

Multi-Cap Alternative

2Q 2017 Quarterly Commentary



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The Multi-Cap Alternative Strategy returned +0.98% (gross of fees), +0.59% (net of fees) during the second calendar quarter, compared to +3.09% for the S&P 500 and +3.02% for the Russell 3000.

Although the Strategy delivered positive absolute returns in the second quarter, our conservative positioning continues to restrain performance relative to the indices. We believe that stocks (and bonds) remain expensive, and we have been unwilling to chase the handful of stocks driving the indices higher. Nevertheless, against a backdrop of continued strong index returns, the Strategy's short positions in ETFs tracking the S&P 500 (+3%), Nasdaq 100 (+4%), and Russell 2000 (+3%) collectively represent the largest detractor to quarterly performance. Among our long positions, we also experienced pressure from Liberty Global's European tracking stock (-11%) as investors grew increasingly frustrated by inconsistent near-term operating performance, particularly execution of its new build plans at U.K. subsidiary Virgin Media. We remain confident in Liberty's management and long-term strategy and believe its shares more than discount near-term operating woes.

Liberty Ventures (+18%), one of the more complicated members of John Malone's Liberty family, is a top ten holding of the Strategy and was the quarter's top contributor. During the quarter, Ventures announced an agreement to acquire General Communications (GCI), the largest cable provider in Alaska. The deal will also create a much more straightforward company, principally cable assets in Alaska and shares of publicly traded Charter Communications and Liberty Broadband. Investors immediately cheered this simplification, particularly the elimination of its tracking stock structure, and bid Ventures' shares higher. While a positive first step, we are further encouraged by the flexibility the new company will have to ultimately realize the value of its holdings in Charter and Liberty Broadband. QVC Group (+23%) delivered strong gains as signs emerged of operating improvements in QVC's U.S. operations (where a slowdown previously triggered a significant stock price decline in the second half of 2016). And, as Ventures' tracking stock sibling, investors were similarly pleased by the proposed elimination of QVC's tracking stock structure. Finally, perceived takeover potential at Interval Leisure Group (+32%) led to its shares trading above our business value estimate, leading us to close our position.

As might be expected, in a period of elevated valuations, the Strategy has been a net seller of equities. Overall, our long exposure declined modestly to 86% of net assets during the quarter, while our short exposure declined slightly less to 32% of net assets. Our Effective Net Long position at quarter end was 54%, a decline of two percentage points.

In addition to exiting Interval Leisure, we also closed our position in Twenty-First Century Fox. Media companies in general have seen heightened volatility as investors wrestle with the proliferation of entertainment options available to today's consumer. In this rapidly changing environment, we have greater conviction that cable providers, given their ability to offer broadband Internet service, have a stronger hand to play—and the cable industry represents a significant portion of the Strategy's invested assets. Thus, as Fox shares recovered from recent declines, we elected to close the position. The Strategy also eliminated a small position in National CineMedia. Valuation also drove trims of Liberty Expedia Holdings and Redwood Trust.

We redeployed a portion of these proceeds into LabCorp and Visa. Although not exceedingly cheap at current prices, we believe the long-term outlook for these business value "compounders" remains solid. We also initiated a new position in IT consultancy DXC Technologies. We believe the stock price does not appropriately reflect the opportunity for management to rationalize its recent purchase of Hewlett-Packard's Enterprise Service business, and that even at modest multiples of improved earnings a few years out, there is potential for a profitable trade.

Our estimated price-to-value (P/V) of the Strategy's long holdings remains in the mid-upper 80% range, somewhat higher than usual. Nevertheless, we are encouraged by owning solid businesses that continue to grow their business values. Any amount of caution (even if seemingly warranted) has lately been counterproductive to returns. That said, the raw material for triggering market volatility is in place, and we look forward to taking advantage of it.

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*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 Multi-Cap Alternative 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 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).