Weitz | INVESTMENT MANAGEMENT

A Storm of Opportunities

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The analogies to describe the year's first quarter, particularly the month of March, could seemingly fill a book. The unfortunate human and economic drama that continues to unfold across the globe will certainly be forever etched on the world's collective memory. And while it's important to provide this update on the markets (as out of date as it may soon become in this rapidly changing environment), our hearts, minds and prayers remain with all of those who have suffered and are suffering the direct human effects of the coronavirus outbreak. It's also important to remember those who have suffered direct economic consequences resulting from the fight against the disease, including a historic number of job losses. Since the whole world is in this predicament together, hopefully the words from World Health Organization chief Tedros Adhanom Ghebreyesus will bring solace: that the "amazing spirit of human solidarity must become more infectious than the virus itself" and that "we can only succeed together."

Market Update

The placid beginning to the year, with gently rising stock and bond prices, increasingly became unnerved as evidence grew that COVID-19 would not abide by any national or continental border. The overall market unease that had been rising due to the spread of this invisible enemy escalated on March 8 as Saudi Arabia and Russia initiated an oil price war that led to the biggest oil price decline in decades. In market parlance, a single black swan is a rare sight (just as they're rare outside of their native Australian habitat), but in March, a viral outbreak and an oil spat among OPEC+ members was akin to two black swan sightings in the same month. If the COVID-19 outbreak in China was like the butterfly effect where a local event had international repercussions, the OPEC+ price war was the Titanic hitting the iceberg. Collapsing aggregate demand due to efforts to slow the spread of the coronavirus was met by an upward supply shock as Saudi Arabia and Russia tried to outmatch each other in flooding the world with oil.

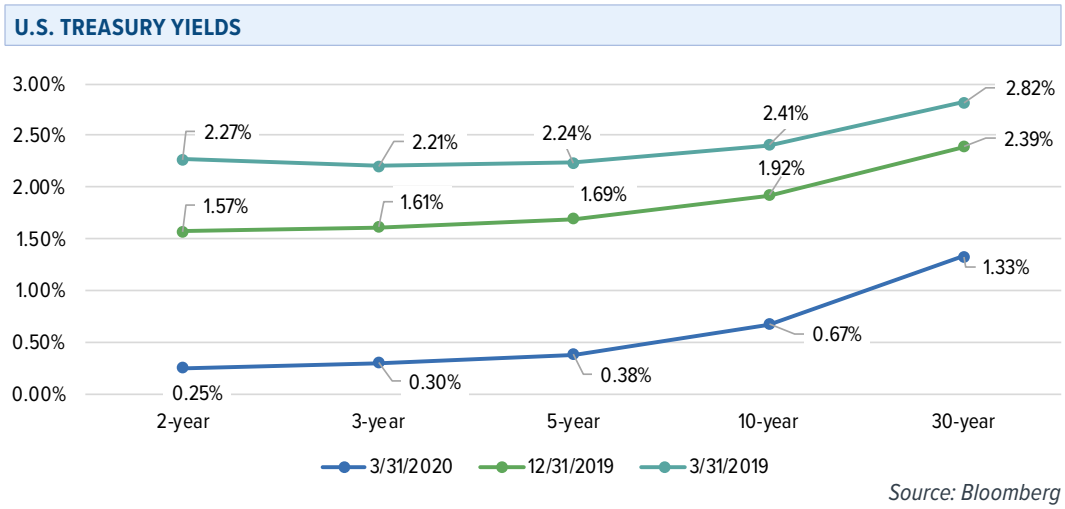
The result was dislocations in both the stock and bond markets which hadn't occurred since the Great Recession of 2008, and that was quickly morphing into a discussion that "D", as in Depression, was a more likely descriptor for today. Markets froze and arguably seized up, particularly fixed-income markets, with price discovery becoming challenging. Many mutual funds/index funds and ETFs faced liquidity issues during this period. In order to meet redemption requests, massive bid-lists in the hundreds of millions (looking to sell) were distributed on a Sunday (something that this management has never seen before). Buyers became scarce, if existent at all, and clearing prices for those who had to sell certain types of investments were frequently at significant discounts to not only the price at which they had been valued only a day before but arguably at a meaningful discount to true intrinsic value.

At Weitz, we are pleased to report that we did not have to sell any investments at what we considered to be an unwanted and unwarranted discount. While we may have experienced meaningful (unrealized) markdowns on fixed-income securities we own due to others having to sell them at markdowns, we also benefited from liquidity in the form of U.S. Treasuries and other highly rated securities. We've never forgotten the sage advice a long-time shareholder in Indianapolis imparted many years ago about the importance of having real liquidity at the times you need it most.

