussing and that we're just watching for the right price, but the flipside of that is, some of the companies, especially in the first two categories that I put on that last slide that I think of as victims of boredom or misunderstanding, Berkshire Hathaway down over 10% this year at 130% of book when Warren has said he would be happy to pay 120%. Well, book will be up 10% in the next year, and that is the kind of thing that is very comfortable to own a lot of in a time where we're likely to have little landmines going off at random intervals. In the media space, the questions and confusion and fears about cord cutting and the changing battles in that world, I think will give us some good opportunities. We're about to get four or five new Liberty entities too, and no doubt some of them will be mispriced along the way.

When we have days like today and the market being down a 1.5% on the S&P, that is my favorite kind of day. This is when it gets fun, this is what we have been waiting for, so I am excited about it.

Jo Ann Quinif

There was a tack-on question here about high quality biotech. I would love to just end on that note, I think it is a perfect ending, but I don't want to leave anybody hanging that actually asked a question. Have we looked at any high quality biotech?

Brad Hinton

I think the bottom line there is Wally and I know very, very little, perhaps to virtually nothing about the area, but Dave Perkins has spent some time on the higher quality biotech companies, the stock – we mentioned Amgen, Gilead, and AbbVie. We do not have any of them on deck, which is why we're not particularly conversant in them at the portfolio manager level, but I know Dave has actually spent a fair amount of time on them and it is something we could probably address offline, to the extent that there is interest, but nothing is close is the short answer.

Jo Ann Quinif

Well, that seems like a wrap. We appreciate you taking the time today to dial in. we certainly appreciate your business and that you take the time to understand what is going on in our portfolios. We have a team that is available to assist and answer any questions that you have on off times and we want to give you the service that you need and deserve. Certainly reach out to me via email. As I mentioned, it is jquinif@weitzinvestments.com and if you have any questions, we will make sure you get taken care of.

Thanks again and Happy Holidays.