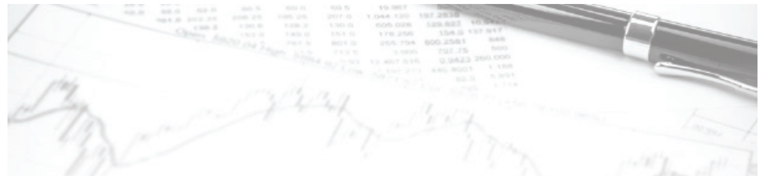
Weitz | FUNDS

Value Fund

1Q 2018 Quarterly Commentary



Investment Style: Large-Cap Value
Portfolio Managers: Brad Hinton, CFA & Dave Perkins, CFA

The Value Fund's Institutional Class returned +0.65% during the first quarter compared to -0.76% for the S&P 500 and -0.69% for the Russell 1000. For the fiscal year, the Fund's Institutional Class returned +9.46% compared to +13.99% for the S&P 500 and +13.98% for the Russell 1000. Since adopting its large-cap company mandate in June 2008, the Fund has generated annual returns of +8.58% compared to +10.05% for the S&P 500 and +10.07% for the Russell 1000.

The first quarter featured a little of everything for the equity investor. A fast start in January, starring last year's winners and a boost from newly minted corporate tax legislation, followed by an acceleration in inflation in February that raised concerns about the appropriate Fed response. Lingering trade tensions between the world's two largest economies began boiling over in March in the form of protectionist trade measures by the U.S. and China. Meanwhile, calls for increased regulation of the global tech titans grew louder following news that Facebook failed to protect user data. This combination of events resulted in an increase of volatility, with the VIX (an index measuring expected future volatility) rising roughly 80% during the quarter after a multi-year period of Fed-induced calm.

Some nine years and the S&P 500 gaining +325% from the end of the financial crisis, investor and media radars are (at least momentarily) registering a more balanced set of opportunities and threats. With this apparent downshift in bullish sentiment, let's briefly discuss how the Fund is positioned relative to the opportunity set as we see it today. First, we aim to protect, then grow, wealth. Our emphasis on the former has resulted in the Fund underperforming the broader indices the past several years, but our efforts remain squarely focused on generating attractive full-cycle investment returns. Stock prices look more interesting today than they did three months ago, and volatile trading presented attractive buying and selling opportunities during the quarter. As active investors with a long-term investment horizon, we relish periodically choppy markets.

> We think something is changing. Various threats to the bull market (none of which are brand new) are attracting investor attention.
>
> Click to Read Value Matters: 1Q18 Letter to Investors

We wrote last quarter about the Fund's increased exposure to more durable and less cyclical cash flow streams at fair to attractive prices. Just shy of 60% of the Fund's invested assets fall into this category. Specific examples include Liberty Broadband, LabCorp and Mastercard. Another 12% of the Fund has what we believe to be attractive multi-year tailwinds, albeit with a potentially greater degree of cyclicality. We group Google parent Alphabet, Amazon and Accenture into this category. The remainder of the portfolio consists of more idiosyncratic opportunities like Allergan, Twenty-First Century Fox and Pioneer Natural Resources as well as residual cash, which stood at 12.7% of net assets as of March 31 (vs. 17.7% a year ago). Our appetite for operational turnarounds and significant balance sheet risk is generally low, but especially so today given the sour fruit typically borne of extended periods of abundant low-cost financing.

There was a fair degree of overlap among the Fund's top contributors for the quarter and fiscal year. Mastercard was the standout performer during both periods, contributing roughly 20% of the Fund's gains over the last 12 months. We again trimmed our stake early in the quarter but continue to hold a core position believing both Visa and Mastercard are classic examples of wonderful businesses trading at fair prices. Liberty Interactive QVC Group rebounded nicely from overly discounted levels last spring. Following its combination with HSN, we closed the Fund's position at $28 during the quarter, with shares largely reflecting our view of intrinsic value. Amazon, which joined the Fund following the 2016 presidential election, enjoyed an unusually strong first quarter. We harbor no illusions that everything the company pursues will succeed or that the road ahead is immune from the challenges that inevitably accompany success. In fact, the stock may go down more than we expect in the quarters (even years) ahead, but we agree with Buffett's admonition "…that it is usually foolish to part with an interest in a business that is both understandable and durably wonderful."

Media distributors Liberty Global and Comcast, and new addition Facebook led the list of quarterly detractors. We lightened our Liberty Global position by approximately 25% early in the first quarter, north of $35, in part to make room for the re-addition of TransDigm to the portfolio. Liberty Global owns valuable fiber assets, but the operating environment in Western Europe has proved trickier than the United States. Comcast's potential engagement in the bidding process for Sky (and perhaps portions of Twenty-First Century Fox) frustrated those desiring a less adventurous cash-return story. Allergan shares stabilized during the first quarter but remained the largest detractors for the fiscal year. We continue to see significant value in the stock and believe management and the board will work diligently and thoughtfully to unlock it. Rounding out the list of detractors for the fiscal year is Range Resources, which simply put, was an investment we let ride for too long. We acknowledged the company's acquisition of Memorial Resource Development 18 months ago as a thoughtfully considered strategic risk. It has not proved to be the cash flow generator management envisioned, leaving Range's balance sheet significantly indebted against a backdrop of unrelenting growth in domestic natural gas supply. We closed the Fund's position at a loss in March.