To help mitigate the market's liquidity issues, the Federal Reserve (Fed) intervened to support the flow of credit to households and businesses by reducing the Federal Funds rate to a range of 0-0.25% (down 1.5% since year end) and flooding the market with liquidity. These liquidity mechanisms were aimed to support a variety of markets experiencing stress – including Treasuries, agency commercial and residential mortgage-backed securities, corporate bonds, asset-backed securities, municipal bonds, commercial paper, a program to support small businesses and more. "Essentially unlimited" and "we're not going to run out of ammunition" were comments used by Fed Chair Jerome Powell to reinforce the Fed's resolve to take drastic action to help support the economy. One area, however, that did not benefit from the recent monetary or fiscal largesse was non-agency mortgage-backed securities, which had a direct impact on long-time portfolio holding Redwood Trust (RWT). Please see our fixed-income funds quarterly commentaries for a more detailed discussion of this and other portfolio-specific topics.

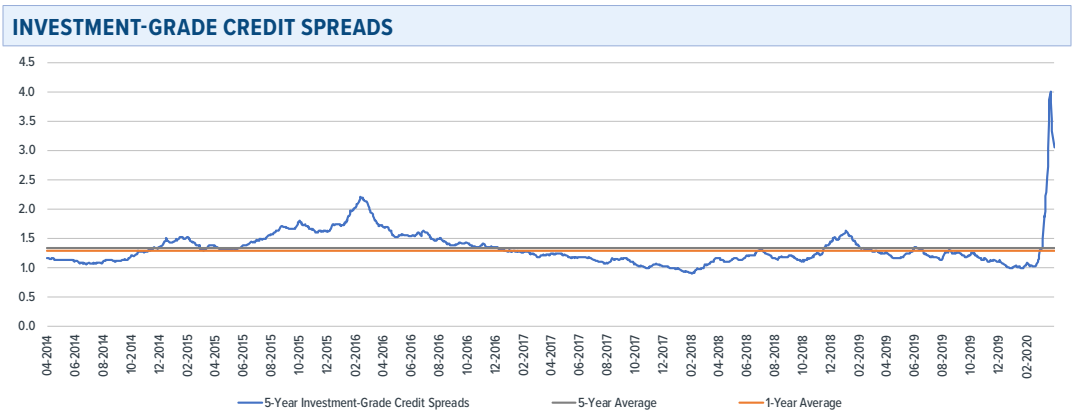
Coupled with the massive fiscal stimulus from Washington, a semblance of calm (albeit with uneasy undertones) settled on the markets by quarter end. One could possibly compare this calm to the eye of a hurricane. We collectively seem to have survived its first impact, which took the form of a significant liquidity event. The next phase of the storm, while difficult to predict with any certainty, may involve solvency issues related to the economic downshift so many businesses are experiencing. We are preparing for that possibility.

The graph below shows the changes of select Treasury rates over the past quarter and year. Across the yield curve (a line that plots yields / interest rates of bonds with differing maturity dates), interest rates have precipitously declined by a full percent (100 basis points) or more.



Source: Bloomberg

Spreads on corporate bonds went sharply upward in the first quarter resulting in meaningful underperformance compared to U.S. Treasury bonds. A broad measure of investment-grade corporate bond spreads, compiled by ICE BofAML, rose as high as 400 basis points, nearly three times its level at year end, before receding to 305 basis points as of March 31. The chart below depicts the path of investment-grade credit spreads for the past five years (blue line) against the one- (orange) and five-year (gray) averages. Overall, corporate bond credit spreads are meaningfully above where they have been over the last five years – and we feel offer compelling value across many industries.



Source: FRED Economic Data / St. Louis Fed

First Quarter Results

Our fixed income funds, despite severe bond market dislocations, did their jobs of providing ballast for investors' portfolios. Returns ranged from small gains for the Ultra Short Government Fund and the Nebraska Tax-Free Income Fund to small declines for the Short Duration Income Fund and the Core Plus Income Fund.

Like our equity teammates, we do not relish using red ink in our reports. Negative returns are frustrating, but they often come with a proverbial silver lining. When securities prices are being set as much (or more) by fear than reality, it can present opportunities for those able and willing to take advantage of dislocations between price and value. We believe that the net effect of any unrealized depreciation (which we generally expect to recover at or before maturity) on the investments we already own and the new investments that have been added to the portfolios have meaningfully improved our forward return profile.

