What a Difference a Year Makes

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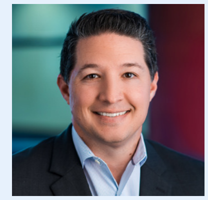

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"What a difference a year makes." It's a phrase that might often be considered cliché – except for those with firsthand experience of the investment extremes of the past 12 months. The pessimism and fear so rampant a year ago as an economic hurricane was crashing across the world from a virus-induced global shutdown has been replaced with optimism and hope of economic revival. Stock prices have generally soared, and most bond prices (U.S. Treasuries being the exception) have more than recovered from the markdowns in those darker, scarier days a year ago.

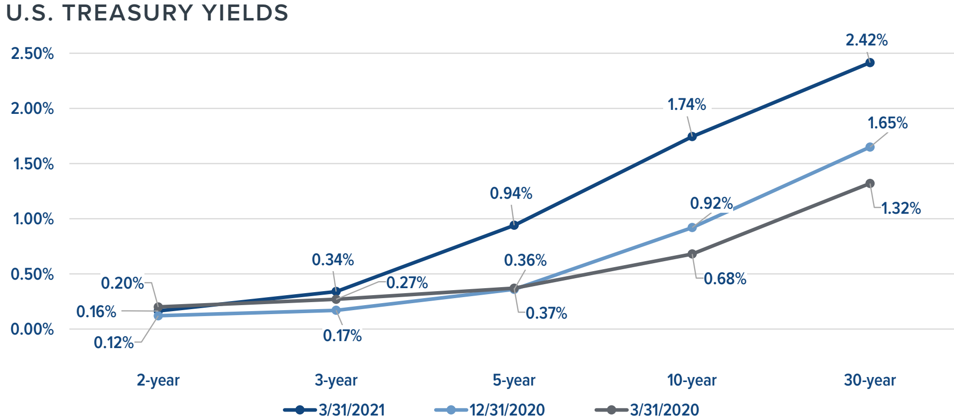
The first quarter continued the positive trend of economic good news – but provided evidence reinforcing our year-end comments and warnings about low forward return prospects and why investment starting points matter. Without so much as a hint of the Federal Reserve withdrawing or tapering its support of the U.S. bond market (namely, keeping short-term interest rates at zero and buying $120 billion a month of primarily government securities), bond investors decided to throw a version of 2013's taper tantrum and vote with their feet (sell) as economic strength and/or inflation concerns weighed on sentiment. The result was an acceleration of a move upward in longer-term U.S. Treasury interest rates that began last summer, albeit from historically low levels. For context, the 30-year Treasury had the worst first-quarter return since 1919, and investment-grade bonds (whose valuation always begins from a Treasury rate) had their worst first quarter return since 1980.

Weitz fixed income funds held their own in the first quarter. The Weitz Short Duration Income Fund posted positive results and the Weitz Core Plus Income Fund, while down modestly, posted strong relative quarterly returns compared to its index. The key driver to both funds' outperformance in the quarter was having positioned them with historic low duration, in the case of Weitz Short Duration Income, and meaningfully less duration than its index or peers, in the case of Weitz Core Plus Income. Further detail about contributors to performance can be found in each fixed income fund's quarterly commentary.

Fixed-Income Market Update

The graph below shows the changes of select Treasury rates over the past quarter and year.

