Core Plus Income Fund

1Q 2018 Quarterly Commentary

Investment Style: Intermediate-Term Bond
Portfolio Managers: Tom Carney, CFA & Nolan Anderson

Core Plus Income Fund's Institutional Class returned -0.56% for the first calendar quarter compared to a -1.46% return for the Bloomberg Barclays U.S. Aggregate Bond Index (Bloomberg Barclays U.S. Agg), our primary benchmark. For the fiscal year ended March 31, 2018, Core Plus Income Fund's Institutional Class returned +1.40% compared to a +1.20% return for the Bloomberg Barclays U.S. Agg. The Fund's performance **table** on our website (weitzinvestments.com) shows returns over various holding periods.

Fiscal 2018 Review

The low volatility environment that characterized much of the past year ended abruptly in the first calendar quarter of the new year. Exuberance over the positive economic impact of the newly enacted tax legislation quickly gave way to worries about trade wars and whether the Federal Reserve would raise short-term interest rates more aggressively than previously expected.

A specific catalyst to heightened investor anxiety came from the January employment report (released in early February) that showed a rising wage component and sparked increased inflation fears. Signs of market stress also emerged as a key corporate funding signal, the spread between the London Interbank Offered Rate (LIBOR) and the overnight indexed swap (OIS) rate, rose to levels not seen since 2009. These developments and others led to increased volatility and stock and credit market weakness as the new year's first quarter ended.

Included below is a table highlighting the progression for select Treasury yields during the last quarter and past 12 months, since changes in U.S. Treasury yields have an impact on all other fixed-income market segments.

U.S. Treasury Yields (%)

	2-year	3-year	5-year	10-year
3/31/2018	2.27	2.39	2.56	2.74
12/31/2017	1.89	1.97	2.21	2.41
3/31/2017	1.26	1.49	1.92	2.39

Source: Bloomberg

During the past fiscal year, U.S. Treasury bond yields moved higher as the economy continued to exhibit slow but steady strength and the Federal Reserve raised short-term interest rates three times.

Rising "risk-free" (Treasury) interest rates were a headwind for investor returns in the past year, as bond prices and changes in interest rates are inversely related. Declining credit spreads (the incremental return above U.S. Treasury bonds investors demand for owning corporate debt) buoyed investor returns for most of the past fiscal year–but retracted much of those gains in the quarter ended March 31, 2018. A broad measure of corporate bond spreads compiled by ICE Bank of America Merrill Lynch declined to a post-crisis low of 90 basis points in February before finishing the March 31 quarter at 116 basis points, down 8 basis points year over year.

Portfolio Positioning

The table to the right shows the change in allocation to various sectors from the most recent quarter and compared to a year ago. This summary provides a view over time of how we have allocated capital.

Since our goal is to invest in sectors that we believe offer the best risk-adjusted returns, our allocations may change significantly over time.

Over the past fiscal year, we continued to increase our exposure to shorter-duration (1-2 year) securitized products, including automobile ABS, consumer ABS and non-agency MBS. Our shift in capital allocation toward securitized products has been driven by our ability to achieve spread pickup relative to investment-grade[1] corporate bonds, without taking incremental credit risk. Notably, the Fund continues to have minimal exposure to agency MBS, where we continue to view the risk/return profile to be particularly unattractive.

Net Assets (%)

Sector	3/31/2018	12/31/2017	3/31/2017
Corporate Bonds	28.2	28.5	28.7
Corporate Convertible Bonds	2.5	2.4	2.1
Asset-Backed Securities	26.7	25.9	14.0
Commercial Mortgage-Backed Securities (CMBS)	3.1	1.2	3.5
Agency Mortgage-Backed (MBS)	0.2	0.3	0.4
Non-Agency Mortgage-Backed (MBS)	4.1	4.3	1.3
Taxable Municipal Bonds	1.1	1.1	1.4
U.S. Treasury	32.6	33.3	42.4
Common Stocks	0.9	0.8	0.8
Cash & Equivalents	0.6	2.2	5.4
Total	**100.0**	**100.0**	**100.0**
High Yield*	**12.7**	**13.8**	**6.9**

**High-yield exposure (as of 3/31/2018) consists of investments in the Corporate, Corporate Convertible, ABS and MBS sectors.*

As of March 31, our high-yield exposure was approximately 12.7%, down from 13.8% as of December 31 (the maximum we are permitted is 25%). Since inception, we have flexed our high yield allocation meaningfully–from a low of 5.9% to a maximum of 24.9%. While we continue to find reasonable shorter-duration (1-2 year), high-yield investment opportunities, we don't view the overall investment landscape as conducive to taking significant, and longer duration, high-yield credit risk.

