SHORT DURATION INCOME FUND

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

The Short Duration Income Fund's Institutional Class returned +0.67% in the first quarter compared to a -0.07% return for the Bloomberg Barclays 1-3 Year U.S. Aggregate Index. For the fiscal year ending March 31, 2021, the Short Duration Income Fund's Institutional Class returned +6.32% compared to a +1.19% return for the index. It is undoubtedly pleasing to report on the strong absolute *and* relative results of the past quarter and 12 months. And while we are fully aware that these results are now in the past, they are solid affirmation (to us and hopefully to our fellow investors) of an investment process that has been decades in the making – and one that is always striving to learn from both our victories and especially our (and others') failures.

Portfolio Positioning

The table below shows the change in allocation to various sectors, from the prior quarter and from the prior year. This summary provides a view over time of how we have allocated capital. 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)

	03/31/2021	12/31/2020	Qtr Over Qtr Change	03/31/2020	Year Over Year Change
Corporate Bonds	16.1	15.0	+1.1	20.2	-4.1
Corporate Convertible Bonds	2.8	2.7	+0.1	1.8	+1.0
Asset-Backed Securities (ABS)	34.9	33.8	+1.1	28.5	+6.4
*Corporate Collateralized Loan Obligations (CLOs)**	*7.0*	*4.2*	*+2.8*	*0.0*	*+7.0*
Commercial Mortgage-Backed Securities (CMBS)	7.7	7.0	+0.7	6.0	+1.7
Agency Mortgage-Backed (MBS)	10.3	11.5	-1.2	14.5	-4.2
Non-Agency Mortgage Backed (RMBS)	6.7	8.1	-1.4	9.4	-2.7
Taxable Municipal Bonds	0.1	0.1	+0.0	0.2	-0.1
U.S. Treasury	17.6	17.9	-0.3	18.2	-0.6
Common Stocks	0.6	0.5	+0.1	0.3	+0.3
Cash & Equivalents	3.2	3.4	-0.2	0.9	+2.3
Total	100.0	100.0		100.0	
High Yield**	6.3	5.5	+0.8	4.5	+1.8
Effective duration (years)	1.3	1.1	+0.2	1.6	-0.3
Effective maturity (years)	2.2	1.6	+0.6	1.8	+0.4

*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 03/31/2021) consists of investments in the Corporate, Corporate Convertible, ABS, and CMBS sectors.

Investment activity during the quarter was once again led by corporate CLOs as we continued adding to our middle-market CLO portfolio, which now represents about 7% of assets. We maintain a positive view on investment-grade CLO tranches and believe the risk/reward remains attractive, especially relative to shorter-duration corporate bonds. Overall, we continue to source more favorable credit-related opportunities outside of price-insensitive index areas and those sectors whose prices have been and continue to be directly influenced by the Federal Reserve's various policy tools (such as structured products).

While the Fund's overall U.S. Treasury weighting declined modestly in the quarter, we did take advantage of the dramatic increase in Treasury interest rates to initiate a position (approximately 2.5%) in 7-year Treasury bonds as their interest rate more than doubled in the first three months of the year.

Overall portfolio metrics as measured by average maturity and average effective duration increased from the previous quarter. Average maturity increased to 2.2 from 1.5 years and average effective duration increased to 1.3 from 1.1 years at year-end. 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).

Of note, the Fund's duration hit an all-time low at year-end. While we did take advantage of the first quarter's increase in U.S. Treasury rates to increase the Fund's duration to 1.3 years (e.g., the 7-year Treasury investment mentioned earlier), the current environment still presents historically low reinvestment opportunities across the yield curve. This coupled with pent-up demand from an economy that appears to be recovering and likely continued monetary and fiscal policy stimulus points to a potential inflationary pickup. We therefore believe it prudent to maintain a defensive position with respect to interest rates.

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Top Quarterly Contributors

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

- **Corporate and Convertible Bonds:** Corporate and convertible bonds generated nearly half of the Fund's total return in the quarter as solid coupon income was enhanced by capital appreciation while credit spreads continued to decline, particularly in cyclical sectors such as airlines, energy, and leisure. Noteworthy contributors include Redwood Trust convertible bonds and corporate bonds issued by NGL Energy Partners, American Airlines, and Silversea Cruise.
- **Asset-Backed Securities (ABS):** Our ABS investments across all categories (e.g., auto, consumer, equipment, and fleet lease) provided solid coupon income and modest capital appreciation while also continuing to exhibit better-than-anticipated credit performance.
  - **Corporate CLOs:** Corporate CLOs performed well in the quarter as coupon income was supplemented by price appreciation. Most of our CLO investments have been made in the senior-most portions of securitizations of middle-market loans. Notable contributors included middle market CLOs issued by Alliance Bernstein and Brightwood Capital.
- **Commercial Mortgage-Backed Securities (CMBS):** Our CMBS segment experienced meaningful price appreciation in the quarter as business plans continued to progress among our various commercial real-estate CLOs, such as Granite Point, VMC Finance, and Exantas, and our SASB (single-asset single-borrower) holdings from Hilton and Retail Value.