U.S. TREASURY YIELDS

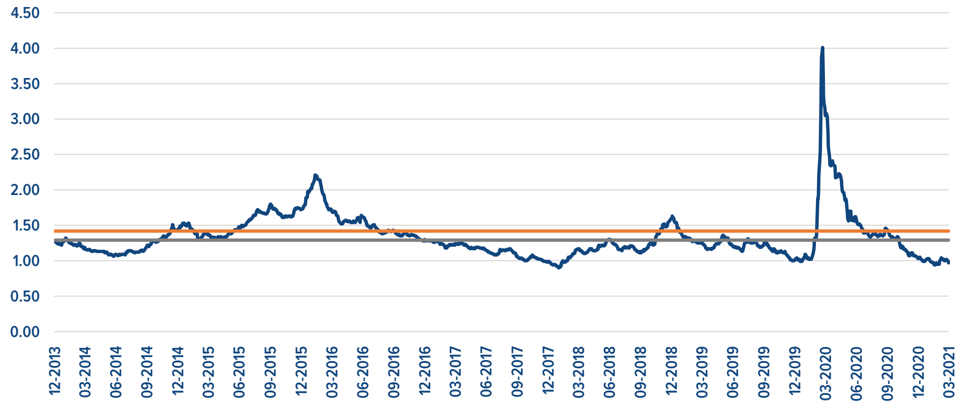


Source: Bloomberg

The Treasury curve steepened meaningfully in the first quarter as longer rates (particularly 10- and 30-year) rose. The 10-year Treasury rate has more than doubled from where it was a year ago and has risen significantly since year-end. The 30-year Treasury rate increased nearly 50% in the quarter, precipitating its worst first-quarter return in over 100 years. Shorter rates (0- to 3-year) remained anchored close to zero given the Fed's resolve to leave the Fed Funds rate at or near zero.

Spreads on corporate bonds continued to decline modestly in the first quarter. A broad measure of investment-grade corporate bond spreads, compiled by ICE BofA, continued their decline in the quarter -- from 103 basis points as of December 31 to 97 basis points on March 31. Declining corporate bond spread resulted in slight relative outperformance compared to U.S. Treasury bonds. This was small comfort for most corporate bond investors as investment-grade bonds still experienced their worst first-quarter return in decades. The chart below depicts the path of investment-grade credit spreads for the past 5 years (blue line) against the one- (orange) and five-year (gray) averages.

INVESTMENT-GRADE CREDIT SPREADS



Source: Federal Reserve Economic Data (FRED) – St. Louis Fed

Overall, investment-grade corporate bond credit spreads are well below their 1- and 5-year averages and are only 7 basis points above the post-Great Recession lows set in early 2018. Viewed from an even longer time frame of 10 years, investment-grade corporate bond credit spreads have rarely been as low as they were at quarter end. Using daily data from the St. Louis Federal Reserve Economic Data, investment-grade corporate spreads have only been lower than Q1's 97 basis points 1.6% of the time, or 43 out of 2,610 total observations. Economic optimism could plausibly push spreads even lower, but history is certainly not on its side.

The table below provides a view of the changes for the broad investment-grade and high-yield universes that have transpired over the past year, as reported by ICE BofA. Yields and spreads have declined meaningfully, benefitting bond investors, including our bond funds, but the declines have left forward return prospects in yet another tough starting place.

	Investment-Grade	High-Yield
	Yield to Worst	**Yield to Worst**
03/31/2020	3.69%	9.24%
03/31/2021	2.30%	4.27%
	Option Adjusted Spread (OAS)	**Option Adjusted Spread (OAS)**
03/31/2020	+305	+877
03/31/2021	+97	+336

Outlook

> ***"The future should be viewed not as a fixed outcome that's destined to happen and capable of being predicted, but as a range of possibilities and, hopefully on a basis of insight into their respective likelihoods, as a probability distribution." – Howard Marks, Oaktree Capital***

> ***"Success in investing doesn't correlate with I.Q. once you're above the level of 125. Once you have ordinary intelligence, what you need is the temperament to control the urges that get other people into trouble in investing." – Warren Buffett, Berkshire Hathaway Inc.***

The two quotes above by very successful investors seemed fitting to place within the context of an outlook section. 'Outlooks,' by their nature, are simply guesses about a very unpredictable future. But those guesses can and should be *informed* by the current environment and relative to history. While we have cheered the year-to-date rise in base rates (U.S. Treasury) since it modestly improves forward return prospects, we are sober enough to realize that 10-year Treasury rates of less than 2% are still woefully low by historic standards – especially should inflation rear its long-dormant head. Couple this with credit spreads, especially investment-grade, that are at or near 10-year lows, we think it prudent to remain defensive. With respect to interest rate risk, we believe we have positioned our funds defensively by maintaining low duration. We will continue to strive to maintain the right 'temperament' that has historically allowed us to take advantage of the 'pitches' (preferably fat ones) that the markets invariably offer us and grow/learn in areas that are complementary to our core investment process.

