

A Defensive Stand

On February 25, 2021, the U.S. bond market experienced its biggest one-day selloff since the COVID-19 uproar of March 2020. Robust fiscal and monetary stimulus coupled with positive vaccination news has fueled optimism for strong economic growth as well as concern for rising inflation expectations. And while the Federal Reserve has not indicated any tapering to quantitative easing (QE) or potential rate hikes, the current selloff in U.S. Treasuries marks one of the five largest in the last 25 years.

The cause of the chaos notwithstanding, we believe it highlights two important facts: (1) Fed tightening is not a prerequisite for bond bear markets and (2) starting valuation matters, even when the Fed is engaged in QE. Such environments help demonstrate one of our fundamental principles of fixed income investing: **a good defense is the best offense**. Our investment philosophy and process are defined by constructing portfolios one security at a time, sector by sector, based on what we believe are the best risk/reward opportunities available to us. In practice, this results in the active management of every aspect of our portfolio, including duration (a measure of a bond's sensitivity to interest rate risk).

The Weitz Core Plus Income Fund has now been through two of the five largest selloffs in U.S. Treasuries over the last 25 years. In both cases, given our view of risk (duration) relative to reward (yield), we constructed our portfolio with materially shorter duration than the Bloomberg Barclays U.S. Aggregate Bond Index. As you can see below, the Weitz Core Plus Income Fund's relative performance demonstrates that active managers can help investors navigate a rising interest rate environment through a disciplined approach to balancing risk and return.



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U.S. Treasury Selloffs (%)	07/08/2016 – 12/15/2016			08/04/2020 – 02/25/2021		
10-year U.S. Treasury Yield Range	1.36 – 2.60			0.51 – 1.52		
10-year U.S. Treasury Yield Increase	+1.24			+1.01		
Cumulative Return (%)	07/08/2016 – 12/15/2016			08/04/2020 – 02/25/2021		
Core Plus Income Fund-Institutional (WCPBX)	-1.45			1.69		
Bloomberg Barclays U.S. Aggregate Bond Index	-4.28			-3.29		
Relative Performance	+2.83			+4.98		
Average Effective Duration (years)	06/30/2016	09/30/2016	12/31/2016	06/30/2020	09/30/2020	12/31/2020
Core Plus Income Fund-Institutional (WCPBX)	3.5	3.6	3.6	4.7	4.4	4.2
Bloomberg Barclays U.S. Aggregate Bond Index	5.5	5.5	5.9	6.0	6.1	6.2

* Average effective duration provides a measure of a fund's interest-rate sensitivity. The longer a fund's duration, the more sensitive the fund is to shifts in interest rates. Rising interest rates exert downward pressure on bond prices and can lead to bond selloffs.

	Average Annual Total Returns as of 12/31/2020				Net Expense	Gross Expense
	1 YR	3 YR	5 YR	Since Inception (07/31/2014)		
Core Plus Income Fund-Institutional (WCPBX)	10.32%	6.47%	5.94%	4.82%	0.40%	0.80%
Bloomberg Barclays U.S. Aggregate Bond Index	7.51%	5.33%	4.43%	3.88%		

While each selloff comes with its own unique circumstances and causes, they all have one thing in common: nobody can predict exactly when they will begin nor when they will end. Likewise, nobody knows when the next one will happen. Given that we started the year with record low yields across the fixed income marketplace, we believe investors should be extra vigilant of rising inflation and interest rates and the effects they may have on their fixed income portfolios.

IMPORTANT DISCLOSURES

The opinions expressed are those of Weitz Investment Management and are not meant as investment advice or to predict or project the future performance of any investment product. The opinions are current through 03/03/2021, are subject to change at any time based on market and other current conditions, and no forecasts can be guaranteed. This commentary is being provided as a general source of information and is not intended as a recommendation to purchase, sell, or hold any specific security or to engage in any investment strategy. Investment decisions should always be made based on an investor's specific objectives, financial needs, risk tolerance and time horizon.

Data quoted is past performance and current performance may be lower or higher. Past performance is no guarantee of future results. Investment return and principal value of an investment will fluctuate, and shares, when redeemed, may be worth more or less than their original cost. All investments involve risks, including possible loss of principal. Please visit weitzinvestments.com for the most recent month-end performance.

Investment results reflect applicable fees and expenses and assume all distributions are reinvested but do not reflect the deduction of taxes an investor would pay on distributions or share redemptions. Net and Gross Expense Ratios are as of the Fund's most recent prospectus. Certain Funds have entered into fee waiver and/or expense reimbursement arrangements with the Investment Advisor. In these cases, the Advisor has contractually agreed to waive a portion of the Advisor's fee and reimburse certain expenses (excluding taxes, interest, brokerage costs, acquired fund fees and expenses and extraordinary expenses) to limit the total annual fund operating expenses of the Class's average daily net assets through 07/31/2021. The Net Expense Ratio reflects the total annual fund operating expenses of the Fund after taking into account any such fee waiver and/or expense reimbursement, if any; total returns would have been lower had there been no waivers or reimbursements.

Index performance is hypothetical and is shown for illustrative purposes only. You cannot invest directly in an index. The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market.

Portfolio composition is subject to change at any time. Current and future portfolio holdings are subject to risk.

Consider these risks before investing: All investments involve risks, including possible loss of principal. Market risk includes political, regulatory, economic, social and health risks (including the risks presented by the spread of infectious diseases). Changing interest rates may have sudden and unpredictable effects in the markets and on the Fund's investments. The Fund may purchase lower-rated and unrated fixed-income securities, which involve an increased possibility that the issuers of these may not be able to make payments of interest and principal. See the Fund's prospectus for a further discussion of risks.

Investors should consider carefully the investment objectives, risks, and charges and expenses of the Funds before investing. This and other important information is contained in the prospectus and summary prospectus, which may be obtained at weitzinvestments.com.

Weitz Securities, Inc. is the distributor of the Weitz Funds.