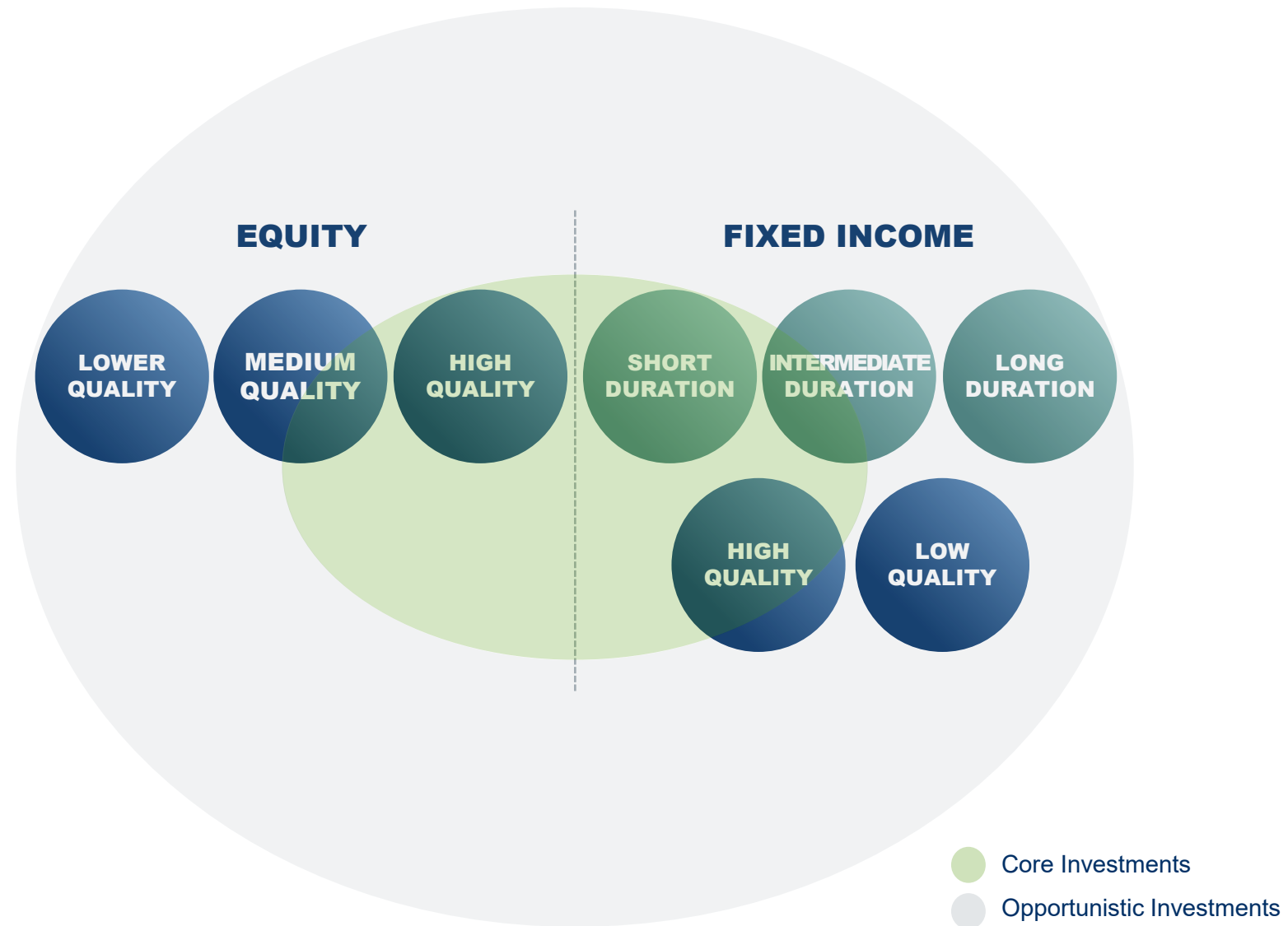
