Moderate Allocation

2Q 2017 Quarterly Commentary

Portfolio Manager: Brad Hinton, CFA

The Moderate Allocation Strategy returned +2.76% (gross of fees), +2.48% (net of fees) in the second calendar quarter, compared to +2.23% for the Blended Index (60% S&P 500 and 40% Bloomberg Barclays Intermediate U.S. Government/Credit).

After a few years in the informative but dry "company capsule" desert, we are returning to our roots with a more expansive discussion section in our Quarterly Commentary. While our aim is to inject more "voice" back into our quarterly updates, we'll stop short of promising the "The Freewheelin' Brad Hinton" every quarter.

With a nod to Bob Dylan and his seminal 1963 album, the refrain of most equity investors seems to be "Don't Think Twice, It's All Right." Sentiment is not euphoric, but complacency and feel-good stories are the norm. Amid the eerily calm investing waters, others warn that sooner or later "A Hard Rain's A-Gonna Fall." Valuations are not cheap, the world is full of real and potential problems, and the Treasury bond market hints that clouds may be on the horizon. Which camp is right? It's too pat to suggest that the answer is "Blowin' in the Wind" or that we'll learn more "Down the Highway." But the reality is that nobody really knows.

The good news is that we don't need to know. We apply a balanced, common sense approach to any investing environment. Our diversified mix of stocks and bonds provides more upside potential than our fixed income offerings, with a little less "edge" than our equity strategies. Our primary investment objectives are long-term capital appreciation and capital preservation. A secondary investment objective is current income. As any saver knows, income has been especially hard to come by under the Fed's extended low interest rate regime. Most of the Strategy's return over the past five-plus years has come from equity price appreciation. The same is likely to hold over the next five years, though we are mildly encouraged by recent "green shoots" on the income front.

The Strategy's positioning remains relatively conservative, both in what we own and how much of it we own. We hold equity stakes in 26 companies. The overwhelming majority are what we call compounders, businesses that can grow per share value at healthy rates through the economy's inevitable ups and downs. Examples include Visa, Thermo Fisher Scientific, Comcast, Praxair and Texas Instruments. We own a smaller number of opportunistic investments that we believe are temporarily mispriced. Compass Minerals is one example, where a snowy winter for their salt business may be all it takes to help close the gap between price and value.

> The raw material for triggering market volatility is in place, and we are looking forward to taking advantage of it.
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> **Click to Read Value Matters: 2Q17 Letter to Investors**

We also own corporate bonds issued by 26 companies. The incremental return for taking credit risk is low (i.e., spreads are tight), so we have focused on short-dated bonds with an average life of less than two years. We are essentially lending money to these companies, so like your local banker, our first and most important question is, "Are you going to pay us back?" Our goal has been to assemble a portfolio of bonds that our team assesses to be "money good" with very high probability, even if the economy wobbles. Treasury notes and bills round out the portfolio, providing more ballast. Here too our average life is less than two years, so we are not bearing much interest rate risk for the paltry rewards on offer. This last bucket provides ample firepower for taking additional measured risks when potential returns are acceptable.

It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities in this list. The holdings identified do not represent all of the securities purchased, sold or recommended for Weitz Inc.'s advisory clients. You may reach Weitz Inc. at 1125 S 103rd Street, Suite 200, Omaha NE 68124, at 800-304-9745 or at weitzinvestments.com.

Investors should consider carefully the investment objectives, risks and charges and expenses of the Strategy before investing. ***Performance data represents past performance, which does not guarantee future results.*** *Portfolio composition is subject to change at any time. Current and future portfolio holdings are subject to risk.*

Performance information in this letter is the weighted-average performance of accounts managed by Weitz Investment, Inc. ("Weitz Inc.") under its Moderate Allocation Strategy (the "Strategy"). All other portfolio holdings information is for a particular "Representative Account" in the Strategy.

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 Blended Index blends the S&P 500® with the Bloomberg Barclays Intermediate U.S. Government/Credit Index by weighting their total returns at 60% and 40%, respectively. The portfolio is rebalanced monthly.