CORE PLUS INCOME FUND

Portfolio Managers: Tom Carney, CFA & Nolan Anderson
Investment Style: Intermediate-Term Bond

The Core Plus Income Fund's Institutional Class returned +8.50% for the second quarter compared to a +2.90% return for the Bloomberg Barclays U.S. Aggregate Bond Index (the Fund's primary benchmark). Year to date, the Fund's Institutional Class returned +5.26% compared to a +6.14% return for the benchmark. A complete reversal of the first quarter's dramatic repricing of credit risk is the principal reason for the Fund's second-quarter outperformance.

While significant economic uncertainty remains, overall we are pleased with the credit performance of our portfolio. The Fund's second-quarter results represented a solid recovery from the first quarter's decline. The second quarter also reinforced, in quick fashion, our statement from the first quarter about temporary setbacks often setting the stage for better days ahead.

Due to the quarter's strong performance, the Fund's overall yield-to-worst (YTW) declined to 4.9% as of June 30 from 6.6% as of March 31. As a reminder, YTW has historically been a reasonable predictor of forward returns. And while favorable reinvestment opportunities are becoming more challenging to uncover, we continue to like what we own, and our YTW at quarter-end remains quite favorable compared to the benchmark's yield-to-worst of 1.25%.

Portfolio Positioning

The table below shows the change in allocation to various sectors, from Q1 2020 to Q2 2020 and from June 30, 2019, to June 30, 2020. This summary shows how we have allocated capital over time. Since our goal is to seek to invest in sectors that we believe offer the best risk-adjusted returns, our allocations may change significantly over time.

SECTOR ALLOCATION (% of Net Assets)

	06/30/2020	03/31/2020	Qtr Over Qtr Change (bps)	06/30/2019	Year Over Year Change (bps)
Corporate Bonds	37.8	35.0	+280	25.0	+1,280
Corporate Convertible Bonds	1.6	1.2	+40	1.2	+40
Asset-Backed Securities (ABS)	29.1	28.8	+30	25.2	+390
Commercial Mortgage-Backed Securities (CMBS)	9.4	11.0	-160	11.2	-180
Agency Mortgage-Backed (MBS)	1.2	1.6	-40	2.1	-90
Non-Agency Mortgage Backed (RMBS)	2.2	2.6	-40	1.9	+30
Taxable Municipal Bonds	0.4	0.4	0	0.4	0
U.S. Treasury	16.6	18.1	-120	27.6	-950
Common Stocks	0.2	0.1	+10	0.3	-10
Cash & Equivalents	1.5	1.2	+30	5.1	-360
Total	100.0	100.0		100	0
High Yield†	15.1	12.5	+260	8.0	+710
Effective duration (years)	4.7	4.6	+10	4.2	+50
Effective maturity (years)	5.8	5.8	0	5.2	+60

†High-Yield exposure (as of 06/30/2020) consists of investments in the Corporate, Corporate Convertible, ABS and CMBS sectors.

The corporate bond sector has garnered the most investment activity over the past several quarters and has increased by 1,280 basis points year-over-year, as shown in the table above. We funded most of these investments by selling down our Treasury holdings. A significant widening in credit spreads drove the shift in capital allocation. While U.S. Treasuries provide historically low nominal yields, they nonetheless provide portfolio diversification and risk management benefits, which we believe are prudent during these unprecedented economic times.

As of June 30, our high-yield exposure was 15.1%, up from 12.5% as of March 31, 2020. We took advantage of significant spread widening during the quarter, and we maintain ample capacity (25% portfolio limit) to take advantage of further bouts of market volatility.

In terms of overall portfolio metrics, the average effective maturity was unchanged at 5.8 years and the average effective duration increased to 4.7 years from 4.6 years (versus 6.0 years for the benchmark as of June 30, 2020). These measures provide a guide to the Fund's interest rate sensitivity. A lower average effective maturity and shorter average effective duration reduce the Fund's price sensitivity to changes in interest rates (either up or down).

Top Quarterly Contributors

Sector allocation and security selection were the key drivers of performance.

- **Corporate Bonds:** Our corporate bond segment drove the vast majority of total return during the second quarter on the back of tighter credit spreads. Our high-yield energy, Redwood Trust convertible bonds and longer duration investment-grade corporate bonds were the standout credits.

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- **Asset-Backed Securities (ABS):** Our ABS portfolio, driven by our automobile and unsecured consumer ABS holdings, provided solid coupon income and capital appreciation. Please see our Consumer ABS update below.

Top Quarterly Detractors

- No sector materially detracted from performance during the second quarter.

Consumer ABS Update

After a very tumultuous first quarter, we are pleased to report generally benign credit trends across our consumer ABS portfolio. Extraordinary fiscal and monetary stimulus, along with consumer-friendly payment assistance/deferral programs, have led to lower-than-expected delinquency and default rates. As a result, our ABS investments have become more creditworthy as incoming cash flow (i.e. monthly principal and interest payments) are used to pay down the most senior notes, generating additional credit support for the remaining bonds (due to overcollateralization and increased subordination from the most junior tranches). In addition, our sponsors have taken advantage of strong capital market conditions to improve their liquidity and funding profiles. However, there remains significant uncertainty around the strength and breadth of the economic recovery. Without any additional near-term fiscal stimulus, it seems likely that weaker credit performance will prevail in the second half of the year. We are also carefully monitoring the early stage delinquency trends as most of the payment assistance and deferral programs end before August. If we zoom out to look at the big picture, we recognize that credit cycles take time to play out and this one is far from over.

