3Q 2021

SHORT DURATION INCOME FUND

Weitz | INVESTMENT MANAGEMENT

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

The Short Duration Income Fund's Institutional Class returned +0.12% in the third quarter compared to a +0.09% return for the Bloomberg 1-3 Year U.S. Aggregate Index. Year-to-date, the Fund's Institutional Class returned +1.29% compared to a +0.07% 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 solid year-to-date relative results.

Portfolio Positioning

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

	09/30/2021	06/30/2021	Qtr Over Qtr Change	09/30/2020	Yr Over Yr Change
Corporate Bonds	15.9	16.0	-0.1	17.6	-1.7
Corporate Convertible Bonds	2.7	2.7	+0.0	2.5	+0.2
Asset-Backed Securities (ABS)	29.7	29.7	+0.0	33.3	-3.6
*Corporate Collateralized Loan Obligations (CLO)**	*10.0*	*7.7*	*+2.3*	*1.2*	*+8.8*
Commercial Mortgage-Backed Securities (CMBS)	11.1	9.6	+1.5	6.3	+4.8
Agency Mortgage-Backed (MBS)	7.4	8.9	-1.5	12.1	-4.7
Non-Agency Mortgage-Backed (RMBS)	8.0	5.9	+2.1	9.4	-1.4
Taxable Municipal Bonds	0.0	0.0	+0.0	0.1	-0.1
U.S. Treasury	20.9	20.6	+0.3	17.3	+3.6
Common Stocks	0.0	0.7	-0.7	0.4	-0.4
Cash & Equivalents	4.2	5.9	-1.7	1.0	+3.2
Total	100.0	100.0		100.0	
High Yield**	5.4	6.0	-0.6	6.8	-1.4

Effective duration (years)	1.6	1.5	+0.1	1.3	+0.3
Effective maturity (years)	2.6	2.2	+0.4	1.6	+1.0

*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 09/30/2021) consists of investments in the Corporate, Corporate Convertible, ABS and CMBS sectors.

Investment activity was robust in the third quarter as we sourced approximately $120 million of new investments for the Fund. This helped offset the typical, and by-design, feature of monthly/quarterly paydowns and maturities of securities within the Fund (roughly $70 million in the quarter). As the name Short Duration implies, a distinctive feature of the Fund is to have about a quarter of the portfolio paydown or mature in any given year. This allows for frequent reinvestment of investor capital into areas of the fixed-income market that we think provide the best current relative value opportunities.

Noteworthy additions included:

- **Non-agency mortgage-backed securities** issued by Rocket Mortgage and Flagstar Bank. Rocket Mortgage is the nation's largest mortgage lender and the fifth-largest mortgage servicer, run by chairman and founder Dan Gilbert who has been a long-time innovator in the mortgage lending industry. Flagstar Bank is the nation's sixth-largest mortgage subservicer with a "one-stop-shop mortgage business model" that it believes can generate sustainable, predictable earnings in any interest-rate environment. These high-quality, highly rated investments are part of our senior-most securitizations of prime, jumbo loans (larger than agency-eligible). We expect these securities to have short average lives due to their front (first) pay nature, and we believe they represent meaningful relative value.

- **Asset-backed securities (ABS)** issued by Theorem and Automotive Credit Corporation (ACC). Theorem is a nearly 10-year-old company that is harnessing machine learning and 'big data' (data sets that are too large and complex for processing by traditional database management tools) to originate online loans directly to borrowers in what has been termed "Marketplace Lending." Theorem believes this business model will enable it to disrupt/replace conventional lenders (banks, credit unions and credit cards) and expand the universe of credit-worthy borrowers. ACC, headquartered in Southfield, Michigan, is a regional automobile finance company focused on the sub-prime market since 1992. It is led by founder and principal owner Jim Blasius. ACC's track record includes navigating through multiple recessions, including the 2008 and 2020 crises. Like most of our other ABS investments, the Fund's positions in Theorem and ACC are short average-life, senior-most (first to be repaid and last to absorb any loss) securities from recent securitizations with strong credit support.

- **U.S. Treasuries** maturing in 3 to 6.5 years.
- **Middle-market collateralized loan obligations (CLOs)** issued by Monroe Capital, Audax, and Golub. We continue to add to and expand our middle-market CLO holdings with the addition of these three new sponsors. We invested in the senior-most, AAA tranches across all three transactions, and in the case of Golub, also invested in the second-most-senior, AA tranche. Our middle-market CLO portfolio is now diversified across nine different sponsors, giving us broad exposure to middle-market companies of varying sizes, spread across a wide variety of industries.
- **Commercial Real Estate CLOs** issued by AREIT, KKR, and MF1. We continued to add to our CRE CLO exposure with investments in these three new sponsors. While new to the Fund all three are well-known sponsors with significant experience in the transitional lending business. We invested in the senior-most, AAA tranches for all three transactions. Our CRE CLO portfolio is now comprised of ten different sponsors, giving us diversification by property type, loan size, and geography.