Our fixed income funds have flexible mandates that allow us to navigate any environment by identifying the most favorable investment opportunities wherever we can find them. Just as important, we have the freedom to avoid areas where price and value appear the least favorable – which have recently been those areas most influenced by price-insensitive index investors and Fed intervention.

Our goals are to (a) preserve capital, (b) maintain a strong liquidity position, (c) understand evolving risks and opportunities, (d) conduct consistent/thorough credit surveillance, and (e) selectively take advantage of favorable risk/reward opportunities. These have long been and will continue to be our investment marching orders. We believe keeping these objectives front of mind while maintaining the 'temperament,' as referenced in Mr. Buffett's quote, should continue to serve us and our fellow investors well in the quarters and years ahead.

For more on our market outlook, we encourage you to read Wally and Brad's latest **Value Matters**, and for additional information regarding first quarter portfolio activity and current positioning, please see the fund commentaries on our website. We remain ready to take advantage of valuation disparities that may develop and hope to continue to earn your trust.

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 04/15/2021, 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.

		Average Annual Total Returns as of 03/31/2021							
	QTD	1 YR	3 YR	5 YR	10 YR	Since Fund Inception†	Inception Date	Net Expense	Gross Expense
Core Plus Income Fund- Institutional (WCPBX)	**-0.73%**	**12.88%**	**6.40%**	**5.03%**	**N/A**	**4.52%**	**07/31/2014†**	**0.40%**	**0.80%**
Bloomberg Barclays U.S. Aggregate Bond Index	-3.37%	0.71%	4.65%	3.10%	3.20%	3.20%			
Short Duration Income Fund - Institutional (WEFIX)	**0.67%**	**6.32%**	**3.29%**	**2.57%**	**2.27%**	**4.93%**	**12/23/1988†**	**0.48%**	**0.64%**
Bloomberg Barclays 1-3 Year U.S. Aggregate	-0.07%	1.19%	2.94%	1.96%	1.57%	N/A			

†Denotes the Funds 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 07/31/2021. 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 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 U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market.

As of 03/31/2021, the 30-day subsidized and unsubsidized yields were as follows: Core Plus Income Fund 2.18% and 1.68%, and Short Duration Income Fund 1.30% and 0.78%, respectively.

Interest rate risk and duration: The shorter a fund's duration, the less sensitive it will be to shifts in interest rates. As of 03/31/21: Weitz Core Plus Income Fund had an average effective duration of 4.5 years compared to its benchmark of 6.3 years, and Weitz Short Duration Income Fund had an average effective duration of 1.3 years compared to its benchmark at 1.9 years.

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.

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. **30-Day SEC Yield** represents net investment income earned by a fund over a 30-day period, expressed as an annual percentage rate based on the fund's share price at the end of the 30-day period. **Subsidized yield** reflects fee waivers and/or expense reimbursements during the period. Without such fee waivers and/or expense reimbursements, if any; yields would have been lower. **Unsubsidized yield** does not adjust for any fee waivers and/or expense reimbursements in effect. **Option Adjusted Spread:** A "spread" compares the interest rate on a particular bond against a "base line" bond (typically a U.S. Treasury bond). When a bond issuer (or bondholder) has the option to exercise a right (for example, if the issuer can call a bond before its stated maturity date), then the "Option Adjusted Spread" takes into account the possibility that this option might be exercised—so a bond's Option Adjusted Spread may be more (or less) than its regular spread. **Yield to worst (YTW)** is the lowest potential yield that can be received on a bond portfolio without the underlying issuers 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.