In terms of the ABS market itself, liquidity has improved dramatically, and the new issue market has come roaring back. Yet, the uncertainty around future credit performance has forced rating agencies to incorporate the current economic environment and higher expected losses into their modeling assumptions. To compensate for a more uncertain future and higher expected losses, issuers must provide investors substantively higher credit enhancement than was the case a few months ago. This positive change in structural protections for investors is an underappreciated aspect of the ABS market. We have selectively participated in recent new issuance ABS to take advantage of improved structural protections afforded to investors.

Outlook – crediting the 'elephant' in the room

In a June testimony to the Senate Banking Committee, Federal Reserve Chair Powell downplayed the significance of the Fed's recent decision to begin buying corporate bonds. "I don't see us as wanting to run through the bond market like an elephant, doing things and snuffing out price signals," said Powell. "We just want to be there if things turn bad in the economy."

The monetary goals of the Federal Reserve have always played a key role in credit markets and the economy via its two-fold mission of price stability and full employment. As a result of the economic downturn of 2007 to 2009 ("Great Recession"), the Fed took actions to expand its powers/reach through quantitative easing programs (central bank purchases of longer-term securities in the open market). During the COVID-19 crisis, the Fed put its powers on steroids. Besides using programs from the Great Recession, the Fed is now directly involved in buying and accumulating corporate bond exchange-traded funds (ETFs) and individual corporate bonds. The Fed has long jawboned the markets through its press releases and public discourses – but despite its own desires to not be ***that*** pachyderm, it has become ***the*** elephant in the room. It has squashed interest-rate levels and volatility for the foreseeable future. It has banished the bond market vigilantes – those of us who keep the marketplace functioning by sniffing out prices that are too high or too low – to some sort of financial market Purgatory. And its direct purchases of corporate bonds (via its Primary and Secondary Corporate Credit Facility) may not have snuffed out price signals – but it clearly has given investors the 'all clear' signal.

Where does that leave fixed-income investors today knowing there is a nearly insatiable buyer (elephant) now present in the marketplace? Challenged, for sure, if your investable universe consists primarily of the segments of the marketplace being ***directly*** impacted by the Fed's checkbook.

Our fixed-income funds have broad, flexible mandates that, we believe, allow us to navigate the increasingly lower return environment by identifying investment opportunities less influenced by Fed intervention (such as structured products).

Our goals remain the same. Namely, to preserve capital, maintain a strong liquidity position, understand evolving risks and opportunities, selectively take advantage of favorable risk/reward opportunities, and conduct consistent/thorough credit surveillance.

We remain ready to take advantage of any further valuation disparities that may develop and hope to continue to earn your trust.

Fixed Income Insights: The Elephant in the Marketplace

Actions by the Fed have stimulated the economy, but have also created challenges in the fixed-income market. Find out where we're discovering opportunities.

CORE PLUS INCOME FUND

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Average Annual Total Returns

AS OF 06/30/2020	YTD	1-year	3-year	5-year	10-Year	Since Inception	Inception Date	Net Expense	Gross Expense
Core Plus Income Fund - Investor (WCPNX)	5.18%	7.41%	4.90%	4.49%	N/A	4.21%	07/31/2014	0.50%	1.42%
Core Plus Income Fund - Institutional (WCPBX)	5.26%	7.50%	5.09%	4.69%	N/A	4.40%	07/31/2014	0.40%	0.96%
Bloomberg Barclays U.S. Aggregate Bond	6.14%	8.74%	5.32%	4.30%	N/A	3.99%	-	-	-

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. 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 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 U.S. Aggregate Bond Index** is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market.

Holdings are subject to change and may not be representative of the Fund's current or future investments.

The Fund receives credit quality ratings on portfolio securities when available from credit rating agencies. The Fund itself has not been rated by a credit rating agency. Ratings and portfolio credit quality may change over time. A security is "investment grade" when it has received a credit quality rating of at least BBB. If a security has received different ratings from more than one rating agency, then the highest rating is used. Mortgage related securities issued and guaranteed by government sponsored agencies such as Fannie Mae and Freddie Mac are generally not rated by rating agencies. Securities which are not rated do not necessarily indicate low quality. Fannie Mae's and Freddie Mac's senior long-term debt are currently rating Aaa and AAA by Moody's and Fitch, respectively.

Definitions: Average effective duration provides a measure of a fund's interest-rate sensitivity. The longer a fund's duration, the more sensitive the fund is to shifts in interest rates. **Average effective maturity** is the weighted average of the maturities of a fund's underlying bonds. **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.

The views and opinions expressed here are those of the portfolio managers as of 07/20/2020, are subject to change with market conditions, and are not meant as investment advice. For informational purposes only. Not an investment recommendation.

Consider these risks before investing: All investments involve risks, including possible loss of principal. Market risk includes political, regulatory, economic, social and health risks (including the risks presented by the spread of infectious diseases). Changing interest rates may have sudden and unpredictable effects in the markets and on the Fund's investments. The Fund may purchase lower-rated and unrated fixed-income securities, which involve an increased possibility that the issuers of these may not be able to make payments of interest and principal. See the Fund's prospectus for a further discussion of risks.

Investors should consider carefully the investment objectives, risks, and charges and expenses of a fund before investing. This and other important information is contained in the prospectus and summary prospectus, which may be obtained at weitzinvestments.com or from a financial advisor. Please read the prospectus carefully before investing.

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