Overall portfolio metrics as measured by average effective maturity and average effective duration changed modestly compared to the prior quarter. The average effective maturity remained unchanged at 4.7 years, and the average effective duration decreased to 4.1 years from 4.2 years. These measures provide a guide to the Fund's interest rate sensitivity. A lower average effective maturity and shorter average effective duration reduce the Fund's price sensitivity to changes in interest rates (either up or down). Consistent with the Fund's positioning since inception, we maintain a significantly lower average effective duration profile than our benchmark (4.1 years vs. 6.0 years for the Bloomberg Barclays U.S. Agg).

The benefit to shareholders of our shorter duration profile in rising interest rate environments is illustrated in the chart below. Since the Fund's inception, 10-year Treasury rates have increased over 50 bps on three separate occasions. In each case, the Fund demonstrated significantly lower draw downs (i.e., unrealized price declines), resulting in strong relative performance. Should recent fiscal stimulus efforts and/or the continued removal of global quantitative easing result in volatile and upward moving interest rates, we believe the Fund is positioned to react similarly as it has during past rate increases.

Returns During U.S. Treasury Rate Increases (%)

	1/30/2015-6/10/2015	7/8/2016-12/15/2016	12/29/2017-2/21/2018
10-Year UST Yield Increase (basis points)	85	124	54
10-Year UST Range	1.64-2.49	1.36-2.60	2.41-2.95
Weitz Core Plus Income-Institutional	-0.41	-1.45	-1.37
Bloomberg Barclays U.S. Agg	-2.77	-4.28	-2.45
Relative Performance	+2.36	+2.83	+1.08

Fiscal Year Contributors

Security selection was the key driver of performance. Primary contributors included:

- U.S. Corporate Credit. Corporate credit performance was led by high-yield investments in energy, industrials and consumer cyclicals. Our high-yield investments benefited from solid coupon income and (unrealized) price appreciation as credit spreads contracted during the fiscal year. Overall positive investment-grade performance was led by investments in communications, information services and REITs.
- Securitized Products (ABS, CMBS and MBS) continued to perform at or above expectations with respect to credit performance and average life progression[1] while providing steady income and some modest price appreciation during the fiscal year.

Fiscal Year Detractors

- Technology-related corporate bonds. Our largest detractor to performance during the fiscal year was the purchase of 7-year new issue Broadcom Communications (AVGO) bonds. Since the bonds were issued in October 2017, credit spreads widened approximately 50 bps due to potential large-scale M&A activity and risk of increased corporate leverage. Despite solid long-term business fundamentals, we did not appropriately account for the event risk associated with an acquisition-oriented management team. Given the uncertainty around potential event risk and risk of significantly increased leverage, we trimmed our position and booked a loss.
- Select U.S. Treasury Bonds. Intermediate (7-10 year) Treasuries generated modest negative total returns, as rising rates (declining prices) outpaced the coupon income we collected throughout the fiscal year.

