

NEBRASKA TAX-FREE INCOME FUND

Portfolio Managers: Tom Carney, CFA
Investment Style: Municipal-State Bond

The Nebraska Tax-Free Income Fund returned +3.48% in the third quarter compared to a +3.05% return for the Bloomberg 5-Year Municipal Bond Index. For the full calendar year, the Fund's total return was -4.84% compared to a -5.26% return for the index.

Overview

Signs of easing inflationary pressures in the fourth quarter and, with that, hope that the Federal Reserve will slow or pause tightening monetary policy, provided some respite from an otherwise brutal year for fixed-income investors.

The Federal Reserve delivered a fourth consecutive super-sized 0.75% interest rate hike to the federal funds rate in November before slowing its pace to an increase of 0.50% in December, resulting in a 4.25-4.50% target rate by year-end. In the minutes released from the Fed's December 2022 meeting, Federal Open Market Committee (FOMC) members' projections (known as the 'dot plot') showed a median year-end 2023 estimate for the federal funds rate target of 5.125%, with an upward skew to that median (17 of the 19 committee member estimates were above 5%).

It's worth noting that despite the economic data at the Fed's disposal (arguably vastly superior to all market participants), their 'crystal ball' is as cloudy as everyone else's. Case in point, in the Fed minutes from December 2021, 16 of 18 FOMC participants had projected end-of-year 2022 'dots' below 1% (with a median dot for end of year 2024 of 2.1%). There were even a number of people still thinking inflation would prove 'transitory'. So much for forecasts. More evidence of why we eschew making too many (if any).

Municipal bonds outperformed Treasuries in the fourth quarter as yield ratios of municipal bonds relative to comparable U.S. Treasuries declined. The ratio of the 5-year AAA-rated municipal bond to the 5-year Treasury, for example, declined from 77% on September 30, 2022, to 64% on December 31, 2022. This ratio, which registered a 20+ year monthly low at year-end 2021 and is now below the 10-year average, remains a reasonably useful tool in measuring the relative attractiveness of tax-free municipal bonds compared to U.S. Treasury bonds.

The table below provides an overview of full-year performance across various segments of the municipal bond marketplace.

Muni Sectors	Year 2022
Investment Grade	-7.7%
Main / Broad	-8.1%
Taxable	-16.3%
High Yield	-12.8%
Short-term	-2.1%
Power	-6.4%
Intermediate	-6.5%
General Obligation	-7.7%
Water and Sewer	-8.6%
Education	-9.0%
Transportation	-9.1%
Hospital	-10.3%
Housing	-11.9%
Long-term	-14.9%

Source: Morgan Stanley Research, S&P Dow Jones Muni Indices



FIXED INCOME INSIGHTS: Bonds are Back / Return of Income

The past 12 months have been challenging for fixed income investors. But as we enter 2023, the bond landscape is no longer an environment of 'return-free risk.' Rather, it is filled with new opportunities to generate income from a portfolio of fixed income securities.

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While 2022 was a brutally memorable year for all fixed-income investors, if not one to forget, it also set the stage for more favorable forward returns. This can be seen in the Fund's improved yield-to-worst (YTW) metric. As a reminder, YTW has historically been a reasonable predictor of forward returns. The Fund's YTW increased to 2.9% on December 31, 2022, from 0.8% on December 31, 2021.

Top Quarterly Contributors

- School district general obligation bonds issued by Wayne County, Nebraska, School District; Papillion-La Vista, Nebraska, School District; Sarpy County, Nebraska, School District (Bellevue); and Dodge County, Nebraska, School District
- Tax-supported lease revenue bonds issued by Omaha, Nebraska, Public Facilities Corporation; Sarpy County, Nebraska, certificates of participation; and Papillion, Nebraska, Municipal Facilities Corporation
- City general obligation bonds issued by Bellevue, Norfolk, and Columbus, Nebraska
- Combined utility revenue bonds issued by Dawson, Grand Island, Columbus, and Municipal Energy Agency of Nebraska
- General revenue bonds issued by Boys Town Village

Top Quarterly Detractors

- No segment generated negative results in the quarter.