Outside of the paydowns and maturities mentioned above, the Fund's portfolio sales were small. But they were noteworthy in one respect; we made the decision to sell the Fund's remaining equity position in Redwood Trust (RWT) that has been held continuously since 2003. While we remain confident in Redwood's management and are optimistic about the company's place in the continued evolution of mortgage finance in the United States, we believe it is in our shareholders' best interest that our team focus our current efforts on opportunities in fixed income (or variable income) investments. Our RWT equity ownership has been a very fruitful one for Fund investors over the years. Since 2003 we have invested approximately $42 million of Fund assets into RWT, received roughly $12 million in dividends, and generated lifetime proceeds of nearly $54 million – netting over $24 million for investors over that time frame. We maintain sizable investments in fixed-income related securities issued by Redwood (convertible bonds and non-agency mortgage securities issued by the company's Sequoia platform) that we believe will generate solid income and attractive risk-adjusted returns for Fund investors.

Overall portfolio metrics as measured by average maturity and average effective duration increased from the previous quarter. From June 30, 2021, to September 30, 2021, average effective maturity increased from 2.2 to 2.6 years and average effective duration increased from 1.5 to 1.6 years. 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). An additional portfolio attribute to highlight is the Fund's growing investments in floating-rate securities (currently in the form of middle-market CLOs and commercial real estate (CRE) CLOs). As of September 30, 2021, a little over 20% of Fund assets are invested in floating-rate securities. Floating-rate securities are built with variable interest rates, thereby allowing investors to benefit if interest rates reprice materially higher. We don't invest based on any prediction that the Federal Reserve will or won't start raising short-term interest rates – as each investment is vetted based on its individual merits (relative risk/reward) and the expected future nominal return contributions each can make to the Fund – but the Fund's growing exposure to floating-rate investments provide a 'free option' and return (cash flow) upside should the Fed decide to move away from its zero interest-rate policy (ZIRP).

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 were broadly unchanged. Noteworthy contributors include Redwood Trust convertible bonds and corporate bonds issued by real estate companies iStar, Inc., and Starwood Property Trust.
- **ABS:** ABS investments across all categories (e.g., auto, consumer, equipment, and fleet lease) continued to provide solid coupon income and capital appreciation while exhibiting strong credit performance.
- **Corporate CLOs:** 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):** The CMBS segment experienced price appreciation and solid coupon income in the quarter. Overall credit performance remains strong across our various CRE CLOs from sponsors such as Granite Point, VMC Finance, and ReadyCap and single-asset, single-borrower holding from Hilton.

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Top Quarterly Detractors

- **U.S. Treasury Securities:** The Fund's Treasury segment detracted modestly during the quarter as coupon income was offset by price declines, particularly in bonds maturing in 5 to 7-years.
- **NGL Corporate Bonds:** Corporate bonds issued by NGL Energy Partners (NGL), a full-service midstream provider focused on crude oil logistics, water treatment, and retail propane, detracted modestly during the quarter. Based on our ongoing, overall assessment of the company's financial position and prospects, we decided to exit our positions in NGL during the quarter. Despite the quarter's modest drawdown, our overall investment experience (total return) was a positive one.

WEITZ INVESTMENT INSIGHTS
FIXED INCOME INSIGHTS:
Managing Risks vs. Managing Returns

In a fixed income environment where opportunities are hard to come by, inflation concerns are rampant, and the economy faces hurdles on its path to recovery, successful management of risks will play a critical role in achieving returns.

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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 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.

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.

Average Annual Total Returns

AS OF 09/30/2021

	YTD	1 YR	3 YR	5 YR	10 YR	Since Fund Inception	Inception Date	Net Expense	Gross Expense
Short Duration Income Fund - Investor (WXHNX)	1.26%	2.07%	3.09%	2.08%	2.05%	4.81%	08/01/2011	0.55%	0.88%
Short Duration Income Fund - Institutional (WEFIX)	1.29%	2.11%	3.22%	2.24%	2.23%	4.88%	12/23/1988*	0.48%	0.62%
Bloomberg 1-3 Year U.S. Aggregate	0.07%	0.29%	2.78%	1.84%	1.46%	N/A	N/A	-	-

*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 10/19/2021, 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.

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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 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- by one or more credit ratings agencies. **Non-Investment Grade Bonds** are those securities (commonly referred to as "high yield" or "junk" bonds) rated BB+ and below by one or more credit ratings agencies. **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 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.

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