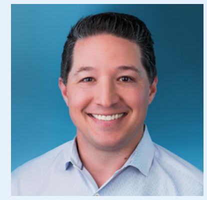
When "Boring" Isn't Boring



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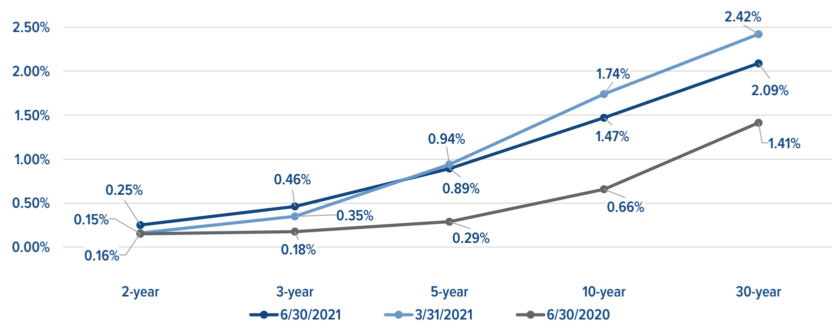
Weitz fixed income funds generated solid results in the second quarter. While declining interest rates and credit spreads aided most fixed income investors during the quarter, the Weitz Short Duration Income and Weitz Core Plus Income Funds were particularly helped by strong security and sector selection along with timely investments made in the first six months of the year. Further detail about contributors to performance can be found in each fund's quarterly commentary. You can find full details on fund performance at the end of this piece.

Weitz equity and balanced funds also posted solid gains in the first quarter. Please see the latest **Value Matters** from Wally and Brad and the portfolio managers' commentaries for detailed analysis.

Fixed-Income Market Update

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

U.S. TREASURY YIELDS

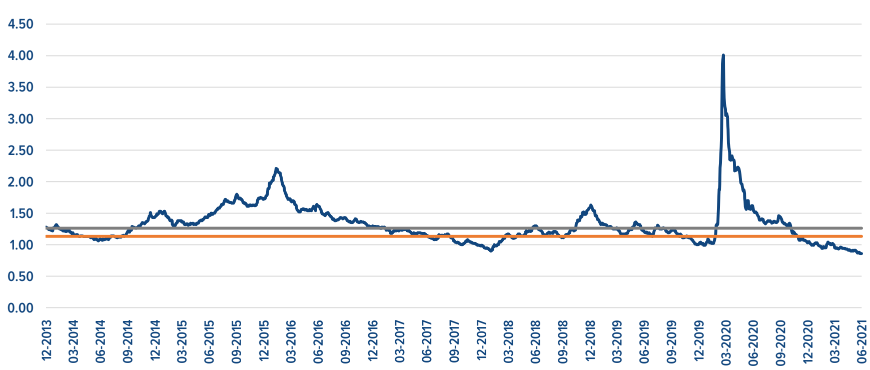


Source: Bloomberg

The Treasury curve flattened in the second quarter as longer rates (particularly 5-, 10-, and 30-year) declined and shorter-term rates rose modestly. Despite continued strong economic data (growth and employment) and high inflation metrics (both producer and consumer), bond market participants began to price in a scenario of lower growth and inflation over the longer term.

Spreads on corporate bonds continued to march lower in the second quarter. A broad measure of investment-grade corporate bond spreads, compiled by ICE BofA, continued their decline in the quarter from 97 basis points as of March 31, 2021, to 86 basis points on June 30, 2021. Declining credit spreads resulted in corporate bond outperformance compared to U.S. Treasury bonds in the quarter. 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.

INVESTMENT-GRADE CREDIT SPREADS



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

Overall, investment-grade corporate bond credit spreads are well below their one- and five-year averages. Viewed from an even longer time frame, investment-grade corporate bond credit spreads are the lowest they have been in over 10 years – while a little more than 12 months ago, credit spreads were the highest they had been in over 10 years. Uncertainty and fear during the early parts of 2020 have seemingly given way to complacency that little to nothing can go wrong now. One of Warren Buffett's many timeless quotes (this from 1979) comes to mind: "The future is never clear. You pay a very high price in the stock market for a cheery consensus. Uncertainty actually is the friend of the buyer of long-term values."

