Short Duration Income Fund

1Q 2018 Quarterly Commentary

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

The Short Duration Income Fund's Institutional Class returned -0.28% in the first calendar quarter compared to a -0.20% return for the Bloomberg Barclays 1-3 Year U.S. Aggregate Index (Bloomberg Barclays U.S. Agg 1-3), our Fund's primary benchmark. For the year ended March 31, 2018, the Short Duration Income Fund's Institutional Class returned +0.63% compared to a +0.25% return for the benchmark. The Fund's performance **table** on our website (weitzinvestments.com) shows returns over various holding periods for the Fund, its primary index and the CPI + 1% for comparison purposes.

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 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. Agency MBS holdings continued to decline, driven by prepayments and amortization of principal. While agency MBS have held a

Net Assets (%)

Sector	**3/31/2018**	**12/31/2017**	**3/31/2017**
Corporate Bonds	38.5	38.3	43.5
Corporate Convertible Bonds	5.5	5.3	4.0
Asset-Backed Securities	9.3	8.6	5.7
Commercial Mortgage-Backed Securities (CMBS)	0.8	0.4	0.8
Agency Mortgage-Backed (MBS)	11.9	12.3	14.7
Non-Agency Mortgage Backed (MBS)	4.3	4.5	3.1
Taxable Municipal Bonds	0.4	0.4	0.4
U.S. Treasury	26.6	25.7	24.7
Common Stocks	0.8	0.7	1.1
Cash & Equivalents	1.9	3.8	2.0
Total	**100.0**	**100.0**	**100.0**
High Yield*	**10.6**	**10.8**	**9.8**

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

prominent position in Fund allocations over the years, we believe the current risk/return profile is unattractive.

As of March 31, our high-yield exposure was approximately 11%, unchanged from December 31 (our maximum threshold is 15%). Our high-yield exposure continues to be concentrated in primarily higher-quality, shorter-term bonds that we believe have attractive risk/reward profiles.

Overall portfolio metrics as measured by average maturity and average effective duration changed modestly compared to a year ago. The average effective maturity declined to 2.1 years from 2.2 years, and the average effective duration declined to 1.9 years from 2.0 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).

Fiscal Year Contributors

- The corporate bond segment was the largest contributor to results in the fiscal year, as strong coupon income and declining credit spreads offset modest (unrealized) price depreciation from rising interest rates. Primary contributors included the real estate investment trust (REIT), banks and consumer, non-cyclical segments.
- 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 limited price volatility during the quarter.

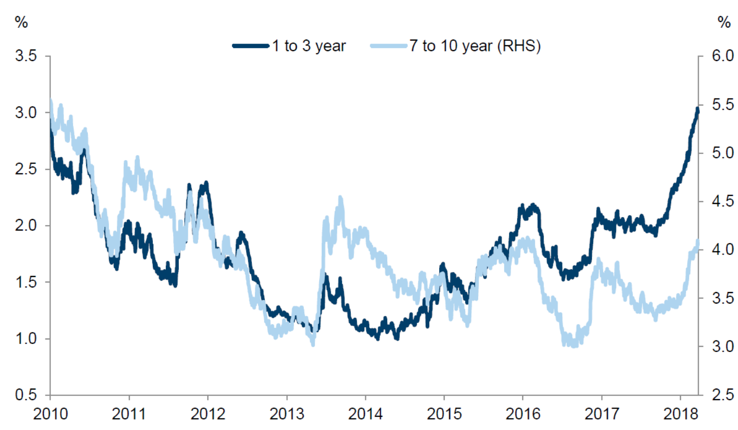
Fiscal Year Detractors

- Select U.S. Treasury bonds. As yields generally rose, prices declined during the year. Longer maturity bonds (particularly those greater than 5 years) experienced the largest price declines. The Fund's Treasury holdings primarily consist of shorter-term securities with an average maturity of slightly under 2½ years.

First Quarter Investment Activity

New investment activity was weighted toward shorter duration corporate bonds (under 3 years) to replace maturing securities, U.S. Treasuries, and 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 continuing to climb on the back of Fed rate hikes, we are achieving higher yields on these shorter-term investments without taking significant incremental credit risk. Corporate bond purchase examples include American Express, Bank of America, Berkshire Hathaway Finance Corp., Capital One Bank, Dominion Energy, Met Life and Morgan Stanley.

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. An important investment implication, though, for short-duration investors, like our Fund, is that the prospect for future returns has meaningfully improved since the starting yield, or coupon return, is a key driver for forward returns.



Source: Haver Analytics, Goldman Sachs Global Investment Research

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.

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. Noteworthy is our

Fund's maturity distribution and defensive positioning with respect to interest rates: nearly 73.6% of the Fund's net assets mature in less than three years, with approximately 24.6% maturing in less than one year.

Fund Strategy

Our approach consists primarily of investing in a portfolio of mostly high-quality, short- to intermediate-term bonds with an overall portfolio average duration of 1 to 3½ years, where we believe we can capture most of the "coupon" returns of long-term bonds with less interest rate risk. We do not and will not try to mimic any particular index as we construct our portfolio.

We may invest in fixed income-related investments that are not considered "investment grade" but have favorable risk/reward characteristics (such as high-yield and convertible bonds, preferred and convertible preferred stock). A small percentage of Fund assets may also be invested in high-dividend-paying common stocks, such as longtime Fund holding Redwood Trust. These types of investments have generally enhanced our long-term returns.

We believe our flexible mandate will benefit shareholders over the long term as we seek out potentially mispriced securities and select portfolio assets one security at a time based on our view of opportunities in the marketplace. Our fixed income research is not dependent upon but often benefits from the work our equity teammates conduct on companies and industries in the course of their due diligence.

Overall, we strive to be adequately compensated for the risks assumed in order to maximize investment (or reinvestment) yield and avoid making interest rate "bets," particularly ones that depend on interest rates going down.

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-, five- and ten-year periods ended March 31, 2018, were 0.63%, 1.25%, 2.87% and 0.44%, 1.03%, 2.72%, 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 0.62% (gross) and 0.93% (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 0.48% and 0.68%, respectively, of each Class's average daily net assets through July 31, 2018.

Investor Class shares became available for sale on August 1, 2011. For performance prior to that date, returns include the actual performance of the Fund's Institutional Class (and use the actual expenses of the Fund's Institutional Class), without adjustment. For any such period of time, the performance of the Fund's Investor Class would have been similar to the performance of the Fund's Institutional 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 Bloomberg Barclays 1-3 Year U.S. Aggregate Index for the one-, five- and ten-year periods ended March 31, 2018, were 0.25%, 0.78% and 1.69%, 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 1-3 Year U.S. Aggregate Index is generally representative of the market for investment grade, U.S. dollar denominated, fixed-rate taxable bonds with maturities from one to three years.

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.