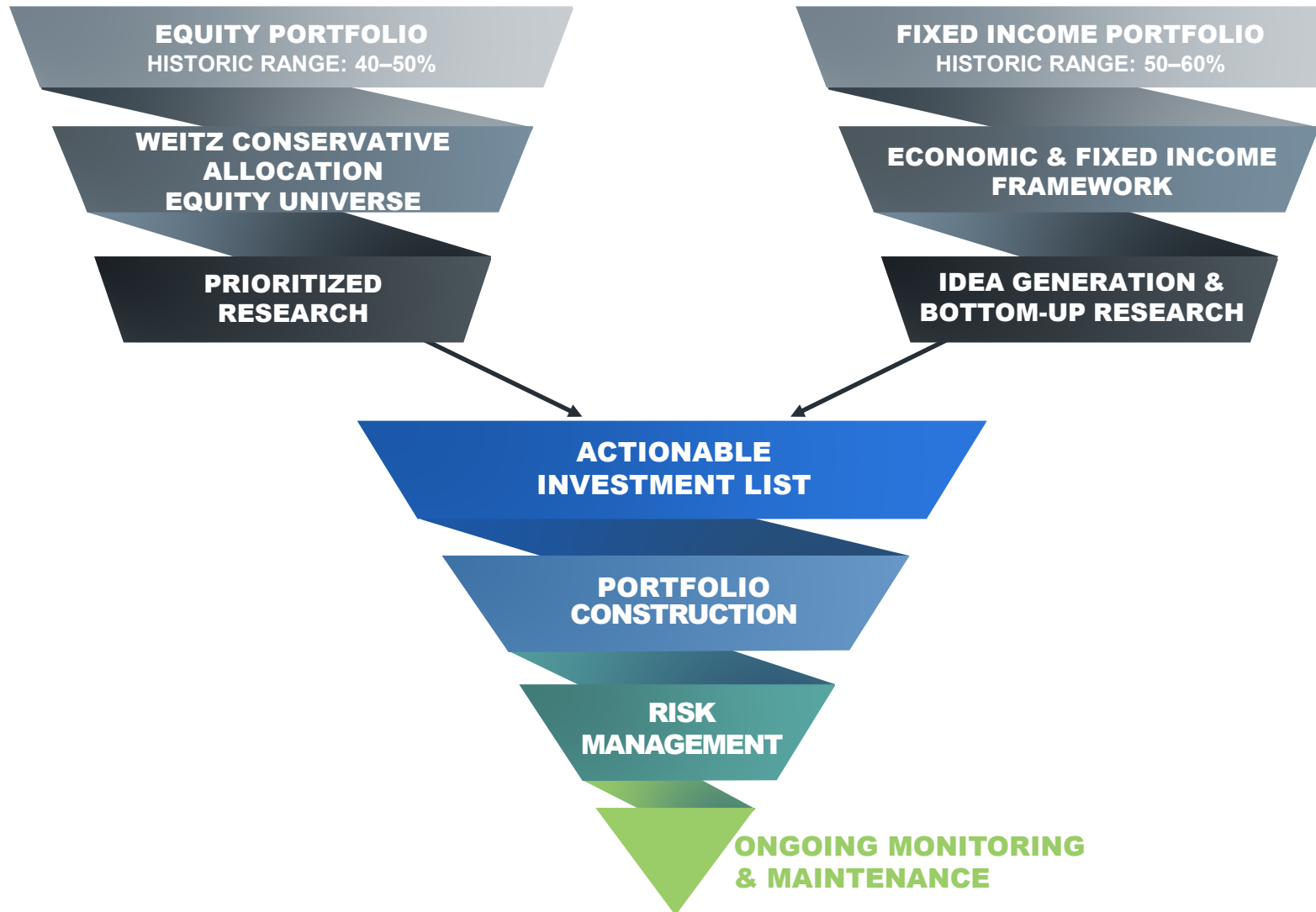