The same wisdom applies equally in the bond market. The uncertainty and fear in the early parts of 2020, as we have previously reported, were indeed a friend to buyers of long-term values. The table to the right provides another view of the changes for the broad investment-grade and high-yield universes that have transpired since March of 2020, as reported by ICE BofA, incorporating both credit spreads and yield-to-worst. As the chart highlights, current high prices as measured by decade-plus lows in credit spreads and overall low nominal interest rates make forward return prospects challenging, especially when recognizing that the future is never clear, bringing us back to Buffett's comment that you pay a high price for a cheery consensus, which is exactly what we have now.

	Investment-Grade	High-Yield
	Yield to Worst	Yield to Worst
03/31/2020	3.68%	9.20%
06/30/2020	2.22%	6.81%
06/30/2021	2.05%	4.01%
	Option Adjusted Spread (OAS)	Option Adjusted Spread (OAS)
03/31/2020	+305	+877
06/30/2020	+160	+644
06/30/2021	+86	+304

Inflation – transitory?

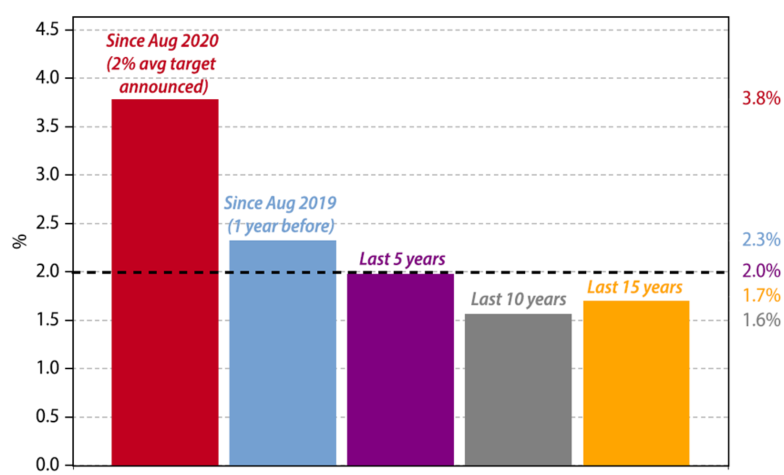
Inflation is a topic that has certainly been among the top-five financial news stories so far in 2021. As economies throughout the world have slowly reopened, inflation metrics have risen materially.

As of the latest reading (May 2021), U.S. consumer inflation has registered a 5% year-over-year increase. The price of oil (using crude prices from the New York Mercantile Exchange) is up over 80% in the past year (June 2020 to June 2021). And most readers don't need statistical data to know that housing prices have appreciated meaningfully almost everywhere in the past year.

Despite many other examples reflecting inflationary pressures building (or present) in the economy, the Federal Open Market Committee (FOMC) of the Federal Reserve continues to believe that "inflation has risen, largely reflecting transitory factors." Time, of course, will be the ultimate arbiter on whether inflation eases or not, but the Fed's recent predictive skills highlight the challenge of forecasts. The FOMC predicted in June 2020 that the personal consumption expenditures (PCE), its favorite inflation metric, would increase by a range of 1.4% to 1.7% during 2021. At its June 2021 meeting, the band was increased to between 3.1% and 3.5%. A 200-basis adjustment in a year doesn't exactly instill a lot of confidence in the Fed's predictive skills. Additionally, the actual reading in June 2021 of 3.9% may have the FOMC going back to the drawing board yet again. Maybe that's why all 18 members of the FOMC at the June 2021 meeting said there was a higher degree of uncertainly around their inflation forecasts. And yet current inflation is transitory?

The chart to the right, from Gavekal Research, plots PCE across several segments of time against the Fed's long-term inflation goal of 2%. For several years, the Fed has seemingly been egging inflation on, yet it has refused to show itself. With the Fed's new policy of average inflation targeting (AIT) introduced in August 2020, it may get even more than it asked for. Jim Grant, in a recent edition of Grant's Interest Rate Observer, described inflation well, writing "...it (inflation) is many things. What it is not is submissive. It almost seems to have a mind of its own."