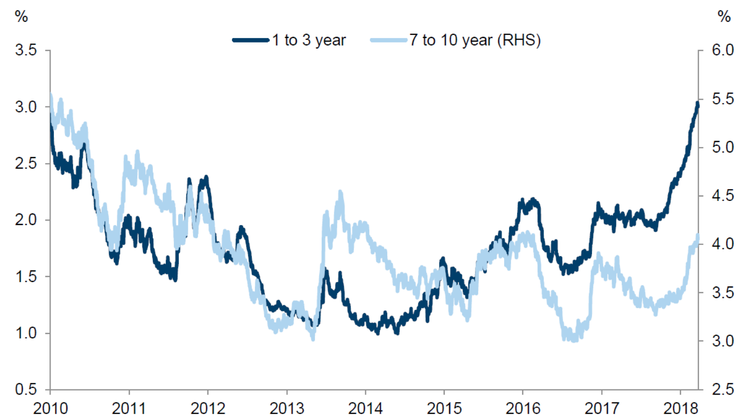
First Quarter Investment Activity

New investment activity was weighted toward shorter duration (one- to two-year average life) securitized products, including auto asset-backed securities (ABS), consumer ABS and commercial mortgage-backed securities (CMBS). With short-term interest rates climbing on the back of Fed rate hikes, we are achieving higher yields on one- to two-year investments without taking significant incremental credit risk. Our approach to securitized products remains focused on identifying investments with robust structural protections backed by experienced sponsors and management teams with proven experience through economic and capital markets cycles. We believe our two newest CMBS investments fit this investment criteria well. We invested in the inaugural commercial real estate loan securitizations from Varde Capital and TPG RE Finance.

Having invested in previous non-performing loan securitizations from both sponsors, we are familiar with their extensive commercial real estate platforms and proven long-term track records investing through multiple real estate cycles. In a market environment with relatively tight credit spreads and high commercial real estate valuations, we invested at the junior-AAA level (i.e., second from the top of the capital structure), with credit support (consisting of subordination from junior securities and the sponsor's equity interest in the loans) of 39.50% (TPG) and 41.50% (Varde). Given we are likely in the late stages of the commercial real estate cycle, our overall CMBS exposure remains low (3.1%) and conservatively positioned at or near the top of the capital structure.

In high yield, we purchased new positions in 1-2 year bonds issued by Invista, iStar Financial and QVC. We sold our 2-year Mattel bonds at a small profit after further due diligence suggested that we were not getting paid for the risks associated with what could be a long and difficult turnaround.

The chart below, courtesy of Goldman Sachs, highlights a development in the investment-grade corporate bond market, where a picture may help explain the investment story better than the proverbial thousand words. Short-dated investment-grade bond yields (those maturing from 1 to 3 years) are at post-crisis highs, while longer bond yields (those maturing from 7 to 10 years) remain decidedly lower than their post-crisis peak. Declining credit spreads and a flattening yield curve over the past eight years explains much of the difference. As a result, we don't believe the risk/reward for longer duration credit exposure is appealing on an absolute or relative basis. For context, the Fund's corporate bond portfolio as of March 31 had an average effective duration of 2.9 years compared to 7.2 years for the Bloomberg Barclays U.S. Agg. When the combination of longer-term Treasury yields and credit spreads provide satisfactory risk-adjusted returns, we have ample capacity to significantly increase the duration of our corporate credit portfolio.



Source: Haver Analytics, Goldman Sachs Global Investment Research

Our investments may be wide-ranging, but our analysis is the same. We strive to own only those investments we believe compensate us for the incremental credit risk we assume. Our overall goal is to invest in a portfolio of bonds of varying maturities that we believe represents attractive risk-adjusted returns, taking into consideration the general level of interest rates and the credit quality of each investment.

Our portfolio will often be constructed with a shorter average life (i.e., duration) than the Bloomberg Barclays U.S. Agg. We chose this benchmark to highlight that we *could* periodically invest in *longer-term* bonds when conditions warrant. The effect over time of our portfolio construction (typically shorter average life) may lead to a penalty when interest rates fall but a boost to relative performance when rates rise.

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-year and since inception (7/31/14) periods ended March 31, 2018, were 1.40% and 3.01% and 1.20% and 2.80%, 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 1.23% (gross) and 1.91% (gross) 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 0.40% and 0.60%, respectively, of each Class's average daily net assets through July 31, 2018.

Average annual total returns for the Bloomberg Barclays U.S. Aggregate Bond Index for the one-year and since Fund inception (7/31/14) periods ended March 31, 2018, were 1.20% and 2.03%, 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 index. The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market.

Portfolio composition is subject to change at any time. Current and future portfolio holdings are subject to risk.

[1]**Definitions: Investment Grade:** We consider investment grade to be those securities rated at least BBB- by one or more credit ratings agencies. **Average Life Progression:** A measure of repayment speed for a collateral pool (for example, a collection of mortgages may serve as the collateral pool for an issuance of mortgage-backed securities).

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.