VALUE MATTERS

October 1, 2019

Weitz | INVESTMENT MANAGEMENT

Dear Fellow Investor,

Our stock funds registered further gains in the third quarter of 2019, and year-to-date results are very good both in relative and absolute terms. Stock fund returns for the first nine months range from 24.73% for the Partners Value Fund Institutional Class to 27.65% for the Hickory Fund. This compares to 20.55% for the S&P 500. The Balanced Fund Institutional Class, with just under 50% of assets invested in stocks, earned 14.42%. Our fixed income funds have also produced good results, and Tom and Nolan elaborate in their **Fixed Income Insights**.

The performance table below shows results over a number of time periods going back to the firm's founding in 1983. While the most recent numbers are very strong, we always point to the longer time frames as a better indication of the efficacy of our version of value investing. Investment performance does not accrue in a smooth pattern, and the perspective of decades provides a truer picture.

RETURNS AS OF 9/30/19 (%)

			ANNUALIZED				Expense Ratio as of the most recent Prospectus	
	YTD	1-year	5-year	10-year	Since Inception	Inception Date	Gross	Net
Value Fund-Institutional Class[(1)(2)]	25.96	10.10	7.39	11.42	10.28	5/9/86	1.08	0.99
Partners Value Fund-Institutional Class[(1)(2)]	24.73	4.90	4.67	10.16	11.55	6/1/83	1.07	0.99
Partners III Opportunity Fund-Institutional Class	27.60	12.54	5.36	10.96	12.22	6/1/83	-	1.56
Hickory Fund[(3)]	27.65	7.16	5.37	10.45	9.43	4/1/93	-	1.27
Balanced Fund-Institutional Class[(1)]	14.42	7.97	5.63	7.54	5.72	10/1/03	0.97	0.70

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. Please visit weitzinvestments.com for the most recent month-end performance.

Market Commentary

In our April 2, 2019 letter, we discussed the reasons that interest rates have a huge impact on stock and bond prices. In a nutshell, the value of any investment is the price one would pay today to receive more value in the future. Investors, collectively, make estimates of future cash flows for each investment alternative, and "price" those alternatives accordingly. At one end of the risk spectrum, short-term U.S. Treasuries are highly likely to make interest and principal payments on schedule. On the other end, speculative stocks must offer much higher *potential* returns to make up for the risk of failure to pay off. The securities markets offer all of these alternatives at different price levels based on their risk-adjusted expected returns. Generally, when interest rates *fall*, asset prices *rise* because the "sacrifice," or opportunity cost, of postponing receipt of future income is less. The converse is true when rates rise.

This "see-saw" effect (rates down–price up) is simple math, but nothing is so simple in real life. For long-duration assets, like stocks and long-term bonds, future changes in interest rates will continue to affect their prices. The fact that rates are very low today helps explain why investors have bid up asset prices, but this does not mean that the higher prices are immune to future *increases* in rates.

The Fed lowered rates and created liquidity (printed money) in order to deal with the Great Financial Crisis and the resulting recession. Ten years later, the economy has been recovering for some time, and we would have expected interest rates to have moved back up to more "normal" levels. Warren Buffett said recently that five or ten years ago he "could not conceive of a world [like today's] where you would have full employment, 5% budget deficits [and rising] … and have the long [Treasury] bond at [now under] 3%."

European and Japanese central banks have taken monetary policy even further—introducing *negative* interest rates. There are an estimated *$14.8 trillion* principal amount of bonds with negative yields today. By some measures this amounts to over 15% of the global bond market. We can see *how* rates got to negative levels (bond prices pushed so high that they will generate capital losses at maturity that more than offset any coupon interest collected), but it is harder to explain *why* investors are buying "investments" on which they are guaranteed to lose money. Charlie Munger, who never hesitates to point out that the emperor has no clothes, has said, "If you find it [negative rates] puzzling, your brain is working correctly."

VALUE MATTERS

October 1, 2019

Weitz | INVESTMENT MANAGEMENT

Economist Herbert Stein (actor Ben Stein's father) famously said, "If something cannot go on forever, it will stop." We expect the current economic status quo, which Buffett finds untenable, to give way to something different. Our guess is that inflation will pick up and that interest rates will rise, but we have trouble visualizing the path from here to there. We can imagine a number of possible scenarios, none of which involve smooth sailing for stocks (or bonds). History would suggest that *investment* climate change is usually *not* gradual.

Volatility Can Be Our Friend

The prediction above may sound ominous to many of our investors. However, volatility presents opportunities for investors *and businesses*, and we welcome it. For our companies that invest in securities, such as insurance companies Berkshire Hathaway and Markel, lower stock and bond prices represent great buying opportunities.

Several of our companies are buyers of whole businesses, and periods of financial distress can do wonders for expanding their opportunity set of potential acquisitions. Depressed securities prices can also enable companies to buy back their own stock or debt securities. A strong balance sheet and management with the right mix of boldness and prudence can do wonders for increasing business value during tough times.

It is also *possible* that future financial drama will be *good* for stocks. One of the reasons for Europe's economic malaise is that EU policy has been predisposed to fiscal austerity. While monetary policy has been quite liberal, memories of past hyperinflation have made Germans and other European policy makers hesitant to use deficit financing to stimulate their economies. There are signs that this attitude may be changing. If European economies respond to increased government spending and begin to show signs of growth, we might see restored optimism and a virtuous circle of renewed confidence, capital spending, improved trade relations, etc. This scenario would likely mean higher interest rates, but improved prospects for corporate earnings growth could more than offset the impact on P/E ratios.