ANNUALIZED U.S. PERSONAL CONSUMPTION EXPENDITURES INFLATION



Source: Gavekal Research/Macrobond

Regarding the inflation topic, we are trying to make sure we strive to see the proverbial forest for the trees – namely the risk inflation poses to future fixed income purchasing power returns (that is, the real return – or the difference between the coupon we receive and how much current/future inflation reduces that return). While we don't necessarily annualize recent data to make investment decisions, the current trend is clearly not a 'friend' for fixed income investors. For example, the current gap between 10-year U.S. yields (under 1.5%) and trailing 12-month U.S. CPI (5.0%) equates to a large negative real return of -3.5%, the widest gap since 1980. In fact, in the past 70 years, it has only been more negative for a total of 10 months, all of which were in 1974, 1975, or 1980. Such a deeply negative (albeit crude) proxy for real yields is great for financial conditions today, but such a mismatch between current (and potential) inflation and bond yields often leads to misallocation of capital and, invariably, painful financial consequences.

"There are two kinds of forecasters: those who don't know, and those who don't know they don't know."
– John Kenneth Galbraith

Outlook

While the future is never clear as the above quote so succinctly points out, we believe the flexible mandates of our fixed income funds will continue to allow us to navigate challenging environments by identifying the most favorable investment opportunities at any given time, wherever we can find them. With credit spreads, particularly investment grade, that are at or near 10-year lows and low overall forward return prospects, we continue to believe it prudent to remain defensive, especially with respect to interest rate risk (i.e., maintain lower-than-index duration).

Our overarching investment goals are to preserve capital, maintain a strong liquidity position, understand evolving risks and opportunities, conduct consistent/thorough credit surveillance, and selectively take advantage of favorable risk/reward opportunities. We continue to strive to maintain the intangible attributes/ingredients our founder and co-chief investment officer Wally Weitz, and co-chief investment officer Brad Hinton mention in their most recent Value Matters – namely, "patience, price discipline and conviction."

And for those who may be wondering "why invest in bonds at all?," our teammate Yana Morgan, CFP, client portfolio manager, offers thoughtful commentary that we think worthy to close with. "While bonds have done well enough over the last 10+ years, the stock market has been the place to be, the grand party. That party may continue for some time – no one knows when the music will stop – but stock prices are generally full, as Wally and Brad said in Value Matters – stocks today have maybe borrowed some return from the future. And those who are approaching or are in retirement want to be sure their stock to bond to cash reserves reflect their needs and risk tolerance. The next few years may be a bumpy ride, and today's "boring" bonds (if shorter term and higher quality) may dampen that volatility."

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 07/22/2020, 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.

	QTD	Average Annual Total Returns as of 06/30/2021					Inception Date	Net Expense	Gross Expense
		1 YR	3 YR	5 YR	10 YR	Since Fund Inception†			
Core Plus Income Fund- Institutional (WCPBX)	2.21%	6.34%	6.99%	4.67%	N/A	4.69%	07/31/2014†	0.40%	0.80%
Short Duration Income Fund - Institutional (WEFIX)	0.49%	2.94%	3.30%	2.32%	2.21%	4.91%	12/23/1988†	0.48%	0.64%

†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 07/31/2022 (and in the case of the Weitz Core Plus Income Fund – Institutional Class, through 07/31/2023). 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.

As of 06/30/2021, the 30-day subsidized and unsubsidized yields were as follows: Core Plus Income Fund 1.83% and 1.51%, and Short Duration Income Fund 1.28% and 1.00%, 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 06/30/21: Weitz Core Plus Income Fund had an average effective duration of 4.7 years compared to its benchmark of 6.5 years, and Weitz Short Duration Income Fund had an average effective duration of 1.5 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: We consider investment grade to be those securities rated at least BBB- by one or more credit ratings agencies. **Non-Investment Grade:** We consider non-investment grade securities (commonly referred to as "high yield" or "junk" bonds) to be those rated BB+ and below. **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.

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.