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This income fund has a yield of more than 5%, and is cheap compared to its peers

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As fixed income assets generate compelling returns, Tom Carney has turned to a key area of opportunity to give his firm's fund a leg up over the competition.

The Weitz Core Plus Income Fund (WCPNX), which Carney co-manages with Nolan Anderson, received five stars and a bronze rating from Morningstar. "Over an eight-year period, this share class outpaced the category's average return by 1.4 percentage points annualized," the research firm noted.

"It also beat the category index, the Bloomberg Barclays U.S. Universal Bond Index, by an annualized 1.3 percentage points over the same period," Morningstar found.

Accounting for fee waivers and expense reimbursements, the fund has a 30-day SEC yield of 5.25% and a net expense ratio of 0.55%, placing it within the second lowest fee quintile, per Morningstar.

"Our mandate is to find the best opportunities we can find, wherever they may be — and that has taken us away from the [Bloomberg U.S. Aggregate Bond Index]," Carney said.

Enter, asset-backed securities.

A pool of loans

U.S. Treasurys and other government-related assets account for the biggest share of the fund's allocation, weighing in at 37.4%, according to the fund's website. Asset-backed securities (ABS) follow in second place, making up 27.6% of the portfolio. In comparison, the iShares Core U.S. Aggregate Bond ETF (AGG), which tracks the Bloomberg U.S. Aggregate Bond Index, has just a 0.41% weighting toward asset-backed securities.

ASSET CATEGORY BREAKDOWN

ASSET TYPE	% OF NET ASSETS AS OF JUNE 30
U.S. TREASURY/GOVERNMENT/GOVERNMENT RELATED	37.4
ASSET-BACKED SECURITIES	27.6
CORPORATE BONDS	14.9
MORTGAGE-BACKED SECURITIES	9.9
COMMERCIAL MORTGAGE-BACKED SECURITIES	6.1
CORPORATE CONVERTIBLE BONDS	0.3
MUNICIPAL BONDS	0.1

Source: Weitz Investment Management

ABS are backed by a pool of loans, which can include consumer debt — such as auto loans — and commercial loans. This space can be closely tied to the economy and the financial wherewithal of the consumer, which is a key concern as household debt rose to $17.06 trillion in the second quarter, according to the Federal Reserve Bank of New York.

As a result, participating in the asset-backed securities space requires a granular level of due diligence.

For Weitz, that means investing in the more senior part of the asset-backed security and drilling into the details of issuers and borrowers, including obtaining monthly reports on what's happening within the pool of loans and whether borrowers are continuing to make timely payments.

"We want to be sure we are partnering with issuers of auto loans that we believe will survive an economic downturn and are very careful in their underwriting," said Carney. "We have almost real-time access to what's happening in these securitizations and what's happening with the credit quality of the borrowers."

Senior tranches of these securities tend to have higher credit ratings, and they are first in line to get paid.

Indeed, Morningstar notes that "the portfolio has a higher average surveyed credit quality of A, compared with the typical peers' BBB, and its non-investment-grade stake is 5% of assets, compared with its average peers' 8%."

There's also another pool of debt that's caught the firm's eye.

"We've meaningfully invested in the agency mortgage-backed securities market," Carney said, dubbing it "an area of opportunity for Weitz." These bundles of mortgages are issued by government-sponsored entities, such as Fannie Mae and Freddie Mac.

"They are supported by the U.S. government but have nominal returns higher than corporate bonds," he said.

A wider net

Carney points to the fund's flexible mandate as a feature that's worked in its favor, particularly as the Fed has hiked interest rates.

"A flexible mandate allows us to cast a wider net across the fixed income landscape," he said. "We really think the asset-backed securities are a differentiating feature for our process, as well as looking outside the index — not looking for risk necessarily but risk/reward opportunities."

To learn more about the Weitz Core Plus Income Fund, please contact us at 800-304-9745 or visit weitzinvestments.com

Current performance and data can be found on weitzinvestments.com, or by clicking here: Weitz Core Plus Income (WCPNX /WCPBX)

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.

Holdings are subject to change and may not be representative of the Fund's current or future investments.

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As stated in the Fund's most recent prospectus (7/31/2023), expenses for the Core Plus Income Fund Investor Class are 0.82% (Gross), 0.55% (Net), and for Institutional Class are 0.59% (Gross), 0.45% (Net). The gross expense ratio reflects the total annual operating expenses of the fund, before any fee waivers or reimbursements. The net expense ratio reflects the total annual operating expenses of the fund after taking into account any fee waiver and/or expense reimbursement. The net expense ratio represents what investors are ultimately charged to be invested in a mutual fund. Average net expense ratios for the Morningstar U.S. Intermediate Core-Plus Bond Category are 0.75% (gross) and 1.34% (net).

As of 8/31/2023, 30-Day SEC Yield for the Core Plus Income Fund Investor Class was 5.47% (subsidized), 5.32% (unsubsidized), and for Institutional Class was 5.58% (subsidized), 5.49% (unsubsidized).

Investors should consider carefully the investment objectives, risks, and charges and expenses of a fund or separate account before investing. This and other important information is contained in the prospectus and summary prospectus, which may be obtained here or from a financial advisor. Please read the prospectus carefully before investing.

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