As mentioned above, the Fund established a new position in social media platform Facebook during the quarter. As of the time of this writing, the stock is trading roughly 10% below our average purchase price. We believe the fourteen-year-old company has created a uniquely valuable franchise with its flagship Facebook property and complemented it with three nicely growing platforms-Instagram, WhatsApp and Messenger.

Facebook reaches over two billion people globally each month, with two-thirds of these users logging in daily. Some 70 million small and mid-sized businesses and 6 million advertisers use Facebook as a means of communicating with current and potential customers. We won't rehash the data privacy and election controversies presently dominating headlines but acknowledge both as risks to the social network's two key pillars: 1) user engagement and 2) advertiser return on investment. We (and others) will be closely monitoring management's efforts to shore up privacy and regain user trust. While we anticipate the stream of ominous-sounding headlines to continue for the foreseeable future, our current view is that users are unlikely to stop engaging with their respective Facebook communities and that advertisers will continue to find Facebook's platform(s) an efficient means of finding and winning new customers.

CarMax completes the list of new additions to the Fund during the first quarter. CarMax owns and operates used car dealerships across much of the U.S. If you've never shopped one of their stores, we'd encourage you to give them a try when it's time for your next vehicle. Over the past 25 years, CarMax has methodically developed what we believe to be a superior means of purchasing a used car. The concept of marrying no-haggle pricing, deep national inventory and outstanding service isn't a secret, but it's proven difficult for competitors of all stripes to replicate. The volume of used cars sold will be volatile over time, but we expect CarMax to continue to earn more business in new and existing markets the old-fashioned way. As the stock fell from the upper $70s last fall to below $60, we established a starter position late in the quarter. We hope to add additional shares at similar or lower prices in the days ahead.

Quarterly Top Performers (%)	Return	Average Weight	Contribution
Mastercard Inc.-Class A	15.91	4.26	0.59
Amazon.com, Inc.	23.76	1.99	0.35
Twenty-First Century Fox, Inc.-Class A	6.77	2.33	0.27
QVC Group-Series A	3.07	0.99	0.27
Thermo Fisher Scientific Inc.	8.82	3.00	0.23

Quarterly Bottom Performers (%)	Return	Average Weight	Contribution
Comcast Corp.-Class A	-14.35	2.60	-0.36
Liberty Global plc-Class C	-10.08	4.09	-0.35
Facebook, Inc.-Class A	-9.45	1.75	-0.33
Dollar Tree, Inc.	-11.56	3.02	-0.29
Wells Fargo & Co.	-13.10	2.13	-0.28

Contributions to performance are based on actual daily holdings. Securities may have been bought or sold during the quarter. Return shown is the actual quarterly return of the security or combination of share classes. Source for return shown is FactSet Portfolio Analytics.

Performance data represents past performance, which does not guarantee future results. *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* ***weitzinvestments.com****.*

Average annual total returns for the Fund's Institutional and Investor Class for the one-, five- and ten-year periods ended March 31, 2018, were 9.46%, 7.94%, 7.53% and 9.23%, 7.78%, 7.45%, 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 1.10% (gross) and 1.24% of the Fund's Institutional and Investor Class net assets, respectively. 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 Institutional Class shares and Investor Class shares to 0.99% and 1.30%, respectively, of each Class's average daily net assets through July 31, 2018.

Institutional Class shares became available for sale on July 31, 2014. For performance prior to that date, returns include the actual performance of the Fund's Investor Class (and use 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.

Average annual total returns for the S&P 500 and the Russell 1000 indices for the one-, five- and ten-year periods ended March 31, 2018, were 13.99%, 13.31%, 9.49% and 13.98%, 13.17%, 9.61%, respectively. Index performance is hypothetical and is shown for illustrative purposes only. Comparative returns are the average returns for the applicable period of the reflected indices. 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 1,000 of the largest securities based on a combination of their market cap and current index membership. Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indices. Russell® is the trademark of Russell Investment Group.

As of March 31, 2018: Accenture plc-Class A comprised 2.0% of Value Fund's net assets; Allergan plc 6.0%; Alphabet, Inc. (Parent of Google)-Class C 5.0%; Amazon.com, Inc. 2.1%; CarMax, Inc. 1.1%; Comcast Corp.-Class A 2.4%; Dollar Tree, Inc. 3.3%; Facebook, Inc.-Class A 2.0%; Laboratory Corp. of America Holdings 4.8%; Liberty Broadband Corp.-Series C 7.1%; Liberty Global plc-Class C 3.7%; Mastercard, Inc.-Class A 4.5%; Pioneer Natural Resources Co. 1.7%; Thermo Fisher Scientific Inc. 3.1%; TransDigm Group, Inc. 1.2%; Twenty-First Century Fox, Inc.-Class A 2.1%; Visa Inc.-Class A 3.2%; Wells Fargo & Co. 2.0%. 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 Fund before investing. The Fund's Prospectus contains this and other information about the Fund 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.