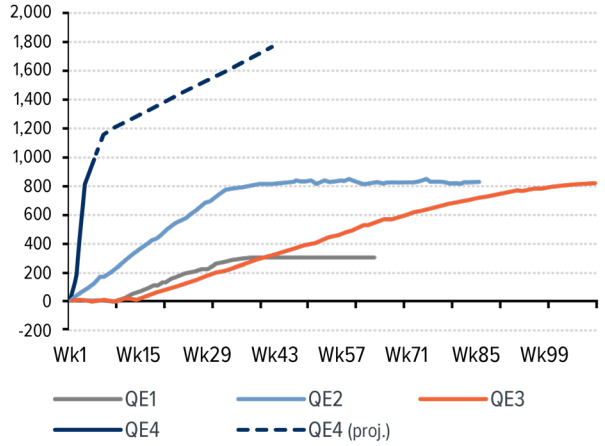
For additional insights, please see this quarter's Value Matters from Co-Chief Investment Officers Wally Weitz and Brad Hinton. We are arguably biased, but we think the message is particularly insightful this quarter. Also, please review the equity and balanced funds' Quarterly Commentaries for detailed analysis around specific moves our equity portfolio managers made during the quarter.

Unintendend Consequences

The following two charts present topics to analyze in depth another day – but they are ones we will be monitoring in the months and quarters ahead. In an effort to support the flow of credit in the U.S. financial system, the Fed has embarked on its largest quantitative easing program ever, projected to be orders of magnitude larger than previous iterations. Its balance sheet could reach a previously unfathomable $9 trillion, more than double where it stood at the end of 2019 and $8 trillion higher than its level prior to the Great Recessison.

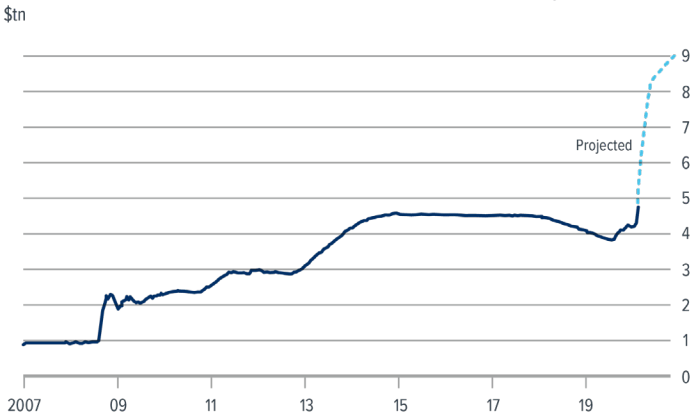
The Fed is presently fighting the specter of deflation, but its ugly twin, inflation, may reappear sometime in the not-too-distant future with damaging purchasing power implications for fixed-income investors. Even if the health pandemic recedes sooner than some predict, governments around the globe are likely to continue their elevated spending whether or not it remains necessary to do so. Worries of a deflationary bust might quickly turn into an almighty inflationary boom.

TREASURY PURCHASES PAST AND PROJECTED ($BN)



Source: BofA Global Research

FEDERAL RESERVE BALANCE SHEET POISED TO SKYROCKET



Source: Bloomberg

Outlook – what a difference a month can make

In several of our previous quarterly correspondence pieces, we had bemoaned the lack of favorable risk/reward opportunities to deploy capital on behalf of our shareholders (see the "price is what you pay – value is what you receive" section in our **Q4 2019 Fixed Income Insights**). And as the second month of the new year was ending, we had considered penning a commentary letter about how poor forward returns appeared at the time. Well, March came crashing upon all of us as rising fear about the coronavirus invasion turned markets into what seemed like a version of Rod Serling's Twilight Zone (specifically 1960's classic The Monsters are Due on Maple Street, in which mysterious, frightening events suddenly turn a neighborhood upside down). The financial markets became unnerved and increasingly fearful. The U.S. credit default swap index on North American investment grade debt (often dubbed the 'fear gauge') that was referenced in our previous Fixed Income Insights went from an all-time low to a multi-year high.

MOVEMENT OF "THE FEAR GAUGE"

Source: Bloomberg

The result has been a rapid repricing of credit risk that has meaningfully and favorably shifted the risk/reward relationship. At quarter end, the forward returns (as measured by yield-to-worst) for our fixed-income portfolios are at levels they have not been at in many years. We believe this is a solid starting place.

In our fixed income investments, we strive to (a) preserve capital, (b) maintain a strong liquidity position, (c) understand evolving risks and opportunities, (d) selectively take advantage of favorable risk/reward opportunities, and (e) conduct consistent, thorough research and credit surveillance.

While these are difficult times, rest assured that we remain ready to take advantage of any further valuation disparities that may develop, and we strive to remain your trusted partner.

IMPORTANT DISLCOSURES

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 4/16/2020, 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.

