

# Partners Value Fund

1Q 2018 Quarterly Commentary



Investment Style: Multi-Cap Value

Portfolio Managers: Wally Weitz, CFA & Brad Hinton, CFA

The Partners Value Fund's Institutional Class returned -0.38% during the first quarter compared to -0.76% for the S&P 500 and -0.64% for the Russell 3000. For the fiscal year, the Fund's Institutional Class returned +4.55% compared to +13.99% for the S&P 500 and +13.81% for the Russell 3000. While we held our own during the most recent quarter, the fiscal year was tougher for us and many other value investors.

The Fund's top contributors for the fiscal year were Berkshire Hathaway, payment networks Visa and Mastercard, and thermal imaging pioneer FLIR Systems. The largest detractors were Allergan, Discovery Communications, Liberty Global and recently sold Range Resources. From an attribution standpoint, our consumer discretionary (e.g., cable and content) stocks primarily drove the performance shortfall. While we are disappointed with the performance of these stocks, we still view them as forward-looking opportunities. In fact, Liberty Broadband and Liberty Global remain among our highest-conviction holdings at today's prices. We think the odds are high that last year's losers may well become this year's winners. Interestingly, technology stocks were not the relative story for us this fiscal year. We owned a lot of them, and our tech holdings performed **very** well and were in line with the sector.

In the first quarter, during the latest bout of market turbulence, we bought several new positions. Axalta Coating Systems is a leading manufacturer of paint and other coatings for automotive and industrial end markets; Tupperware Brands is a global direct seller of kitchen and home products trading at a very low multiple of free cash flow; CarMax is a retailer of used cars and light trucks and has a unique, time-tested business model; and GCI Liberty is yet another way to invest in Charter Communications at a "double-discount" because of the complex corporate wrapper. Axalta is the largest position of the four, and Nathan Ritz describes our in-depth thesis in this quarter's Analyst Corner, available at [weitz.investments/analystcorner](http://weitz.investments/analystcorner).

We eliminated our remaining small energy holdings during the quarter. We sold Pioneer Natural Resources at a healthy gain as crude oil prices rebounded into the \$60s per barrel. We also liquidated Range Resources at a loss. While natural gas investments generally have been challenging, our sell decision was sealed by poor drilling developments at the recently acquired Memorial Resource properties. In retrospect, the large acquisition was an ill-advised use of capital for a company with a less-than-pristine balance sheet. On a brighter front, we sold our Twenty-First Century Fox holdings at significant gains after Disney agreed to acquire the company at a price that validated our team's valuation work.

As we described last quarter, we like the makeup of this portfolio. First and foremost, our collection of businesses is priced more reasonably than it has been in several years. Here are a few more specific reasons for optimism:

- Nearly thirty percent of the Fund is invested in solid businesses that our team thinks are simply mispriced. We have well-researched variant views, and we are aligned with managements that we expect to create and capture value. We believe these stocks have 50% upside potential over the next few years, regardless of how the broader market behaves. Examples include Liberty Broadband, Allergan and Liberty Global.
- Thirty-five percent of the Fund is invested in high-quality, durable companies with an excellent chance of being worth significantly more in five years. These stocks provide ballast and peace of mind in an uncertain investing world. We expect to win largely by not losing, with most of the return potential coming from compounding value per share. Examples include Berkshire Hathaway, Visa and Texas Instruments.
- Over fifteen percent of the Fund is invested in moderately cheap, bread-and-butter-type companies. The return potential from this bucket is above average, especially on a relative basis if the market takes a breather. Examples include Oracle, Axalta Coating Systems and Redwood Trust.
- Five percent of the Fund is invested in opportunistic stocks as we do not think now is the time to be taking significant operating or financial risks. These companies represent mostly "return-to-par" stories, as opposed to deeper turnarounds. DXC Technology is an example in this category, and Tupperware Brands is a more recent addition.
- Finally, just shy of fifteen percent of the Fund is comprised of residual cash. As serious volatility surfaces, we have the resources to quickly buy 3-5 new positions from the on-deck list. While we have been conservative for the past several years, this option is worth **a lot** when dislocations occur.

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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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We think the Fund has an all-weather blend of return drivers and risk cushions, wrapped in a concentrated package of 26 stocks. Over the right time horizon, we believe that strong stock picking should fare well in an increasingly thematic, ETF-driven world. In the short term, Ben Graham's concept of the "voting machine" will continue to oscillate wildly. In the long run, though, his "weighing machine" will always carry the day. While no amount of analytics can prove it or convince skeptics, we like our chances against this latter standard, as we have for nearly 35 years.

Quarterly Top Performers (%)	Return	Average Weight	Contribution	Quarterly Bottom Performers (%)	Return	Average Weight	Contribution
Mastercard Inc.-Class A	15.91	3.19	0.43	Colfax Corp.	-19.49	2.80	-0.55
Twenty-First Century Fox, Inc.-Class A	6.77	0.88	0.27	Liberty Global plc-Class C	-10.08	6.19	-0.52
Visa Inc.-Class A	5.09	5.14	0.23	Liberty Latin America Ltd.-Class C	-10.75	2.18	-0.26
Redwood Trust, Inc.	6.27	3.03	0.19	Wells Fargo & Co.	-13.10	1.93	-0.25
FLIR Systems, Inc.	7.63	1.30	0.17	Allison Transmission Holdings, Inc.	-8.96	2.88	-0.25

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 and Investor Class for the one-, five- and ten-year periods ended March 31, 2018, were 4.55%, 6.36%, 8.13% and 4.28%, 6.19%, 8.04%, 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 1.07% (gross) and 1.27% 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 3000 indices for the one-, five- and ten-year periods ended March 31, 2018, were 13.99%, 13.31%, 9.49% and 13.81%, 13.03%, 9.62%, 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<sup>®</sup> is an unmanaged index consisting of 500 companies generally representative of the market for the stocks of large-size U.S. companies. The Russell 3000<sup>®</sup> Index measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market. Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indices. Russell<sup>®</sup> is the trademark of Russell Investment Group.

As of March 31, 2018: Allergan plc comprised 4.1% of Partners Value Fund's net assets; Allison Transmission Holdings, Inc. 2.8%; Axalta Coating Systems Ltd. 2.1%; Berkshire Hathaway Inc.-Class B 9.5%; CarMax, Inc. 1.0%; Colfax Corp. 2.9%; Discovery Communications, Inc.-Class C 2.1%; DXC Technology Co. 1.7%; FLIR Systems, Inc. 1.1%; GCI Liberty, Inc.-Class A 0.8%; Liberty Broadband Corp.-Series A & C 9.3%; Liberty Global plc-Class C 5.5%; Liberty Latin America Ltd.-Class C 2.1%; Mastercard Inc.-Class A 3.4%; Oracle Corp. 3.1%; Redwood Trust, Inc. 3.3%; Texas Instruments, Inc. 3.0%; Tupperware Brands Corp. 1.5%; Visa Inc.-Class A 5.3%; Wells Fargo & Co. 1.8%. 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.**