# PORTFOLIO COMPOSITION: QUALITY & SHORT DURATION FOCUS



# INVESTMENT PROCESS





# WEITZ CONSERVATIVE ALLOCATION EQUITY UNIVERSE



The Weitz Conservative Allocation Equity Universe allows for focused research efforts on companies that are demonstrating desirable qualitative and quantitative characteristics.



## KNOWLEDGE DATABASE OF INVESTMENT TEAM

- Historical direct company interaction and understanding
- Collaboration of portfolio managers and analysts



## QUALITATIVE COMPANY CHARACTERISTICS

- Moats
- Management
- Migration



## QUANTITATIVE SCREENS (ABSOLUTE & TREND METRICS)

- Operating Margin
- Return on Invested Capital
- Revenue Growth
- Leverage



# PPRIORITIZED EQUITY RESEARCH PROCESS



The process is designed to ensure structure and consistency in our research efforts, while also providing the Portfolio Managers the ability to act with flexibility and nimbleness.



## PRIORITIZED RESEARCH LIST

- Developed collaboratively by coverage area
- Forced rankings inform work flow
- Includes preliminary quality scoring
- Revisited at regular, rolling intervals



## SHORT FORM RESEARCH REPORT

- Critical elements of investment thesis
- Weitz Quality Score attributes detailed
- Business and valuation risks
- Base valuation analysis
- Due diligence milestones
- PM's determine actionable status



## FULL RESEARCH REPORT

- Investment thesis, with buy or monitor recommendation
- Company & industry evaluation
- Management assessment
- Weitz Quality Score assigned
- Variant views to consensus
- Essential risks to our thesis
- Scenario-based valuation analysis
- Full team review and vetting



# QUALITY ANALYSIS AND SCORING



Quality assessment based on qualitative and quantitative analysis

CHARACTERISTICS	QUALITY SCORES 1-2	QUALITY SCORES 3-4	QUALITY SCORES 5-7
Competitive Position	Highly entrenched	Healthy	Little clear edge
Cash Flow Consistency	Top quintile	Above average	Cyclical/unstable
Reinvestment Runway	Excellent	Visible	Limited
ROIC/Capital Efficiency	Attractive	Above average	Lower/poor trend
Management Quality	Top-tier	Capable	Undistinguished
Financial Leverage	Low	Reasonable	High-to-onerous



# ECONOMIC & FIXED INCOME MARKET FRAMEWORK



MACRO/ECONOMIC		
INFORMATIVE FACTORS	DESCRIPTION	CURRENT VIEW
Fiscal & Regulatory Policies	Outlook for deficit spending and regulatory changes	
Monetary Policies	Current Fed policy and forward commentary	
Inflation Expectations	Current and near-term inflation expectations	
Global Interest Rates	Current rates and near-term outlook primarily for the developed world	
Consumer Debt Load	Current trend and outlook	
Corporate Debt Health	General coverage ratios, trends and outlook	
Investor Sentiment	Investor mood on the markets and economy	

FUNDAMENTALS		
ACTIONABLE FACTORS	DESCRIPTION	CURRENT VIEW
Credit Spreads vs Long-Term Trend	Wide or narrow credit spreads vs a 5-yr avg	
Yield Spread vs Base Rate	Yield on a given BBB credit vs a 5-yr Treasury	
Relative Value Opportunities	What is the opportunity set among sectors	
Structured Products Spreads and Quality vs Corporates	What is the opportunity set across the sectors and issuer quality	

