

The Nebraska Tax-Free Income Fund returned -2.86% in the third quarter compared to a -2.03% return for the Bloomberg 5-Year Municipal Bond Index. Year-to-date, the Fund's total return was -1.70% compared to a -0.86% return for the index. Underperformance has been primarily driven by the Fund's nearly 30% exposure to investments maturing beyond seven years where the year-to-date increase in interest rates had the largest impact on valuations.

## Overview

In July, the Federal Reserve delivered its eleventh increase to the federal funds rate since the cycle began in March 2022, resulting in a 5.25-5.50% target rate at quarter-end. Despite a well-telegraphed pause at the September meeting, the Federal Reserve's message was clear: the inflation fight is not done. The Fed reinforced its higher for longer messaging by removing two interest rate cuts from its latest "dot plot" forecast of Fed rate policy (Fed officials now see a fed funds rate of 5.00-5.25% in 2024, as compared to 4.50-4.75% at the June Meeting), raising its economic growth forecast and lowering its year-end unemployment target to 3.7% from 3.9% in June.

This may suggest the Fed believes the economy is too strong for them to achieve their inflation objectives despite its expectation that core inflation will peak at 3.7% this year — lower than June's projection of 3.9% — before cooling to 2.6% in 2024. Given that the Fed believes monetary policy works primarily through the "wealth effect" channel, the Fed may be trying to tighten financial conditions by engineering higher long-term interest rates and, therefore, higher borrowing costs for consumers and businesses. In a speech on September 28, following the Fed's September policy meeting, Chairman Powell stated "one of our goals is to influence spending and investment decisions today and in the months ahead."

Municipal bonds underperformed Treasuries in the third quarter as yield ratios of municipal bonds relative to comparable U.S. Treasuries moved higher. The ratio of the 5-year AAA-rated municipal bond to the 5-year Treasury (MT ratio), a metric we often use as a reasonable comparison to the makeup (average life and duration) of our Fund, increased from 63% on June 30, 2023, to 73% on September 30, 2023. This ratio, which is modestly below the 10-year monthly average, remains a reasonably useful tool in measuring the relative attractiveness of tax-free municipal bonds compared to U.S. Treasury bonds. All else equal, the higher the MT ratio, the more appealing municipal bonds become given their tax-advantaged status.

## Top Quarterly Contributors

- No segment generated positive results in the quarter

## Top Quarterly Detractors

- City general obligation bonds issued by Norfolk, Bellevue, Kearney, and Blair, Nebraska
- School district general obligation bonds issued by Wayne County, Nebraska, Winside School District; Dodge County, Nebraska, School District; Sarpy County, Nebraska, School District (Bellevue); and Papillion-La Vista, Nebraska, School District
- Tax-supported lease revenue bonds issued by Omaha, Nebraska, Public Facilities Corporation; Papillion, Nebraska, Municipal Facilities Corporation; and Sarpy County, Nebraska, certificates of participation
- Combined utility revenue bonds issued by Dawson, Columbus, and Grand Island, Nebraska
- County general obligation bonds issued by Seward County, Nebraska, and Bexar County, Texas
- General revenue bonds issued by Boys Town Village
- Hospital revenue bonds issued by Douglas County, Nebraska, Health Facilities (Nebraska Medicine)
- Single-family housing revenue bonds issued by Nebraska Investment Finance Authority

## Portfolio Metrics

Turning to portfolio metrics, the average effective duration of the Fund increased in the quarter to 3.9 years on September 30, 2023, from 3.5 years on June 30, 2023. During the same time period, average effective maturity increased to 5.1 years from 4.1 years. Overall asset quality remains high, with approximately 93% rated A or better by one or more of the nationally recognized statistical rating organizations.

While it is unpleasant to report on this year's Fund performance, we believe potential forward returns have improved dramatically as highlighted by the Fund's improved yield-to-worst (YTW) (4.1% as of September 30, 2023). As a reminder, YTW has historically been a reasonable predictor of forward returns. In addition, the Fed's higher-for-longer stance is feeding a sustained environment of elevated yields which, we believe, is providing one of the most attractive entry points for municipal investors in more than a decade.



### FIXED INCOME INSIGHTS: Where are We Now?

*An uncertain path for interest rates, questions over economic strength, and a tug-of-war between the Fed and the U.S. government continue to fuel challenges for fixed income investors. In today's environment, the ability to cast a wide net in the bond markets is especially important.*

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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		60.1
Power	16.5	
General	11.5	
Hospital	10.1	
Water/Sewer	6.1	
Certificates of Participation	4.3	
Airport/Transportation	3.6	
Housing	3.1	
Lease	2.7	
Higher Education	2.2	
General Obligation		29.0
School District	13.8	
City/Subdivision	8.4	
County	6.1	
State/Commonwealth	0.7	
Escrow/Pre-Refunded		5.1
Cash Equivalent/Other		5.8

CREDIT QUALITY (% of Portfolio)	
AAA	8.9
AA	57.5
A	26.7
BBB	0.5
BB	0.0
B	0.0
CCC	0.0
Not Rated	1.8
Cash Equivalents/Other	4.5

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)			
<b>WNTEX</b>	-2.86	-1.70	1.73	-1.80	0.52	0.69	1.91	3.01	3.60	3.95		0.46	0.96
Bloomberg 5-Year Municipal Bond Index	-2.03	-0.86	2.16	-1.71	1.03	1.44	2.64	3.59	4.32	n/a		-	-

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

Data is for the quarter ending 9/30/2023. 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 10/20/2023, 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](http://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 07/31/2024.

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](http://weitzinvestments.com) or from a financial advisor. Please read the prospectus carefully before investing.**

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