

# Hickory Fund

1Q 2018 Quarterly Commentary



Investment Style: Small/Mid-Cap Value  
Portfolio Managers: Wally Weitz, CFA & Drew Weitz

The Hickory Fund returned -1.41% in the first calendar quarter of 2018 compared to -0.24% for the Russell 2500 Index (the Fund's primary benchmark.) For the fiscal year ended March 31, 2018, the Fund returned +2.15% compared to +12.31% for the Russell 2500.

The first nine months of our fiscal year, markets relentlessly moved "up and to the right," with investors celebrating not just strong but accelerating positive returns. January looked to be more of the same, with the S&P 500 Index (a broadly used gauge for "the market") gaining +7.55% in just the first 18 trading days of 2018. Headlines touted a solid employment picture, strong U.S. economic outlook, coordinated global growth and surging profits thanks to recently enacted corporate tax cuts. Then, the S&P 500 fell more than 10% in 9 trading sessions. Market volatility, largely absent in 2017, has (at least temporarily) returned.

Bouts of volatility are not rare, but recent experience may make it feel that way. For example, during calendar year 2016, the Hickory Fund reported a daily NAV change of greater than 1% (up or down) on 47 different occasions. In 2017, that threshold was met just 8 times. By the end of the first quarter 2018, we'd already surpassed last year's total.

As you would expect, we are trying to use the recent flip of investors' psyche from "greed" to "fear" to our advantage. During the first quarter, we continued to build our initial positions in companies like Guidewire Software and Axalta Coating Systems. With the current sentiment being "sell first, ask questions later," we added to positions like Colfax and Compass Minerals after they reported underwhelming short-term quarterly results. We also looked to our On-Deck list of potential investments for ideas, initiating a position in global kitchen and housewares seller Tupperware Brands (a company we've followed since 2015), at what we believe to be an attractively low valuation. These purchases were partially offset by sales, mostly during the strong month of January. We closed our position in FLIR Systems as it traded through our business value estimate, and we eliminated remaining stub positions in National CineMedia, Range Resources and CommerceHub. Over the course of the quarter, our residual cash position decreased to 20.6%.

During the fiscal year as a whole, the Fund's top contributors included rural telecom provider LICIT Corp., Liberty Interactive's QVC Group (now Qurate Retail Group) and thermal imaging equipment maker FLIR Systems. On the downside, our top detractors were Liberty Global, Colfax Corp. and our now closed position in National CineMedia. When looking at our relative performance for the fiscal year, these detractors, along with some underwhelming returns from our larger-than-benchmark holdings in the Consumer Discretionary sector (generally, media and entertainment) describe our sins of *commission*. On a relative basis, our sins of *omission* (at least for the first three quarters) were being underweight technology and healthcare, and the Fund's conservative posture and cash position.

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**We think something is changing. Various threats to the bull market (none of which are brand new) are attracting investor attention.**

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The current environment appears more constructive for our valuation-driven approach to investing than it did 12 months ago. At the outset of this fiscal year (April 1, 2017), our aggregated portfolio-level P/V (price-to-value, the ratio of a stock's price to our base case value estimate) approached 0.90; what we'd describe as the more expensive end of a usual valuation range and indicative of an environment where cheap stocks are hard to find. As a result, the Fund was a net seller of equities, and our cash position was on the rise. By comparison, at quarter end (March 31, 2018) the portfolio P/V stood at roughly 0.80, and portfolio activity had been skewed toward buying. A P/V of 0.80 isn't "the whites of their eyes" cheap in our opinion, but we believe it's a more fruitful environment for value investing. And while we're always looking for the next great investment, we continue to like the businesses we currently own. As a group, we believe the last year's business value growth of our companies outpaced their share prices (with more to come over time), creating more potential upside for shareholders. In the interim, we will continue our search for new opportunities to put capital to work, and we appreciate the opportunity to invest alongside you.

Quarterly Top Performers (%)	Return	Average Weight	Contribution	Quarterly Bottom Performers (%)	Return	Average Weight	Contribution
Wesco Aircraft Holdings, Inc.	38.51	2.60	0.93	Lions Gate Entertainment Corp.-Class A & B	-23.61	3.23	-0.85
LICT Corp.	9.01	4.64	0.42	Colfax Corp.	-19.49	4.00	-0.80
XO Group, Inc.	12.41	2.16	0.24	Compass Minerals International, Inc.	-15.54	2.40	-0.39
Redwood Trust, Inc.	6.27	3.79	0.24	Liberty Global plc-Class C	-10.08	3.29	-0.35
ACI Worldwide, Inc.	4.63	3.42	0.16	Allison Transmission Holdings, Inc.	-8.96	3.62	-0.33

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 one-, five- and ten-year periods ended March 31, 2018, were 2.15%, 5.29% and 7.86%, 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 1.25% of the Fund'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.

Average annual total returns for the Russell 2500 index for the one-, five- and ten-year periods ended March 31, 2018, were 12.31%, 11.55% and 10.28%, 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 Russell 2500™ Index measures the performance of the small to mid-cap segment of the U.S. equity universe, commonly referred to as "SMID" cap. The Russell 2500 Index is a subset of the Russell 3000® Index. It includes approximately 2,500 of the smallest 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: ACI Worldwide, Inc. comprised 3.7% of Hickory Fund's net assets; Allison Transmission Holdings, Inc. 3.4%; Axalta Coating Systems Ltd. 2.7%; Colfax Corp. 4.2%; Compass Minerals International, Inc. 3.0%; Guidewire Software, Inc. 1.6%; Liberty Global plc-Class C 3.1%; LICT Corp. 5.3%; Lions Gate Entertainment Corp.-Class A & B 2.8%; QVC Group-Series A 3.6%; Redwood Trust, Inc. 4.0%; Tupperware Brands Corp. 2.0%; Wesco Aircraft Holdings, Inc. 3.0%; XO Group, Inc. 2.4%. 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.**