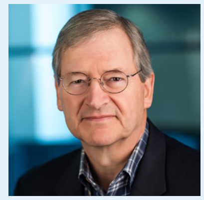
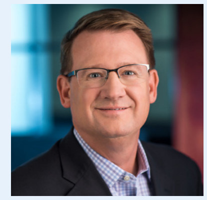
Now What?



WALLY WEITZ, CFA
Co-Chief Investment Officer
& Portfolio Manager



BRAD HINTON, CFA
Co-Chief Investment Officer
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Happy New Year! We are glad to turn the page on 2020. The pandemic has brought an assault on public health, a recession to the economy, chaos to education, and a widening of the gap between the "haves" and the "have-nots" in America. We look forward to a return to a (hopefully) less chaotic world in 2021.

In spite of real-world disruption on every front, all of our funds earned positive returns for the year (see below). Corporate giants that were relatively unscathed by lockdowns and business closures fared better than most companies throughout much of the year, but smaller and more cyclical companies did some catching up in the fourth quarter. Please see our website for additional fund and benchmark returns over various time periods. As usual, we urge investors to focus on longer-term results. We also recommend reading **Fixed Income Insights** and **commentaries** on our website.

2020 Defies Generalization

Aggregate economic and stock market indicators present a picture of a resilient and adaptable economy. Yet under the surface, the impact on individuals and companies varied widely. Individuals who could work from home had to manage technology and childcare, but they were able to stay within the comfort (and safety) of home. Essential workers – those who maintained the operation of critical services, infrastructure, and healthcare – experienced hardship and physical danger. Those serving the travel, hospitality and entertainment industries faced unemployment. Income inequality was exacerbated and was reflected in social, racial, and political unrest.

Government policymakers were quick to respond with massive fiscal and monetary relief. Congress provided cash payments to individuals and businesses. Lawmakers extended unemployment benefits and passed forbearance measures to postpone (not forgive) rent and mortgage payments. These measures were badly needed and helped sustain the economy through the balance of 2020. At year-end, Congress passed additional aid legislation, but with debts accumulating and ongoing political wrangling, the continuation of support remains less clear.

The Federal Reserve (Fed) headed off a budding liquidity crisis by flooding the bond market with (freshly created) cash. By doubling down on the "easy money" policies begun during the mortgage crisis in 2008, the Fed has enabled even the weakest public companies to borrow funds to carry them through the crisis. They also pushed interest rates even closer to zero and gave assurances that rates would stay artificially low for the foreseeable future. This was great for the stock and bond markets, but, in our opinion, sets us up for unintended consequences in the future.

The country was not well-prepared for the pandemic, and early efforts to procure and distribute protective equipment and ventilators showed mixed results. The pharmaceutical industry, though, did a phenomenal job of producing multiple effective vaccines in record time. As we enter the new year, the "jabbing" has begun, and it seems likely that a significant portion of the population will receive a vaccine during 2021.

As we move toward exiting the crisis stage and begin rebuilding and recovery, the challenge for investors is to discern what the "new normal" will look like.

Adding the inoculated to the population that has been infected and developed antibodies, it seems plausible that a more normal version of togetherness will be safe later this year.

Where do we go from here?

As we move toward exiting the crisis stage and begin rebuilding and recovery, the challenge for investors is to discern what the "new normal" will look like. The conventional wisdom is that trends that were already in place have been accelerated. Distance learning and working remotely have gone mainstream. Changes in the use (and value) of real estate may be profound. Travel and entertainment will undoubtedly look different going forward. Thousands of jobs may have been lost forever, but the pandemic has also spurred the launch of many new businesses.

On the other hand, there is a certain "changing changelessness" about human nature. People will still want to get together, go places, and have their lives made easier and more interesting. We are highly suspicious of absolutes like "all" and "never." But as investors, we ***never*** have it ***all*** figured out – humility is required.

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We continue to believe that a world of unlimited money-printing and artificially low (even negative) interest rates is not sustainable. We are not believers in Modern Monetary Theory (MMT), and we are pretty sure that a stronger economy and some nod to fiscal responsibility will result in higher interest rates. When bonds can compete again for investors' attention, stock valuations should moderate.

This is not a bad thing at all. Over the past 100+ years, the stock market has seen several extended periods in which business was good, corporate earnings rose, but the price investors were willing to pay for a dollar of earnings actually fell. For example, the Dow Jones Industrials Index reached (roughly) 1,000 in 1966 and did not surpass 1,000 for good until 1982. Investors in that index earned dividends but saw no capital gains for 16 years. Other investors, those who were able to pick and choose among components of the index (and hundreds of other stocks) and change their holdings as relative valuations evolved, were able to take advantage of volatility during those 16 years and earn positive returns.

For an example of the valuation distortions caused by indexing, consider the addition of Tesla (TSLA) to the S&P 500 in December 2020. According to a paper by Research Associates' Rob Arnott, ***$11 trillion*** tracks this index, and capital is allocated among index components based on market capitalization. Tesla entered the S&P as the sixth largest component with a market cap of over $600 billion (having risen over 600% in 2020). So, on December 21, 2020, passive investors had to ***sell $220 billion*** of other S&P stocks to ***buy $220 billion*** of Tesla shares. All of these trades were made based on index arithmetic and without regard to underlying business value.

Lest we be accused of being too subtle, this is the argument for ***active*** management. During a relentless bull market, super-charged with "free" money and suppressed interest rates, riding the index horse is a lucrative pursuit. The current bull is 12 years old and may continue for some time. (Bears should remember John Maynard Keynes' warning that "The market can stay irrational longer than you can stay solvent.") However, as it turns out, no form of investing can completely protect the investor from corrections and bear markets. We think our collection of great businesses puts us in a strong position to take advantage of the economic crosscurrents and societal changes that were set off by the pandemic. These are interesting times, and we look forward to seeing what 2021 brings.

> *We think our collection of great businesses will be able to take advantage of the economic crosscurrents and societal changes that were set off by the pandemic.*

Thanks again for the confidence you show in allowing us to manage your capital.

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 01/07/2021, 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.

		ANNUALIZED RETURNS AS OF 12/31/20			
	1 YR	5 YR	10 YR	Net Expense	Gross Expense
Hickory Fund (WEHIX)	5.88%	8.18%	8.01%	1.09%	1.13%
Partners III Opportunity Fund - Investor (WPOIX)	8.82%	8.71%	8.69%	2.03%	2.03%
Partners Value Fund - Investor (WPVLX)	7.57%	8.48%	8.78%	1.09%	1.13%
Value Fund - Investor (WVALX)	18.43%	12.43%	11.52%	1.08%	1.08%
Balanced Fund - Investor (WBALX)	8.14%	7.70%	6.89%	0.85%	1.14%
Core Plus Income Fund - Investor (WCPNX)	10.19%	5.75%	N/A*	0.50%	1.18%
Nebraska Tax-Free Income Fund (WNTFX)	3.64%	1.84%	2.06%	0.45%	1.10%
Short Duration Income Fund - Investor (WSHNX)	3.27%	2.54%	2.08%	0.55%	0.95%
Ultra Short Government Fund (SAFEX)	1.01%	1.21%	0.61%	0.20%	0.71%

*Annualized return for WCPNX since its July 31, 2014, inception date is 4.63%.

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 and additional information.

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 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.

As of 12/31/2020, the following portfolio company constituted a portion of the net assets of Balanced Fund, Hickory Fund, Partners III Opportunity Fund, Partners Value Fund, and Value Fund as follows:

- Tesla (TSLA): 0.0%, 0.0%, 0.0%, 0.0%, 0.0%

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 weitzinvestments.com.

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