3Q 2021

# 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 +0.21% for the third quarter compared to +0.05% for the Bloomberg U.S. Aggregate Bond Index. Year-to-date, the Fund's Institutional Class has returned +1.67% compared to -1.55% for the index. Third quarter outperformance was driven by strong security selection and our lower-than-index duration positioning, particularly as interest rates increased toward the end of the quarter.

The Fund's overall yield to worst (YTW) decreased from 2.0% on June 30, 2021, to 1.8% on September 30, 2021. As a reminder, YTW has historically been a reasonable predictor of forward returns. While prospective returns in fixed income remain challenging, our YTW at quarter-end remains favorable compared to the index's YTW of 1.6%. Additionally, the Fund has a shorter average effective duration of 4.8 years compared to 6.6 years for the index (by definition, the shorter a fund's duration, the less sensitive it will be to shifts in interest rates, whether up or down).

As discussed in this quarter's Fixed Income Insights, the risk-taking environment remains challenging with credit spreads and all-in yields near the low end of their historical ranges. Interest rates, despite increasing recently, remain historically low and negative across the yield curve on a real basis. We believe fixed income investors must remain cautious and patient in this kind of environment. While pockets of opportunity remain, we are cautious on corporate credit, particularly long-duration assets. Fundamentals for our corporate borrowers are solid and, in many cases, improving, but this positive outlook appears to be already priced in. Furthermore, with company balance sheets largely improved, capital allocation is now shifting to increasingly shareholder-friendly activities such as dividends, share repurchases, and mergers and acquisitions. As such, our corporate portfolio represents only one-third of Fund assets with a duration of approximately 3.5 years, which is low by index standards.

We are also remaining cautious in terms of interest rate risk. As interest rates have risen in 2021, the Fund's duration positioning has increased steadily but is still 25% lower than the index. While we patiently wait for better risk/reward opportunities in corporate credit, we have increased the amount of floating-rate securities to approximately 20% of the portfolio, mostly in the form of middle-market collateralized loan obligations (CLOs) and commercial real estate (CRE) CLOs. Floating-rate securities are built with variable interest rates, thereby allowing our portfolio to benefit if interest rates reprice materially higher. If some of the inflationary risks in the U.S. economy prompt the Federal Reserve to hike rates, our floating-rate securities will improve the overall income generation of the portfolio. In contrast, the index is prohibited from owning floating-rate securities.

### Portfolio Positioning

The table below shows how we have allocated portfolio capital to various sectors over the past quarter and year. Since our goal is 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)

| | 9/30/2021 | 6/30/2021 | Qtr Over Qtr Change | 9/30/2020 | Yr Over Yr Change |
|---|---|---|---|---|---|
| Corporate Bonds | 33.0 | 30.3 | +2.7 | 36.1 | -3.1 |
| Corporate Convertible Bonds | 0.7 | 1.0 | -0.3 | 1.5 | -0.8 |
| Asset-Backed Securities (ABS) | 18.4 | 20.4 | -2.0 | 28.1 | -9.7 |
| *Corporate Collateralized Loan Obligations (CLOs)** | *8.1* | *7.2* | *+0.9* | *1.2* | *+6.9* |
| Commercial Mortgage-Backed Securities (CMBS) | 8.8 | 10.1 | -1.3 | 7.2 | +1.6 |
| Agency Mortgage-Backed (MBS) | 1.8 | 0.3 | +1.5 | 0.9 | +0.9 |
| Non-Agency Mortgage Backed (RMBS) | 0.9 | 0.5 | +0.4 | 1.8 | -0.9 |
| Non-Convertible Preferred Stock | 0.7 | 1.1 | -0.4 | 1.6 | -0.9 |
| Taxable Municipal Bonds | 0.9 | 0.0 | +0.9 | 0.3 | +0.6 |
| U.S. Treasury | 30.8 | 30.0 | +0.8 | 15.2 | +15.6 |
| Common Stock | 0.0 | 0.0 | +0.0 | 0.8 | -0.8 |
| Cash & Equivalents | 3.9 | 6.3 | -2.4 | 6.5 | -2.6 |
| Total | 100.0 | 100.0 | | 100.0 | |
| High Yield** | 12.1 | 15.0 | -2.9 | 16.3 | -4.2 |
| | | | | | |
| Effective duration (years) | 4.8 | 4.7 | +0.1 | 4.4 | +0.4 |
| Effective maturity (years) | 6.5 | 6.4 | +0.1 | 5.5 | +1.0 |

*Corporate CLOs are included in the ABS segment in the Fund's schedule of investments but are additionally called out separately for the purposes of the discussion.
**High-Yield exposure (as of 9/30/2021) consists of investments in the Corporate, Corporate Convertible, ABS, and CMBS sectors.

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Notable investment activity included:

- **Corporate bonds** led third-quarter activity, with a focus primarily on 5-7-year maturities led by cyclical sectors (i.e., airlines, entertainment, and energy) that experienced spread widening during the quarter. We also initiated new positions in two business development companies (BDCs), Ares Capital Corporation and Hercules Capital. Both operate high-quality lending franchises and have solid investment-grade balance sheets.

- **Asset-backed securities (ABS)** issued by Theorem. Theorem is a nearly 10-year-old company that is harnessing machine learning and 'big data' (data sets that are too large and complex for processing by traditional database management tools) to originate online loans directly to borrowers in what has been termed "Marketplace Lending." Theorem believes this business model will enable it to disrupt/replace conventional lenders (banks, credit unions and credit cards) and expand the universe of credit-worthy borrowers.