Top Quarterly Detractors

- **U.S. Treasuries:** Treasuries detracted modestly (less than 5 basis points) from results in the quarter, but the Fund's shorter average life and duration cushioned this segment from interest rate increases (price declines) in longer-term Treasuries. For example, the 5-year Treasury increased more than 2.5 times in the quarter, from 0.36% on December 31, 2020, to nearly 1% on March 31, 2021. Therefore, the value of a 5-year Treasury bond declined by about 2.5% during the quarter, effectively wiping out ***more*** than the lifetime value of the bond's coupon income. A good reminder that starting points (both high and low) matter a lot.

Fiscal Year Results

Results for the fiscal year were powered by every Fund segment, with notable strength in each of the quarterly contributors mentioned above. While the U.S. Treasury segment experienced price declines year-over-year, coupon income more than made up for unrealized price declines.

Fund Strategy

Our approach consists primarily of investing in a diversified portfolio of high-quality bonds while maintaining an overall portfolio average effective duration of 1.0 to 3.5 years. We may invest up to 15% 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) and we do so when we perceive the risk/reward characteristics to be favorable.

We do not, and will not, try to mimic any index as we construct our portfolio. We believe our flexible mandate is a differentiator that allows us to navigate any environment – particularly today's environment of challenging returns. 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 efforts our equity teammates conduct on companies and industries.

Overall, we strive to be adequately compensated for the risks assumed while seeking to maximize investment (or reinvestment) income and avoid making interest-rate bets, particularly ones that depend on interest rates going down.

Maintaining a diversified portfolio and liquidity reserves is a key element of our risk management approach. We believe this approach has served clients well, particularly in extreme market environments like the pandemic brought upon us last March.

Our goals remain the same. Namely (a) preserve capital, (b) maintain a strong liquidity position, (c) understand evolving risks and opportunities, (d) conduct consistent/thorough credit surveillance, and (e) selectively take advantage of favorable risk/reward opportunities. 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: What a Difference a Year Makes

The old saying "what a difference a year makes," might be a cliché, but it accurately reflects the great disparity from the chaos of 2020 to the optimism of 2021. But with a future still filled with uncertainty, we continue to move our fixed income funds forward on a defensive path.

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Average Annual Total Returns

AS OF 03/31/2021

	YTD	1-year	3-year	5-year	10-year	Since Inception*	Inception Date	Net Expense	Gross Expense
Short Duration Income Fund - Investor (WSHNX)	0.66%	6.29%	3.14%	2.40%	2.08%	4.87%	08/01/2011	0.55%	0.95%
Short Duration Income Fund - Institutional (WEFIX)	0.67%	6.32%	3.29%	2.57%	2.27%	4.93%	12/23/1988*	0.48%	0.64%
Bloomberg Barclays 1-3 Year U.S. Aggregate	-0.07%	1.19%	2.94%	1.96%	1.57%	-	-	-	-

*Denotes the Fund's inception date and the date from which Since Inception performance is calculated.

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 04/22/2021, 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 07/31/2021.

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.

Effective 12/16/2016, the Fund revised its principal investment strategies. Since that time the Fund has generally maintained an average effective duration between one to three and a half years. Prior to that date, the Fund maintained a dollar-weighted average maturity of between two to five years. Performance prior to 12/16/2016 reflects the Fund's prior principal investment strategies and may not be indicative of future performance results.

Index performance is hypothetical and is shown for illustrative purposes only. You cannot invest directly in an index. The **Bloomberg Barclays 1-3 Year U.S. Aggregate** index is generally representative of the market for investment grade, U.S. dollar denominated, fixed-rate taxable bonds with maturities from one to three years.

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-. **Non-Investment Grade Bonds** are those securities (commonly referred to as "high yield" or "junk" bonds) rated BB+ and below. **Middle market** refers to smaller companies, generally with earnings before interest, taxes, and amortization of generally less than $75 million. **Yield to worst (YTW)** is the lowest potential yield that can be received on a bond portfolio without the issuers actually 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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