

Hickory Fund

3Q 2018 Quarterly Commentary



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

The Hickory Fund returned +2.71% in the third calendar quarter compared to +4.70% for the Russell 2500 Index (the Fund's primary benchmark). On a year-to-date basis, the Fund returned +2.98% compared to +10.41% for the Russell 2500.

In mid-August, the ongoing U.S. equity rally added another superlative to its resume, claiming the title of the longest bull market since WWII (as measured by the S&P 500). As the saying goes, "bull markets don't die of old age," but we suspect they do become more fragile. That's not to suggest a bear market is imminent. Many gauges of economic health in the U.S. are still in the green, and we lean toward believing there are more tailwinds than headwinds (domestically, anyway) at present. That does not necessitate, however, that stock prices only move higher. It was just six months ago we wrote in our commentary about the (temporary) return of volatility. We can't predict when investor anxieties may be triggered, or their source. Instead, we focus on identifying businesses we'd like to own and the prices at which we'd like to buy them. During the third quarter, unfortunately, it was more the former than the latter.

We are pleased to report that last quarter's top detractor, Liberty Broadband (+11%), nearly recovered all the prior quarter's decline and earned the top contributor spot for the third quarter. Sentiment across U.S. cable improved as the industry reported solid results. Liberty Broadband in particular rose as investors began to look past a multi-year investment period at Charter, anticipating much-improved cash flow growth. Colfax (+18%) reported better-than-expected earnings, thanks to strong execution and progress on their journey of continuous improvement via the Colfax Business System (CBS). We believe the application of CBS to additional bolt-on or platform-sized acquisitions will continue to add value for shareholders. ACI Worldwide (+14%) rounded out the top three performers after reiterating its outlook for strong new business growth.

Our mission is to maximize our clients' wealth over a period of many years.

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Top detractors in the quarter included Summit Materials (-31%) and Tupperware Brands (-17%). We added Summit (a provider of construction materials, including aggregates, cement, ready mix concrete and asphalt paving mix) to the portfolio last quarter. Mother Nature has not cooperated this season, postponing otherwise strong (and funded) demand for infrastructure projects. These delays pressured Summit's volumes and pushed out the translation of otherwise healthy demand into cash flow. We believe investors have overreacted, and we used the recent weakness to add to our initial position. Tupperware Brands' operating results have admittedly been lackluster, but with 90% of its revenues earned outside the United States, investors appear to believe Tupperware is permanently on the "wrong side" of both currency risks and ongoing trade disputes. Although there's plenty of uncertainty surrounding when these headwinds will abate, given our long-term view of Tupperware's global business prospects and its stock priced around seven times next year's earnings, we believe the risk-reward profile to be favorable. We also added to Tupperware in the quarter.

Portfolio activity in the quarter was somewhat limited. In addition to Summit and Tupperware, we added to our positions of Axalta and Liberty Latin America at attractive valuations while trimming our positions in Murphy USA and Wesco Aircraft on strength. We also executed modest trims of Liberty Broadband and Liberty SiriusXM. While these continue to be among our highest-conviction holdings, we elected to sell shares to manage our overall exposure to the cable and satellite industry.

As of this writing, markets are off to a choppy start in the fourth quarter (declines for smaller companies actually began in September), but as our shareholders know, we believe volatility breeds opportunity. We continue to look for opportunities to put your (and our) investment capital productively to work and look forward to reporting our progress to you again next quarter.

Quarterly Top Performers (%)	Return	Average Weight	Contribution	Quarterly Bottom Performers (%)	Return	Average Weight	Contribution
Liberty Broadband Corp.-Series A & C	11.41	8.64	0.95	Summit Materials, Inc.-Class A	-30.74	2.37	-0.78
Colfax Corp.	17.65	4.47	0.75	Tupperware Brands Corp.	-17.19	2.86	-0.56
ACI Worldwide, Inc.	14.07	4.31	0.56	Laboratory Corp. of America Holdings	-3.26	4.72	-0.17
GCI Liberty, Inc.-Class A	13.13	3.75	0.47	Liberty SiriusXM Group-Series A & C	-3.89	4.95	-0.16
LICT Corp.	5.20	6.06	0.31	Axalta Coating Systems Ltd.	-3.79	3.00	-0.12

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 one-, five- and ten-year periods ended September 30, 2018, were 1.27%, 4.32% and 9.43%, 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 1.24% 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 September 30, 2018, were 16.19%, 11.37% and 12.02%, 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 September 30, 2018: ACI Worldwide, Inc. comprised 4.5% of Hickory Fund's net assets; Axalta Coating Systems Ltd. 3.1%; Colfax Corp. 4.9%; GCI Liberty, Inc.-Class A 4.0%; Laboratory Corp. of America Holdings 4.7%; Liberty Broadband Corp.-Series A & C 8.6%; Liberty Latin America Ltd.-Class C 3.4%; Liberty SiriusXM Group-Series A & C 4.2%; LICT Corp. 6.2%; Murphy USA Inc. 1.1%; Summit Materials, Inc.-Class A 2.7%; Tupperware Brands Corp. 2.8%; Wesco Aircraft Holdings, 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.