- **Middle-market collateralized loan obligations (CLOs)** issued by Monroe Capital, Audax, and Golub. We continue to add to and expand our middle-market CLO holdings with the addition of these three new sponsors. We invested in a combination of senior-most, AAA tranches, to third-most-senior, A tranches. Our middle-market CLO portfolio is now diversified across nine different sponsors, giving us broad exposure to middle-market companies of varying sizes spread across a wide variety of industries.

WEITZ INVESTMENT INSIGHTS

**FIXED INCOME INSIGHTS:**

**Managing Risks vs. Managing Returns**

*In a fixed income environment where opportunities are hard to come by, inflation concerns are rampant, and the economy faces hurdles on its path to recovery, successful management of risks will play a critical role in achieving returns.*

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- **Commercial Real Estate (CRE) CLO** issued by KKR. We continued to add to our CRE CLO exposure with investments in this well-known sponsor that has significant experience in the transitional lending business. We invested in a AA-rated tranche. Our CRE CLO portfolio is now comprised of ten different sponsors giving us diversification by property type, loan size, and geography.

- **U.S. Treasuries** maturing in 5 to 25 years.

As of September 30, 2021, our high-yield exposure as a percent of net assets was 12.1%, down from 15.0% on June 30, 2021. In terms of overall portfolio metrics, the average effective maturity increased to 6.5 years from 6.4 years, and the average effective duration increased to 4.8 years from 4.7 years over the same timeframe.

### Top Quarterly Contributors

Our overweight in securitized debt, particularly ABS and commercial mortgage-backed securities (CMBS), was the largest positive contributor to performance during the third quarter.

- **ABS:** Our ABS investments across all categories (e.g., auto, consumer, corporate CLOs, equipment) provided solid coupon income and modest capital appreciation.

- **CMBS:** Our CMBS segment experienced modest price appreciation and solid coupon income in the quarter as overall credit performance remains solid across our various CRE CLOs and single-asset, single-borrower holdings.

- **Corporate Bonds:** Our corporate bond portfolio, led by high-yield securities, contributed positively during the quarter as credit spreads tightened. We also benefited from having a shorter corporate maturity profile relative to the index.

### Top Quarterly Detractors

- **U.S. Treasury Bonds:** Our U.S. Treasury holdings detracted from performance as interest rates rose toward the end of the quarter. Our longer-duration Treasuries (20-30 year) were most negatively impacted as the Treasury curve steepened.

### Fund Strategy

Our approach consists primarily of investing in a diversified portfolio of high-quality bonds while maintaining an overall portfolio average duration of 3.5 to 7 years. Our goal is to capture attractive coupon income and potential price appreciation by investing in longer-duration and lower-quality bonds when attractively priced. We may invest up to 25% in fixed-income securities that are not considered investment-grade (such as high-yield and convertible bonds as well as preferred and convertible preferred stock) but have favorable risk/reward characteristics.

We do not, and will not, try to mimic any particular index as we construct our portfolio. We believe our flexible mandate and concentrated portfolio will benefit investors over the long term. We utilize a bottom-up, research-driven approach and select portfolio assets one security at a time based on our view of opportunities in the marketplace. Our fixed income research is not dependent on, but often benefits from, the due diligence work our equity teammates conduct on companies and industries.

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Weitz | INVESTMENT MANAGEMENT

Overall, we strive to be adequately compensated for the risks assumed in order to maximize investment (or reinvestment) yield and to avoid making interest rate bets, particularly ones that depend on interest rates going down. We have often maintained a lower duration profile than the index, particularly in very low-yield environments. Our shorter duration profile has benefited shareholders in periods of rising interest rates.

Maintaining a diversified portfolio and liquidity reserves is a key element of our risk management approach. As a result, we have not held back from owning U.S. Treasury bonds, and at times like now, ample cash reserves. We believe this approach has served clients well, particularly in extreme market environments like the pandemic brought upon us in March 2020.

## Average Annual Total Returns

**AS OF 09/30/2021**

| | YTD | 1 YR | 3 YR | 5 YR | 10 YR | Since Fund Inception | Inception Date | Net Expense | Gross Expense |
|---|---|---|---|---|---|---|---|---|---|
| Core Plus Income Fund - Investor (WCPNX) | 1.52% | 4.07% | 6.86% | 4.34% | N/A | 4.36% | 07/31/2014 | 0.50% | 0.93% |
| Core Plus Income Fund - Institutional (WCPBX) | 1.67% | 4.26% | 7.03% | 4.52% | N/A | 4.55% | 07/31/2014 | 0.40% | 0.59% |
| Bloomberg U.S. Aggregate Bond | -1.55% | -0.90% | 5.35% | 2.94% | N/A | 3.24% | - | - | - |

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 10/19/2021, 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.

**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 07/31/2022 (and in the case of the Core Plus Fund Institutional Class, through 07/31/23).

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 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.

Credit ratings are assigned to underlying securities utilizing ratings from a Nationally Recognized Statistical Rating Organization (NRSRO) such as Moody's and Fitch, or other rating agencies and applying the following hierarchy: security is determined to be Investment Grade if it has been rated at least BBB- by one credit rating agency; once determined to be Investment Grade (BBB- and above) or Non-Investment Grade (BB+ and below) where multiple ratings are available, the lowest rating is assigned. 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 that are not rated do not necessarily indicate low quality. Ratings are shown in the Fitch scale (e.g., AAA). Ratings and portfolio credit quality may change over time. The Fund itself has not been rated by a credit rating agency.

**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 BB+ and below by one or more credit ratings agencies. **Middle market CLOs** refer to collateralized loan obligations backed by loans made to smaller companies, which companies generally have earnings before interest, taxes, and amortization of less than $75 million. **Yield to worst (YTW)** is the lowest potential yield that can be received on a bond portfolio without the underlying issuers defaulting.

**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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