

# Value Fund

2Q 2019 Quarterly Commentary



Investment Style: Large-Cap Value  
Portfolio Manager: Brad Hinton, CFA

The Value Fund's Institutional Class returned +7.62% for the second quarter compared to +4.25% for the Russell 1000 and +4.30% for the S&P 500. Year to date, the Fund's Institutional Class returned +24.21% compared to +18.84% for the Russell 1000 and +18.54% for the S&P 500. It was a very good quarter, building on an even stronger start to the year.

Back in late December, we described an investing environment where the odds were stacked in our favor. Since then, half of the Fund's stocks returned more than 30% in just six months. The pace of gains moderated in the second quarter, yet results were still decidedly positive. Stocks continued to climb the familiar wall of worry, with a litany of macro concerns deeply embedded in the mortar. While we can't know how sturdy the next footholds will be, the outlook based on valuation alone is more balanced. Even more reason to own a collection of durable, quality businesses that will be worth more tomorrow than they are today.

We made no changes to the Fund's company roster during the quarter. Liberty Broadband, CarMax and Lab Corp were the strongest contributors to results. Solid operational execution was the common theme, and all three stocks still trade at discounts to our value estimates. Alphabet, Charles Schwab and Liberty SiriusXM were the lone detractors. Each declined by less than 10%, with no changes to our long-term investment theses.

**At the halfway mark in 2019, the U.S. stock market is sailing ahead happily, and our stock funds are fully participating.**

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While our trading activity was light, the companies we own have not been standing still. Here are just a few examples of our portfolio company management teams in action, working to create value on our behalf:

- **Thermo Fisher Scientific** completed its acquisition of Brammer Bio, a company which helps pharma and biotech customers provide breakthrough cell and gene therapies for patients with rare diseases. It is a high-growth and high value-added business, right in Thermo's wheelhouse. Management also raised its organic growth outlook for the entire company, fueled in part by the success of prior acquisitions Life Technologies (2014), FEI (2016) and Patheon (2017).
- **Dollar Tree** showed signs of stabilization and progress at the Family Dollar banner. Management is assertively renovating, re-bannering and closing Family Dollar units to help lift the average store profile. At the core Dollar Tree banner, they are testing multi-price points which may provide optionality down the road. With the balance sheet in good shape, management also resumed share repurchases at what they (and we) view as discounted prices.
- **CarMax** continued to assemble the building blocks for a true omnichannel car buying experience. The new CarMax website launched nationally, with an enhanced search capability. The first Customer Experience Center recently opened in Atlanta, and two more are slated to follow later this year. CarMax has been investing heavily in the future, and the early returns are promising. With the omnichannel rollout just getting started, most of the potential per share payoff is still down the road.
- **Danaher** reached an agreement to buy GE's BioPharma business for \$21.4 billion. This transformative deal is likely to be a strategic home run for Danaher's Life Sciences division. While we never take execution risk lightly, the company has a strong track record of applying the Danaher Business System to acquired businesses. Management is also taking steps to further optimize the portfolio through an IPO of its non-core dental business later this year.

Value creation in the business world is lumpier than it might appear in spreadsheet forecasts. We want to partner with managers who will do the right deal at the right time for their owners, whether that deal is a purchase or a sale. We also try to align ourselves with managers who know when to invest aggressively in their own business. Sometimes that means green-lighting internal projects with high returns, and other times buying back shares at discounted prices. Just as importantly, we look for managers who are disciplined, won't stretch at the wrong time, and know when "no, thanks" is the best answer. In short, we want to invest your capital alongside sensible, prudent businesspeople. The stories above are just a few examples of this process at work for investors.

Your portfolio is focused, more fully invested and well aligned with our vision for successful large-cap investing. We have ownership stakes in 26 companies, with the top ten representing nearly half of the portfolio. Each position is significant enough to matter, yet none can individually make or break our results. The collection trades at an estimated price-to-value in the low 90s, offering adequate return potential primarily from expected growth in per share business value. Thank you once again for your investment and continued confidence in Weitz and our large-cap strategy.

Quarterly Top Performers (%)	Return	Average Weight	Contribution	Quarterly Bottom Performers (%)	Return	Average Weight	Contribution
Liberty Broadband Corp.-Series C	13.60	6.99	0.92	Alphabet Inc.-Class C	-7.88	6.41	-0.56
CarMax, Inc.	24.40	3.93	0.89	The Charles Schwab Corp.	-5.65	2.97	-0.15
Laboratory Corp. of America Holdings	13.02	4.69	0.59	Liberty SiriusXM Group-Series C	-0.68	2.90	-0.02
Facebook, Inc.-Class A	15.78	4.12	0.59				
Linde plc	14.69	3.53	0.52				

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](http://weitzinvestments.com).

Average annual total returns for the Fund's Institutional Class for the one-, five- and ten-year periods ended June 30, 2019, were 14.64%, 7.07% and 12.98%, 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 1.09% (gross) of the Fund's Institutional Class's net assets. Returns also include fee waivers and/or expense reimbursements, if any; total returns would have been lower had there been no waivers or reimbursements. The Investment Adviser has agreed in writing to waive its fees and reimburse certain expenses (excluding taxes, interest, brokerage costs, acquired fund fees and expenses and extraordinary expenses) to limit the total annual fund operating expenses for Institutional Class shares to 0.99% of the Class's average daily net assets through July 31, 2019.

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 June 30, 2019, were 10.42%, 10.71%, 14.70% and 10.02%, 10.45%, 14.77%, 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 June 30, 2019: Alphabet, Inc. (Parent of Google)-Class C comprised 6.0% of Value Fund's net assets; CarMax, Inc. 3.7%; The Charles Schwab Corp. 2.7%; Danaher Corp. 3.3%; Dollar Tree, Inc. 2.9%; Facebook, Inc.-Class A 4.2%; Laboratory Corp. of America Holdings 4.6%; Liberty Broadband Corp.-Series C 7.0%; Liberty SiriusXM Group-Series C 2.8%; Linde plc 3.7%; Thermo Fisher Scientific Inc. 3.6%. 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.**