			ANNUALIZED RETURNS AS OF 3/31/2020					
FIXED INCOME	**YTD**	**1 YR**	**5 YR**	**10 YR**	**Since Fund Inception***	**Inception Date**	**Net Expense**	**Gross Expense**
Core Plus Income Fund - Investor (WCPNX)	**-3.12%**	**1.38%**	**2.70%**	**N/A**	**2.89%**	**7/31/2014***	**0.50%**	**1.42%**
Core Plus Income Fund- Institutional (WCPBX)	**-2.99%**	**1.56%**	**2.93%**	**N/A**	**3.11%**	**7/31/2014***	**0.40%**	**0.96%**
Bloomberg Barclays U.S. Aggregate Bond	3.15%	8.93%	3.35%	N/A	3.65%			
Nebraska Tax-Free Income Fund (WNTFX)	**0.38%**	**2.55%**	**1.31%**	**1.89%**	**4.45%**	**10/1/1985***	**0.45%**	**0.89%**
Bloomberg Barclays 5-Year Municipal Bond	-1.04%	2.19%	2.07%	2.75%	N/A			
Short Duration Income Fund - Investor (WSHNX)	**-2.19%**	**0.26%**	**1.27%**	**1.81%**	**4.82%**	**8/1/2011**	**0.55%**	**0.92%**
Short Duration Income Fund - Institutional (WEFIX)	**-2.15%**	**0.44%**	**1.49%**	**2.00%**	**4.89%**	**12/23/1988***	**0.48%**	**0.63%**
Bloomberg Barclays 1-3 Year U.S. Aggregate	1.79%	4.63%	1.93%	1.64%	N/A			
U.S. Consumer Price Index (CPI) Plus 1.00%	0.69%	2.56%	2.94%	2.82%	2.74%			
Ultra Short Government Fund (SAFEX)	**0.75%**	**2.44%**	**1.16%**	**0.59%**	**2.36%**	**8/1/1991***	**0.20%**	**0.61%**
ICE BofAML U.S. 6-Month Treasury Bill	0.94%	2.85%	1.44%	0.83%	2.93%			

*Denotes the Fund's inception date and the date from which Since Inception Performance is calculated.

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 07/31/2020.

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.

Performance quoted for the Short Duration Income Fund Investor Class shares before their inception is derived from the historical performance of the Institutional Class shares, which have not been adjusted for the expenses of the Institutional Class shares, had they, returns would have been different.

Index performance is hypothetical and is shown for illustrative purposes only. You cannot invest directly in an index.

- The Bloomberg Barclays 1-3 Year U.S. Aggregate Index is generally representative of the market for investment grade, U.S. dollar denominated, fixed-rate taxable bonds with maturities from one to three years.
- The Bloomberg Barclays 5-Year Municipal Bond Index is a capitalization weighted bond index generally representative of major municipal bonds of all quality ratings with an average maturity of approximately five years.
- 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.
- The U.S. Consumer Price Index (CPI) Plus 1% is created by adding 1% to the annual percentage change in the Consumer Price Index ("CPI") as determined by the U.S. Department of Labor Statistics. There can be no guarantee that the CPI will reflect the level of inflation at any time.
- The ICE BofAML 6-Month Treasury Bill Index is generally representative of the market for U.S. Treasury Bills.

On 12/29/2006, the Nebraska Tax-Free Income Fund succeeded to substantially all of the assets of Weitz Income Partners Limited Partnership. The investment objectives, policies and restrictions of the Fund is materially equivalent to those of the Partnership, and the Partnership was managed at all times with full investment authority by the Investment Adviser. The performance information includes performance for the Partnership. The Partnership was 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 Partnership had been registered under the 1940 Act, the Partnership's performance might have been adversely affected.

Effective 12/16/2016, the Ultra Short Government Fund revised its principal investment strategies. Prior to that date, the Fund operated as a "government money market fund" and maintained a stable net asset value of $1.00 per share. Performance prior to 12/16/2016 reflects the Fund's prior principal investment strategies and may not be indicative of future performance results.

Effective 12/16/2016, the Short Duration Income Fund revised its principal investment strategies. Since that time the Fund has generally maintained an average effective duration between one to three and a half years. Prior to that date, the Fund maintained a dollar–weighted average maturity of between two to five years. Performance prior to 12/16/2016 reflects the Fund's prior principal investment strategies and may not be indicative of future performance results.

As of 03/31/2020, the following portfolio company constituted a portion of the net assets of Balanced Fund, Core Plus Income Fund, Hickory Fund, Nebraska Tax-Free Income Fund, Partners III Opportunity Fund, Partners Value Fund, Short Duration Income Fund, Ultra Short Government Fund and Value Fund as follows: Redwood Trust, Inc.: 0.5%, 1.3%, 1.7%, 0%, 1.1%, 1.5%, 2.1%, 0%, and 0%.

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

Definitions: Investment Grade Bonds are those securities rated at least BBB- by one or more credit ratings agencies. **Non-Investment Grade Bonds** are those securities (commonly referred to as "high yield" or "junk" bonds) rated below BBB- by two or more credit ratings agencies. **Yield to Worst (YTW)** is the lowest potential yield that can be received on a bond portfolio without the issuers actually defaulting.

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.