As of 6/30/19



# IDEA GENERATION & BOTTOM UP RESEARCH CORPORATE CREDIT



<b>Idea Generation</b>	Proprietary screens Industry and non-industry resources – publications, conferences, street research Primary and secondary market offerings
<b>Industry/ Issuer Analysis</b>	Competitive dynamics of the industry/issuer Seasonality and/or cyclicity Opportunities and threats Collaborate with the Weitz equity team for potential additional insight
<b>Credit Underwriting</b>	Analyze issuers ability to service current and expected debt Assess current leverage profile versus stated leverage targets Analyze historical balance sheet impact of capital allocation decisions and industry factors
<b>Capital Structure &amp; Funding Analysis</b>	Determine an annual cash flow cushion Determine reasonableness of maturity profile and potential need for divestitures, equity or debt issuance
<b>Covenants</b>	Analyze the indentures, credit agreements and other contracts to determine event risks as it pertains to the capital structure and investor's rights.
<b>Issuer Considerations</b>	Perform due diligence of issuers through discussions with company Review management statements versus actions Focus on demonstrated issuer/bondholders alignment
<b>Risk-Adjusted Return Framework</b>	Determine if investment provides a favorable risk/reward opportunity relative to peers and/or ratings



# IDEA GENERATION & BOTTOM UP RESEARCH STRUCTURED PRODUCTS



<b>Sector Idea Generation</b>	<p>Develop investment thesis and outlook for each sector under coverage</p> <p>Monitor industry and regulatory trends</p> <p>Relationships with issuers and banking/securitization channels.</p>
<b>Credit and Collateral Analysis</b>	<p>Assess borrower credit quality and ability to repay</p> <p>Determine loan-to-value</p> <p>Assess performance history and concentration limits</p> <p>Analyze frequency/severity of default</p>
<b>Structural Analysis</b>	<p>Comprehensive review of key structural features:</p> <ul style="list-style-type: none"><li>Trust Structure</li><li>Forms of Credit Enhancement</li><li>Priority of Payments, Performance Triggers and Amortization Events</li><li>Back-up Servicing Considerations</li></ul>
<b>Sponsor/Servicer Considerations</b>	<p>Perform due diligence of sponsor</p> <p>Evaluate sponsor quality based on operational and servicing capabilities, performance history, financial profile and liquidity analysis</p> <p>Focus on sponsors with adequate “skin in the game” and alignment with bondholders</p>
<b>Risk-Adjusted Return Framework</b>	<p>Focus on security selection across the capital structure incorporating three primary variables:</p> <ul style="list-style-type: none"><li>Credit Risk</li><li>Extension Risk</li><li>Liquidity Risk</li></ul>





# ACTIONABLE INVESTMENT LIST



The Actionable Investment List is designed to ensure portfolio managers have sufficient choice and flexibility in managing portfolios.

## THE ACTIONABLE INVESTMENT LIST

### Stocks available for purchase

- Stocks with an expected minimum return of 10% over time
- Based on short form report where PM may establish an entry position of up to 2%
- Based on full research report and investment team vetting

### Fixed Income Securities available for purchase

- Corporate or Structured securities with attractive absolute and/or relative risk/return

### Existing Portfolio holdings

Decision-making  
authority lies solely  
with the portfolio  
manager



# SELL DISCIPLINE



## SECURITY DRIVEN

- Stock trading above value estimates
- Better risk-adjusted opportunities available elsewhere
- When the fundamentals of the business have changed or original thesis proved to be inaccurate
  - > Formal re-underwriting if security declines 25% under normal market conditions
  - > Formal review of significant thesis changes



## PORTFOLIO DRIVEN

- Ensure portfolio reflects desired overall exposures



## RISK MANAGEMENT & ONGOING MONITORING AND MAINTENANCE



- Maximum return for risk assumed and downside protection are keys to strategy
- Risk is permanent loss of capital not price volatility

MANAGED	
RISK	DESCRIPTION
Valuation	Determine base, high and low case valuation scenarios. Buying at a discount to intrinsic value provides a margin of safety.
Position Size (Equity)	2% initial – at cost 2-3% core – at market value 3.5% maximum – at market value
Issuer Size	5% combined equity and fixed income
Industry	25% maximum to any one industry
Duration	Actively managed within a range of 1-5 years.
Credit Quality	Limit of 20% to non-investment grade
Liquidity	Internal and 3rd party assessment