

PARTNERS III OPPORTUNITY FUND



Portfolio Managers: Wally Weitz, CFA
Investment Style: Multi-Cap Alternative

The Partners III Opportunity Fund's Institutional Class returned +5.19% in the fourth quarter compared to +9.07% for the S&P 500 and +9.10% for the Russell 3000. For the year, the Partners III Opportunity Fund's Institutional Class returned +34.22% compared to +31.49% for the S&P 500 and +31.02% for the Russell 3000.

While one-year returns are not as important as the longer-term results (see performance table), we are pleased to report a very good year in both absolute and relative terms. A full accounting of the Fund's top contributors and detractors for the quarter and the year is available on the following page. Against a backdrop of exceptional market strength, gains this year were broadly based, and nearly all our portfolio holdings delivered positive returns. Intelligent Systems (+209%) deserves special mention. In the past two years, Intelligent Systems has undergone a period of transformational growth at its CoreCard operation (processing for credit card providers and software that manages various credit programs). New client wins led to revenue more than doubling, and the business flipped from loss-making to profit-generating. We believe CoreCard's growth prospects remain strong (although growth will almost certainly slow). Nevertheless, we have trimmed our holdings as the stock's impressive run resulted in an outsized position.

The Fund also enjoyed strong performances from Liberty Broadband (+74%), Mastercard (+59%), Visa (+43%) and Facebook (+57%). Liberty Broadband's primary asset is 54 million shares of Charter Communications, worth \$26 billion. Shares rose as Charter delivered solid results and better-than-expected cash flow as its investment cycle winds down. Mastercard and Visa continue to grow revenue and profit at double-digit clips. Facebook continued its recovery from negative headlines and remains well positioned to benefit from the continued shift of advertising dollars online.

Value Matters: Looking Ahead to 2020

There is no doubt that the path forward will be complicated, but we welcome the challenge.

Despite the positive backdrop, not *every* stock rose this year. Qurate Retail (-57%) has been a consistent laggard throughout 2019. Investors fret that QVC and HSN are no longer relevant and their digital offerings are too little, too late. Although we agree that Qurate operates in a difficult environment and that a digital pivot is required, we believe the market underestimates the company's progress and undervalues the company's still strong cash flows. DXC (-28%) is another business undergoing transition. We are encouraged by changes that new CEO Mike Salvino is making across the business and to the leadership team, and the stock has begun responding (+28% in the quarter). Enterprise software provider Box, a new holding in 2019, has yet to find its footing as it works towards more consistent execution by its sales team. These efforts will take time, and we believe it is premature to draw conclusions.

We often describe Partners III as a "long-biased portfolio with extra tools." This long-bias was certainly on display in 2019, as the Fund outperformed despite a nearly five percentage point headwind created by our S&P 500 and Nasdaq 100 short positions (collectively, the Fund's top detractors.) We entered 2019, having covered a significant portion of our shorts in order to be more fully invested at what we believed were attractive valuations, and we generally maintained that posture throughout the year. However, as the market reaccelerated in the fourth quarter, we reestablished a (small) short position against the Nasdaq. The Fund also initiated a new short position in SiriusXM. We have watched with curiosity (and mild frustration) as the market has valued Liberty SiriusXM (a holding company whose only significant asset is 71% of Sirius XM's outstanding stock) at an increasing discount to Sirius XM's public float. The pair trade (long Liberty SiriusXM, short SiriusXM) allows us to hedge a portion of our economic exposure to SiriusXM while capturing the full benefit should the discount narrow (as we anticipate). These actions result in a short exposure equal to 19% of net assets at year end, slightly higher than the 17% short to start the year (but below the 30% short at the end of Q3 2018, ahead of the Q4 2018 stock market sell-off). Similarly, the Fund ended the year with a net effective long position of 78% of net assets, more than ten percentage points higher than pre-selloff levels.

During the quarter, we sold our modest holdings of Dollar Tree and initiated two new long positions. EverArc Holdings is a special purpose acquisition company (SPAC) that caught our attention given the involvement of Co-Chairman Nicholas Howley. These vehicles allow companies to raise money from investors before acquiring an actual operating business (the target may be private or public), generally within an agreed-upon period. Weitz (including this Fund) has had a long (and profitable) relationship with Mr. Howley and his aerospace company, TransDigm. Although SPACs are not our typical fare, our prior experience with Mr. Howley, due diligence with management and understanding of the types of businesses they find attractive, we concluded that EverArc had the raw materials to be an attractive (if idiosyncratic) investment to add to our portfolio. Additionally, we purchased shares of online travel services provider Expedia at roughly 12 times our 2020 free cash flow estimates after the market violently (over)reacted to a soggy near-term outlook and lower-than-expected margins. We think these short-term issues are manageable and applaud Expedia's willingness to take a long-term view.