These are interesting times. While change seems inevitable, there is no reason it has to come soon. We have thought it was overdue for some time, but as British economist John Maynard Keynes said about market timing, "The market can stay irrational longer than you can remain solvent."

On the other hand, investors need to have the right *temperament* to hold on to good stocks when market chaos does occur. Trying to get out before stocks fall, or *because* they are falling, is usually counterproductive and sometimes disastrous. Correctly timing a sale *and subsequent repurchase* is nearly impossible, and the tax and transaction costs involved in trading take a big bite out of long-term results.

The first market crash I [Wally] experienced was as a 13-year-old in 1962, when President Kennedy's showdown with the steel companies over a price increase precipitated a bear market. My ten shares of General Telephone and Electronics fell from $26 to $19. It felt like a tragedy. Within months, though, stocks rebounded and rose to new highs (and allowed for a profitable sale of GTE at $42 ½). It was a good lesson in patience and distinguishing between an emotional market reaction to a seemingly important event and long-term investment results based on growth in the value of a business.

Outlook

Looking ahead to the next few years, what really matters is that we own the right companies and that their stock prices are (at least) reasonable, relative to their underlying business values. Current event noise will push and pull stock prices in both directions, and the latest headline news, impeachment, will add to the cacophony. But business value growth, and paying attention to price/value relationships, will determine our success.

We feel confident that we own a very good collection of businesses. They should be able to manage through whatever economic twists and turns develop. Their stock prices, for the most part, are fair (as opposed to cheap) so we will need to be patient. In the meantime, we are also on the lookout for new, better investment ideas, and we have recently added two new members to our investment team. (Welcome, Amy and Sean!)

In short, the outlook for the years ahead is good, but the path could be a little bumpy. This may be a good time to dust off a piece of advice from a past letter and suggest that investors turn off CNBC (and their favorite flavor of political news shows), and turn on the History Channel.

Best regards,

Wally Weitz
wally@weitzinvestments.com

Brad Hinton
brad@weitzinvestments.com

VALUE MATTERS

October 1, 2019

Weitz | INVESTMENT MANAGEMENT

IMPORTANT DISCLOSURES

Investment results assume all distributions are reinvested and reflect applicable fees and expenses. Returns also include fee waivers and/or expense reimbursements, if any; total returns would have been lower had there been no waivers or reimbursements. The Investment Adviser has agreed in writing to waive its fees 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 for: Value Fund-Institutional Class, 0.99%; Partners Value-Institutional Class, 0.99%; and Balanced Fund-Institutional Class, 0.70% of each Class's average daily net assets through July 31, 2020.

[1]Institutional Class shares of the Value Fund and the Partners Value Fund became available on July 31, 2014. Institutional Class shares of the Balanced Fund became available on March 29, 2019. Performance quoted prior to this date is that of the Fund's Investor Class (reflecting applicable expenses), without adjustment. For any such period of time, the performance of the Fund's Institutional Class would have been similar to the performance of the Fund's Investor Class, because the shares of both classes are invested in the same portfolio of securities, but the classes bear different expenses.

[2]On Dec. 31, 1993, Partners Value Fund succeeded to substantially all of the assets of Weitz Partners II Limited Partnership (the "Partnership"). On Dec. 30, 2005, Partners III Opportunity Fund succeeded to substantially all of the assets of Weitz Partners III Limited Partnership, (the "Partnership"). The investment objectives, policies and restrictions of the Funds are materially equivalent to those of the Partnerships, and the Partnerships were managed at all times with full investment authority by the Investment Adviser. The performance information includes performance for the Partnerships. The Partnerships were not registered under the Investment Company Act of 1940 and, therefore, were not subject to certain investment or other restrictions or requirements imposed by the 1940 Act or the Internal Revenue Code. If the Partnerships had been registered under the 1940 Act, the Partnerships' performance might have been adversely affected.

[3]Effective March 29, 2019, the Fund invests the majority of its assets in the common stock of medium-sized companies, which the Fund considers to be companies with a market capitalization, at the time of initial purchase, of greater than $1 billion and less than or equal to the market capitalization of the largest company in the Russell Midcap Index. Prior to that date, the Fund invested the majority of its assets in the common stock of smaller- and medium-sized companies, which the Fund considered to be companies with a market capitalization, at the time of initial purchase, of less than $10 billion.

Average annual total returns for the S&P 500 index for the one-, five- and ten-year periods ended September 30, 2019, were 4.25%, 10.84% and 13.24%, 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.

As of September 30, 2019, each of the following portfolio companies constituted a portion of the net assets of Value Fund, Partners Value Fund, Partners III Opportunity Fund, Hickory Fund, and Balanced Fund as follows: Berkshire Hathaway Inc.-Class B: 7.0%, 5.9%, 10.4%, 0%, and 2.6%. Markel Corp.: 0%, 0%, 3.2%, 1.1%, and 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 Funds before investing. This and other important information is contained in the prospectus and summary prospectus, which may be obtained at weitzinvesments.com.

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