

Partners III Opportunity Fund

3Q 2018 Quarterly Commentary



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

The Partners III Opportunity Fund's Institutional Class returned +4.60% in the third calendar quarter compared to +7.71% for the S&P 500 and +7.12% for the Russell 3000. For the calendar year to date, the Partners III Opportunity Fund's Institutional Class returned +7.48% compared to +10.56% for the S&P 500 and +10.57% for the Russell 3000.

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. We purchased initial positions in two such businesses during the third quarter: Summit Materials and Charles Schwab Corp.

Summit is a supplier of construction materials, including aggregates, cement, ready mix concrete and asphalt paving mix. 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 build an initial position. Charles Schwab, the eponymously named discount brokerage and bank, continues to win market share from major banks and traditional brokers, thanks to their innovative and low-cost platforms built for individuals and investment advisors alike. Client asset growth begets greater scale, and Schwab consistently passes those benefits back to consumers through lowered costs, creating a virtuous cycle of growth in both business value and customers.

Berkshire Hathaway (+15%) and Liberty Broadband (+11%), our two largest positions, were our top contributors this quarter. Berkshire reported strong second quarter results, and investors cheered the news that the company's board had granted Buffett and Munger greater latitude in the company's buyback program. Sentiment has also improved for U.S. cable stocks after solid second quarter results. Additionally, Liberty Broadband rose as investors began to look past a multi-year investment period at Charter, anticipating much-improved cash flow growth. Allergan (+15%) shares were also a top performer, as healthcare stocks were generally strong in the quarter. Allergan also hosted its first-ever Medical Aesthetics Investor Day, showcasing the company's core growth engine.

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

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Facebook (-15%) and Tupperware Brands (-17%) were the top detractors from our long equity holdings. Facebook continues to wrestle with critically important topics such as privacy, trust and authenticity. We acknowledge these are difficult issues, and progress will likely be slow and nuanced. Nevertheless, users have stuck with the platform, and the incredibly valuable advertising platform that Facebook has built remains intact. 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. There's plenty of uncertainty surrounding when these headwinds will abate. But 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. To reiterate a point from this quarter's shareholder letter, we are mindful of the challenges such "deep value" opportunities pose (just as buying a wonderful business at too high a price creates challenges of a different sort), and we will size the position accordingly. Nevertheless, there are many ways to apply a value investing philosophy, and our portfolio approach affords us the flexibility to act on different kinds of opportunities.

Collectively, the Fund's short positions against ETFs tracking the S&P 500 (+8%) and the Nasdaq 100 (+8%) indices were the largest detractor to performance. During the quarter, we modestly trimmed back both positions, leaving the Fund's short exposure relatively unchanged at 30% of net assets. Activity within our long portfolio included a number of buys and sells. In addition to Summit and Schwab, we continued to build our initial position in Marvell Technology. We completed the sale of our XO Group shares (as described last quarter) and closed small positions in Oracle and Danaher. The net impact leaves the Fund's effective net long position at 66% of net assets, unchanged from last quarter, and up modestly from 62% of net assets at the beginning of the year.

Quarterly Top Performers (%)	Return	Average Weight	Contribution	Quarterly Bottom Performers (%)	Return	Average Weight	Contribution
Berkshire Hathaway Inc.-Class B	14.71	12.50	1.71	SPDR S&P 500 ETF Trust	7.65	-21.48	-1.61
Liberty Broadband Corp.-Series A & C	11.41	9.54	1.07	Invesco QQQ Trust, Series 1	8.43	-7.92	-0.65
Allergan plc	14.70	4.50	0.67	Facebook, Inc.-Class A	-15.37	2.78	-0.47
Mastercard Inc.-Class A	13.42	5.25	0.66	Tupperware Brands Corp.	-17.19	1.85	-0.37
Intelligent Systems Corp.	21.91	3.97	0.65	Summit Materials, Inc.-Class A	-30.74	0.70	-0.17

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 September 30, 2018, were 4.91%, 4.39% and 10.67%, 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 1.63% 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 September 30, 2018, were 17.91%, 13.95%, 11.97% and 17.58%, 13.46%, 12.01%, 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 September 30, 2018: Allergan plc comprised 4.1% of Partners III Opportunity Fund's net assets; Berkshire Hathaway Inc.-Class B 13.1%; The Charles Schwab Corp. 1.1%; Facebook, Inc.-Class A 2.5%; Intelligent Systems Corp. 3.7%; Invesco QQQ Trust, Series 1 -8.0%; Liberty Broadband Corp.-Series A & C 10.1%; Marvell Technology Group Ltd. 1.8%; Mastercard Inc.-Class A 5.6%; SPDR S&P 500 ETF Trust -21.8%; Summit Materials, Inc.-Class A 1.4%; Tupperware Brands Corp. 1.3%. 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.