After a terrific 2019, the path forward may be more complicated, but we welcome the challenge. We believe that our greatest value-added for investors is our knowledge of our companies and our sense of their underlying business values. This understanding can make all the difference when chaotic market conditions arise.

PARTNERS III OPPORTUNITY FUND

Top Relative Contributors and Detractors

For the **QUARTER** ended 12/31/2019

| TOP CONTRIBUTORS | | | | | TOP DETRACTORS | | | | |
|--|--------|----------------|--------------|-----------------|--------------------------------------|---------|----------------|--------------|-----------------|
| | Return | Average Weight | Contribution | % of Net Assets | | Return | Average Weight | Contribution | % of Net Assets |
| Liberty Broadband Corp.-Series A & C (LBRDA/K) | 19.66% | 5.41 | 1.00% | 5.6% | SPDR S&P 500 ETF Trust (SPY) | 8.99% | -15.38 | -1.34% | -16.2% |
| Berkshire Hathaway Inc.-Class B (BRK.B) | 8.88% | 10.52 | 0.91% | 11.1% | Liberty Global plc-Class C (LBTYK) | -8.39% | 5.47 | -0.51% | 5.5% |
| EverArc Holdings Ltd (EVRA LN) | 35.14% | 0.46 | 0.76% | 3.1% | Qurate Retail, Inc.-Series A (QRTEA) | -18.27% | 1.30 | -0.26% | 1.2% |
| DXC Technology Co. (DXC) | 28.15% | 2.40 | 0.64% | 2.5% | Intelligent Systems Corp. (INS) | -3.85% | 12.77 | -0.20% | 11.1% |
| Liberty SiriusXM Group-Series A & C (LSXMA/K) | 15.51% | 4.20 | 0.60% | 4.5% | Invesco QQQ Trust, Series 1 (QQQ) | 12.85% | -0.79 | -0.10% | -1.1% |

Source: FactSet Portfolio Analytics

For the **YEAR** ended 12/31/2019

| TOP CONTRIBUTORS | | | | | TOP DETRACTORS | | | | |
|--|---------|----------------|--------------|-----------------|--------------------------------------|---------|----------------|--------------|-----------------|
| | Return | Average Weight | Contribution | % of Net Assets | | Return | Average Weight | Contribution | % of Net Assets |
| Intelligent Systems Corp. (INS) | 209.13% | 11.71 | 11.83% | 11.1% | SPDR S&P 500 ETF Trust (SPY) | 31.22% | -15.10 | -4.84% | -16.2% |
| Liberty Broadband Corp.-Series A & C (LBRDA/K) | 74.02% | 6.32 | 4.80% | 5.6% | Qurate Retail, Inc.-Series A (QRTEA) | -56.81% | 1.44 | -1.16% | 1.2% |
| Mastercard Inc.-Class A (MA) | 59.16% | 4.99 | 2.74% | 5.3% | DXC Technology Co. (DXC) | -27.91% | 3.29 | -0.76% | 2.5% |
| Visa Inc.-Class A (V) | 43.32% | 4.91 | 2.02% | 5.3% | Box, Inc.-Class A (BOX) | -0.59% | 1.38 | -0.59% | 1.7% |
| Facebook, Inc.-Class A (FB) | 56.57% | 3.47 | 1.95% | 3.6% | Invesco QQQ Trust, Series 1 (QQQ) | 38.96% | -0.20 | -0.10% | -1.1% |

Source: FactSet Portfolio Analytics

Holdings are subject to change and may not be representative of the Fund's current or future investments. Contributions to performance are based on actual daily holdings. Returns shown are the actual returns for the specified period of the security. Additional securities referenced herein as a percent of the Fund's net assets as of 12/31/2019: Expedia Group, Inc. (EXPE) 1.1%; TransDigm Group, Inc. (TDG) 0.0%; Charter Communications, Inc. (CHTR) 0.0%; Sirius XM Holdings, Inc. (SIRI) -1.2%.

Average Annual Total Returns

| AS OF 12/31/2019 | | | | | | |
|---|--------|--------|--------|---------|-------------|---------------|
| | 1-year | 3-year | 5-year | 10-year | Net Expense | Gross Expense |
| Partners III Opportunity Fund Institutional Class | 34.22% | 10.29% | 5.75% | 11.28% | 1.56% | 1.56% |
| Russell 3000® | 31.02% | 14.57% | 11.24% | 13.42% | - | - |
| S&P 500® | 31.49% | 15.27% | 11.70% | 13.56% | - | - |

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 assume all distributions are reinvested and reflect applicable fees and expenses. 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 **Russell 3000** Index measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market. The **S&P 500** is an unmanaged index consisting of 500 companies generally representative of the market for the stocks of large-size U.S. companies.

The views and opinions expressed here are those of the portfolio managers as of 01/10/2020, 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. The Fund may invest in undervalued securities, which by definition are out of favor with investors, and there is no way to predict when, if ever, such securities may return to favor. 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.