Turning to portfolio metrics, the average effective duration of the Fund decreased in the quarter to 3.6 years on December 31, 2022, from 3.9 years on September 30, 2022. Average effective maturity increased to 4.0 years from 4.8 years over the same time period. Overall asset quality remains high, with approximately 86.7% rated A or better by one or more of the nationally recognized statistical rating organizations.

While it is particularly unpleasant to report on this year's Fund performance, we are pleased to report that, in our view, the underlying fundamentals (credit quality) of most of our investments performed well — and we believe potential forward returns have improved dramatically as highlighted by the Fund's improved yield-to-worst.

Following are additional details regarding the breakdown of our holdings. Our investments are broad, and they are all backed by a consistent philosophy: we strive to own only those investments we believe compensate us for the incremental credit risk. Our overall goal is to invest in a portfolio of bonds of varying maturities that we believe offer attractive risk-adjusted returns, taking into consideration the general level of interest rates and the credit quality of each investment.

Portfolio Allocation (% of Portfolio)		
Revenue		57.7
Power	15.0	
Hospital	9.7	
Lease	8.2	
General	6.8	
Water/Sewer	5.8	
Certificates of Participation	4.2	
Airport/Transportation	3.3	
Housing	2.7	
Higher Education	2.0	
General Obligation		24.8
School District	13.2	
County	6.7	
City/Subdivision	4.2	
State/Commonwealth	0.7	
Escrow/Pre-Refunded		6.6
Cash Equivalent/Other		10.9

CREDIT QUALITY (% of Portfolio)	
AAA	6.3
AA	59.6
A	20.8
BBB	1.4
BB	0.0
B	0.0
CCC	0.0
Not Rated	1.7
Cash Equivalents/Other	10.2

RETURNS (%)	TOTAL RETURNS		AVERAGE ANNUAL TOTAL RETURNS								Since Inception	Net Expense	Gross Expense
	QTR	YTD	1-YR	3-YR	5-YR	10-YR	20-YR	30-YR	35-YR	(10/1/1985)			
WNTEX	3.48	-4.84	-4.84	-0.34	0.72	0.80	2.15	3.28	3.81	4.08	0.45	1.02	
Bloomberg 5-Year Municipal Bond Index	3.05	-5.26	-5.26	-0.29	1.23	1.53	2.88	3.87	n/a	n/a	-	-	

This material must be preceded or accompanied by a [prospectus or summary prospectus](#).

Data is for the quarter ending 12/31/2022. 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 01/20/2023, 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 07/31/2023.

The Gross Expense Ratio reflects the total annual operating expenses of the fund before any fee waivers or reimbursements. 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. The net expense ratio represents what investors are ultimately charged to be invested in a mutual fund. On 12/29/2006, the Nebraska Tax-Free Income Fund succeeded to substantially all of the assets of Weitz Income Partners Limited Partnership. The investment objectives, policies and restrictions of the Fund is materially equivalent to those of the Partnership, and the Partnership was managed at all times with full investment authority by the Investment Adviser. The performance information includes performance for the Partnership. The Partnership was not registered under the Investment Company Act of 1940 and, therefore, were not subject to certain investment or other restrictions or requirements imposed by the 1940 Act or the Internal Revenue Code. If the Partnership had been registered under the 1940 Act, the Partnership's performance might have been adversely affected.

Index performance is hypothetical and is shown for illustrative purposes only. You cannot invest directly in an index. The **Bloomberg 5-Year Municipal Bond index** is a capitalization weighted bond index generally representative of major municipal bonds of all quality ratings with an average maturity of approximately five years.

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

Income from municipal securities is generally free from federal taxes and state taxes for residents of the issuing state. While the interest income is tax-free, capital gains, if any, will be subject to taxes. Income for some investors may be subject to the federal Alternative Minimum Tax (AMT).

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. Mortgagerelated 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. **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. These risks include market risks, such as political, regulatory, economic, social and health risks (including the risks presented by the spread of infectious diseases). In addition, because the Fund may have a more concentrated portfolio than certain other mutual funds, the performance of each holding in the Fund has a greater impact upon the overall portfolio, which increases risk. See the Fund's prospectus for a further discussion of risks related to the Fund.

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.

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