

Partners III Opportunity Fund

1Q 2018 Quarterly Commentary



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

The Partners III Opportunity Fund's Institutional Class returned +1.80% in the first calendar quarter compared to -0.76% for the S&P 500 and -0.64% for the Russell 3000 indices. For the fiscal year, the Fund's Institutional Class returned +2.01% compared to +13.99% for the S&P 500 and +13.81% for the Russell 3000. The recent bout of market volatility proved a more constructive backdrop for the Fund's strategy, generating positive absolute and relative results, and closed an otherwise challenging fiscal year (for us, and value investors, generally) on a more positive note.

Payment networks Mastercard and Visa, Berkshire Hathaway, analog semiconductor maker Texas Instruments and the recently created GCI Liberty (formed through the combination of Liberty Ventures and Alaskan telecommunications provider GCI) were top contributors to Fund performance in the fiscal year. The strong equity market performance during the first nine months of our fiscal year (April–December 2017) worked against the Fund's short positions. Despite the modest reversal last quarter, our shorts against ETFs that track the S&P 500 and the Nasdaq 100 were the largest detractors to performance for the fiscal year. On the long side of the ledger, Allergan, Liberty Global and Colfax Corp were also detractors to fiscal year results. We remain confident in their prospects and believe current price levels represent compelling investment opportunities.

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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After three straight quarters of not just strong, but accelerating, positive returns, the market's steady ascent has been interrupted by a bout of turbulence. Periods of volatile stock prices are not unusual, though investors' experience in 2017 lulled many into a false sense of security. Indeed, one such catalyst for the current turmoil was the meltdown of ETFs that allowed investors to bet on continued market calm by shorting the VIX Index (a commonly used benchmark for expected market volatility.)

Not surprisingly, we've tried to capitalize on the current turmoil by initiating four new positions. CarMax is a national retailer of used cars, with a strong track record in both its sales and auto financing business. Markel is a widely respected specialty insurance carrier paired with a differentiated investment operation led by fellow value investor Tom Gayner. Tupperware Brands is a global direct seller of kitchen and housewares business trading with an attractive free cash flow yield. Finally, enterprise software and hardware provider Oracle returns to the portfolio after a multi-year hiatus. These purchases were partially offset by some selling, mostly during January's rally. The Fund also closed its modest position in Amazon on the stock's continued strength. Subsequent to our sale, Amazon has landed in some political hot water, though we expect CEO Jeff Bezos and company to deftly navigate any potential regulatory changes. At the right price, we'd gladly add Amazon back to our portfolio.

During the first quarter, the Fund's effective net long position remained generally unchanged from last quarter at approximately 61%. During the quarter, we covered a portion of the Nasdaq short position, resulting in lowered short exposure of 29%. The Fund's long exposure was at 90% of net assets at quarter end.

We use the proceeds from our market index shorts to concentrate further in our highest-conviction long ideas; investments that we believe have the potential to outperform said index (not just a hot sector or specific subset of its constituents.) That said, much has been made of the so-called FAANG stocks (Facebook, Amazon, Apple, Netflix and Alphabet's Google—stodgy old Microsoft deserves an honorable mention, too) and their outsized contributions to various index returns. As a result, our S&P 500 and Nasdaq 100 shorts mean we are short the FAANGs, too. However, there's more behind the scenes than just that; our short portfolio skews toward the S&P 500 (~70%), while our Nasdaq 100 short makes up the remainder (~30%) of the book. These indices have dramatically different weightings of the FAANG complex: roughly 11.5% for the S&P versus approximately 36.5% for the Nasdaq 100. Arithmetic suggests a simplified "look through" FAANG short of roughly 5% of assets. Portfolio context matters, however, and this simplified exercise ignores our long positions in FAANG member Alphabet (over 4%) as well as our broader Technology holdings. On a relative basis, these long positions outperformed the S&P 500's sector performance this fiscal year.

Investors' enthusiasm for the FAANGs has waned as regulatory and political pressures mount, and volatility, at least for now, appears the order of the day. We don't know how long these trends will last but believe that periods like these are more constructive for the long-term oriented, value-minded investor, and we remain on the hunt for opportunities to put capital to work. We appreciate the opportunity to invest with you.

Quarterly Top Performers (%)	Return	Average		Quarterly Bottom Performers (%)	Return	Average	
		Weight	Contribution			Weight	Contribution
Wesco Aircraft Holdings, Inc.	38.51	2.55	0.89	Liberty Global plc-Class C	-10.08	8.17	-0.79
Mastercard Inc.-Class A	15.91	4.76	0.75	Colfax Corp.	-19.49	3.37	-0.69
Amazon.com, Inc.	23.76	0.92	0.30	PowerShares QQQ Trust, Series 1	2.98	-9.84	-0.41
Redwood Trust, Inc.	6.27	4.17	0.28	Liberty Latin America Ltd.-Class C	-10.75	1.35	-0.13
GCI Liberty, Inc.-Class A/Liberty Ventures Group-Series A*	-1.75	2.86	0.22	Discovery Communications, Inc.-Class C	-7.79	1.66	-0.13

*GCI Liberty spun-off from Liberty Ventures during the quarter.

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 March 31, 2018, were 2.01%, 5.24% and 9.09%, 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 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® 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 March 31, 2018: Allergan plc comprised 5.1% of Partners III Opportunity Fund's net assets; Alphabet, Inc. (Parent of Google)-Class C 4.3%; Berkshire Hathaway Inc.-Class B 12.2%; CarMax, Inc. 1.4%; Colfax Corp. 3.3%; Discovery Communications, Inc.-Class C 1.5%; GCI Liberty, Inc.-Class A 1.9%; Liberty Global plc-Class C 7.7%; Liberty Latin America Ltd.-Class C 1.1%; Markel Corp. 0.5%; Mastercard Inc.-Class A 7.7%; Oracle Corp. 0.7%; PowerShares QQQ Trust, Series 1 -8.6%; Redwood Trust, Inc. 4.6%; SPDR S&P 500 ETF Trust -20.1%; Texas Instruments, Inc. 2.8%; Tupperware Brands Corp. 1.1%; Visa Inc.-Class A 4.1%; Wesco Aircraft Holdings, Inc. 3.0%. 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.