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 +0.49% in the second quarter compared to a +0.05% return for the Bloomberg Barclays 1-3 Year U.S. Aggregate Index (Bloomberg Barclays U.S. Agg 1-3). For the first six months of the year, the Short Duration Income Fund's Institutional Class returned +1.17% compared to a -0.02% return for the index. Security and sector selection, as well as timely investments made so far in 2021, are the principal reasons for the Fund's strong year-to-date absolute *and* relative results.

Portfolio Positioning

The table below shows the change in allocation to various sectors over the past quarter and 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)

	06/30/2021	03/31/2021	Qtr Over Qtr Change	06/30/2020	Year Over Year Change
Corporate Bonds	16.0	16.1	-0.1	19.3	-3.3
Corporate Convertible Bonds	2.7	2.8	-0.1	2.6	+0.1
Asset-Backed Securities (ABS)	29.7	34.9	-5.2	28.0	+1.7
*Corporate Collateralized Loan Obligations (CLOs)**	*7.7*	*7.0*	*+0.7*	*0.0*	*+7.7*
Commercial Mortgage-Backed Securities (CMBS)	9.6	7.7	+1.9	6.4	+3.2
Agency Mortgage-Backed (MBS)	8.9	10.3	-1.4	12.7	-3.8
Non-Agency Mortgage Backed (RMBS)	5.9	6.7	-0.8	8.7	-2.8
Taxable Municipal Bonds	0.0	0.1	-0.1	0.1	-0.1
U.S. Treasury	20.6	17.6	+3.0	17.9	+2.7
Common Stocks	0.7	0.6	+0.1	0.4	+0.3
Cash & Equivalents	5.9	3.2	+2.7	3.9	+2.0
Total	100.0	100.0		100.0	
High Yield**	6.0	6.3	-0.3	6.9	-0.9
Average Effective duration (years)	1.5	1.3	+0.2	1.3	+0.2
Average Effective maturity (years)	2.2	2.2	0.0	1.6	+0.6

*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 06/30/2021) consists of investments in the Corporate, Corporate Convertible, ABS, and CMBS sectors.

Additions to our U.S. Treasury segment, with particular focus on 4- and 5-year bonds, led investment activity during the quarter. While absolute U.S. Treasury yields remain low, yields have increased significantly since the beginning of the year and may offer some risk-off protection and provide us with significant capacity to recycle into credit should market conditions change.

We also identified favorable CMBS from sponsors we have partnered with previously (e.g., Granite Point, Varde, and Loancore). The portfolio's CMBS investments, including our recent additions, are backed by a diverse mix of property types from multifamily, mixed-use, industrial, hotel and office properties. Additionally, these floating-rate investments currently represent the senior-most layer of securitizations which generally provide the highest credit rating and largest credit support.

The corporate CLO segment increased as well in the quarter as we identified a new sponsor, Maranon Capital, to partner with. Maranon Capital is a private credit manager, headquartered in Chicago, focused exclusively on the U.S. middle market. Our corporate CLO segment now represents nearly 8% of assets across 11 different sponsor groups comprising primarily middle-market loans.

We maintain a constructive view on up-in-quality CLO and CMBS tranches, and we believe the risk/reward characteristics remain attractive, especially relative to comparably rated, shorter-duration corporate bonds. It has been our goal to work with sponsor investees that have demonstrated track records, are cycle tested (both through the Great Recession of 2008/2009 and the COVID challenges of 2020/2021), and have significant investments ("skin in the game") in each of the investments we own.

Overall portfolio metrics as measured by average maturity and average effective duration increased from the previous quarter. From March 31 to June 30, 2021, average maturity stayed flat at 2.2 years and average effective duration increased from 1.3 years to 1.5 years over the same timeframe. 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).

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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 were the primary contributors to the Fund's total return in the quarter as solid coupon income was enhanced by capital appreciation during a time when 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, Silversea Cruise, and EPR Properties (a triple-net real estate investment trust company).
- **Asset-Backed Securities (ABS):** Our ABS investments across all categories (e.g., auto, consumer, equipment, and fleet lease) provided solid coupon income and capital appreciation all the while exhibiting strong credit performance.
    - **Corporate CLOs:** Our corporate CLOs continued to perform well in the quarter. Our CLO investments are principally comprised of the senior-most portions of securitizations of middle-market loans. We believe these floating-rate investments provide diversification benefits and meaningful incremental return to comparably rated corporate bonds or broadly syndicated CLOs in exchange for, what we believe to be, manageable liquidity differences, particularly within an overall portfolio setting.
- **Commercial Mortgage-Backed Securities (CMBS):** Our CMBS segment experienced modest price appreciation and solid coupon income in the quarter as overall credit performance remains solid across our various commercial real estate CLOs such as Granite Point, VMC Finance, and Exantas and single-asset, single-borrower holdings from Hilton and Retail Value.

Top Quarterly Detractors

No sector/segment detracted from results in the quarter.

Fund Strategy

Our approach consists primarily of investing in a diversified portfolio of high-quality bonds while maintaining an overall portfolio average 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.

Maintaining a diversified portfolio and liquidity reserves is a key element of our risk management approach. We believe this approach has served clients well over the years, particularly in extreme market environments like 2008/2009 and the pandemic brought upon us in March 2020.

Fixed Income Insights: When "Boring" Isn't Boring

Will inflation accelerate? Will the Fed tighten monetary policy? Will the stock market continue to fly into record territory? If there's anything certain in today's marketplace, it's that nothing is certain. In challenging fixed income environments like this one, the benefits of flexible, security-by-security investing are on full display.

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.

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.

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Average Annual Total Returns

AS OF 06/30/2021

	YTD	1-year	3-year	5-year	10-year	Since Inception*	Inception Date	Net Expense	Gross Expense
Short Duration Income Fund - Investor (WSHNX)	1.15%	2.90%	3.16%	2.16%	2.01%	4.85%	08/01/2011	0.55%	0.95%
Short Duration Income Fund - Institutional (WEFIX)	1.17%	2.94%	3.30%	2.32%	2.21%	4.91%	12/23/1988*	0.48%	0.64%
Bloomberg Barclays 1-3 Year U.S. Aggregate	-0.02%	0.36%	2.86%	1.83%	1.48%	-	-	-	-

*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 07/22/2021, 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 07/31/2022.

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. 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.

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