

Partners III Opportunity Fund

4Q 2017 Quarterly Commentary



Investment Style: Multi-Cap Alternative
Portfolio Manager: Wally Weitz, CFA

The Partners III Opportunity Fund's Institutional Class returned -2.39% in the fourth calendar quarter compared to +6.64% for the S&P 500 and +6.34% for the Russell 3000 indices. For the 2017 calendar year, the Partners III Opportunity Fund's Institutional Class returned +5.45% compared to +21.83% for the S&P 500 and +21.13% for the Russell 3000.

A challenging fourth quarter capped a disappointing calendar year on both an absolute and relative basis. The Fund holds short positions in broad market indices, the proceeds from which are generally used to add to our highest-conviction long ideas that we believe have the potential for greater-than-market appreciation. When successful, this strategy can generate additional return without adding to our net investment exposure. A natural consequence, however, is that the stronger the return of the underlying market index or indices, the greater the headwind to performance (absolute and relative).

Markets were strong indeed, as investors continued to purchase stocks against the backdrop of low interest rates, low inflation, and finally in the fourth quarter, signed legislation to lower corporate taxes. As a result, our "basket" of shorts against ETFs that track the Russell 2000 (+2% Q4, +15% 2017), S&P 500 (+7% Q4, +22% 2017) and Nasdaq 100 (+7% Q4, +33% YTD) indices was the largest detractor to Fund performance for both periods. We can't predict what the market will do, but with tax reform now in the rearview mirror and the Federal Reserve looking to push short-term interest rates higher, we anticipate that individual company fundamentals and valuation may carry more weight in investors' minds in 2018.

**Looking forward to 2018,
we would not presume to predict
what the stock market will do,
but we feel good about the stocks
we own.**

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Berkshire Hathaway (+8% Q4, +22% 2017) and Mastercard (+7% Q4, +48% 2017) were top contributors for both the fourth quarter and calendar year. Berkshire, the Fund's largest holding, continues to execute well across its various insurance, railroad, utility and manufacturing businesses, driving a healthy increase in our estimate of business value in the process. Mastercard and our smaller investment in Visa (+9% Q4, +47% 2017) were clear beneficiaries of investors' desire to own businesses with long runways of secular growth. Texas Instruments (+17% Q4), another top contributor in the quarter, beat expectations on the back of continued strong growth in their core markets and solid execution that expanded profit margins and issued guidance for the fourth quarter that was modestly ahead of consensus. Rounding out the calendar year "Honor Roll" was Liberty Ventures (+47% 2017), whose shares positively inflected upon their announced acquisition of Alaskan cable and wireless provider GCI Communications and the underlying performance of its investment in Liberty Broadband.

In addition to our short positions, Allergan (-20% Q4, -21% 2017) was a top detractor in both the quarter and calendar year. Shares fell during the quarter as patents for its dry eye treatment Restasis were invalidated in federal court. After incorporating the earlier-than-expected loss of Restasis profits, we made a downward revision to our business value estimate. Nevertheless, we believe Allergan's share price decline has overshot reality, and it continues to trade at a significant discount. Liberty Broadband (-11% Q4) and Wesco Aircraft (-51% 2017) also were top detractors for the quarter and year, respectively. Liberty Broadband saw its investment in Charter Communications (-8% Q4) decline when the company surprised investors with larger-than-expected video losses and slower growth in broadband customers. We remain confident in management's playbook to integrate and realize value from the combinations with Time Warner Cable and Bright House Networks. Wesco remains in the depths of a difficult turnaround. Results for their recently completed quarter were again disappointing, and despite new management's guidance for revenue and EBITDA growth in the coming year, investors are reluctant to take them at their word. We underestimated the complexity of the required turnaround, but we are encouraged by signs of incremental progress and believe shares currently trade at an attractive discount to our reset expectations.

Our lone portfolio addition, Amazon.com, requires little introduction. Amazon has built an unassailable global competitive advantage in its core retail business, and we believe it will continue to gain worldwide retail (not just e-commerce) market share for many years to come. In addition, Amazon Web Services has also built a significant share in the large and rapidly growing "infrastructure as a service" market. We foresee Amazon's unique technical capabilities, global scale and culture of customer obsession will allow the company to grow its business value for many years. In the quarter, we also continued to build our initial position in Danaher. On the sale side, we closed our position in Wells Fargo as shares recovered from recent customer woes and investors forecast a friendlier regulatory environment, sold our remaining shares of CommerceHub, and trimmed our holdings of QVC Group.

During the fourth quarter, our long exposure increased by roughly 2.5 percentage points to 94% of net assets. We closed our short position in the iShares Russell 2000 ETF, resulting in an unchanged short exposure of 32% at year end. The Fund's effective net long position was 62% of net assets at year end (rounded to the nearest percentage point.)

| Quarterly Top Performers (%) | Return | Average Weight | Contribution | Quarterly Bottom Performers (%) | Return | Average Weight | Contribution |
|--|--------|----------------|--------------|--------------------------------------|--------|----------------|--------------|
| Berkshire Hathaway Inc.-Class B | 8.13 | 11.19 | 0.88 | SPDR S&P 500 ETF Trust | 6.76 | -19.18 | -1.26 |
| Texas Instruments, Inc. | 17.26 | 4.12 | 0.64 | Liberty Broadband Corp.-Series A & C | -10.48 | 10.29 | -1.14 |
| Mastercard Inc.-Class A | 7.36 | 6.58 | 0.45 | Allergan plc | -19.87 | 4.76 | -1.05 |
| Discovery Communications, Inc.-Class A | 5.16 | 1.77 | 0.37 | PowerShares QQQ Trust, Series 1 | 7.31 | -11.26 | -0.78 |
| Alphabet, Inc.-Class C | 9.10 | 4.05 | 0.34 | Wesco Aircraft Holdings, Inc. | -21.28 | 2.53 | -0.60 |

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 Institutional Class for the one-, five- and ten-year periods ended December 31, 2017, were 5.45%, 7.62% 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 1.80% of the Fund's Institutional. 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 S&P 500 and the Russell 3000 indices for the one-, five- and ten-year periods ended December 31, 2017, were 21.83%, 15.79%, 8.50% and 21.13%, 15.58%, 8.60%, 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® 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® 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® is the trademark of Russell Investment Group.

Effective Net Long means (i) the sum of a portfolio's long positions (such as common stocks, or derivatives where the price increases when an index or position rises), minus (ii) the sum of a portfolio's short positions (such as, derivatives where the price increases when an index or position falls).

As of December 31, 2017: Allergan plc comprised 4.5% of Partners III Opportunity Fund's net assets; Alphabet, Inc. (Parent of Google)-Class C 4.3%; Amazon.com, Inc. 0.9%; Berkshire Hathaway Inc.-Class B 12.0%; Danaher Corp. 1.0%; Discovery Communications, Inc.-Class A 1.6%; Liberty Broadband Corp.-Series A & C 10.1%; Liberty Ventures Group-Series A 4.9%; Mastercard Inc.-Class A 6.9%; PowerShares QQQ Trust-Series 1 -11.8%; QVC Group-Series A 2.0%; SPDR S&P 500 ETF Trust -20.2%; Texas Instruments, Inc. 4.3%; Visa Inc.-Class A 3.9%; Wesco Aircraft Holdings, Inc. 2.5%. 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.