

SHORT DURATION INCOME FUND



Co-Portfolio Managers: Tom Carney, CFA & Nolan Anderson

Investment Style: Short-Term Bond

The Short Duration Income Fund’s Institutional Class returned -1.77% in the first quarter compared to a -2.50% return for the Bloomberg U.S. Aggregate 1-3 Year Index. For the fiscal year ended March 31, 2022, the Fund’s Institutional Class returned -1.41% compared to a -2.91% return for the index. Negative absolute results (unrealized mark-to-market declines) are never pleasant to report, despite the solid relative results. Longer-term results (3-, 5-, and 10-year) continue to outpace the index.

Inflationary pressures, which have been building for the past 12 months, showed no signs of abating in the first quarter. These pressures precipitated a large upward move in interest rates during the first quarter, particularly in short-term rates. For example, the Consumer Price Index (CPI) release in February showed prices increasing at an annualized reading of 7.5%. This resulted in an historic move upward in the 2-year Treasury rate, marking the biggest “shock” since October 1979, as measured by standard deviation of daily moves. The shock in 1979 happened to occur when then Fed Chairman Paul Volcker announced to the world a new policy framework to combat the inflation of the 1970s/early 1980s. Today’s board members at the Federal Reserve, which controls short-term interest rates by means of the Federal Funds Rate, had long dubbed the current inflation environment as “transitory” (not permanent). However, those same members now appear resolved to adjust monetary policy by raising short-term interest rates (possibly at each Fed meeting in 2022) and by slowly shrinking the Fed’s sizable balance sheet of approximately \$9 trillion.

The fixed-income markets reacted to the policy shift by re-pricing the yield curve in anticipation of a meaningful Fed tightening cycle. The yield on the 2-year Treasury, a reasonable benchmark rate for the investment environment of our Short Duration Income Fund, ended the quarter at 2.3%, more than triple where it was at year-end. Since the Great Financial Crisis (GFC) of 2008/2009, the 2-year Treasury has rarely ended a quarter above 2% (only five other observations) and has averaged less than 1% since the Fed embarked on its first iteration of zero interest-rate policy (ZIRP).

As mentioned in the opening paragraph, while this quarter’s unrealized decline/markdown has been unpleasant, it has set the stage for more favorable forward returns. An example of that can be seen in the chart below which provides a quarter-end view of the yield curve for the U.S. investment grade corporate bond market as compared to year-end 2021. The chart also shows a 5-year and post-GFC median.

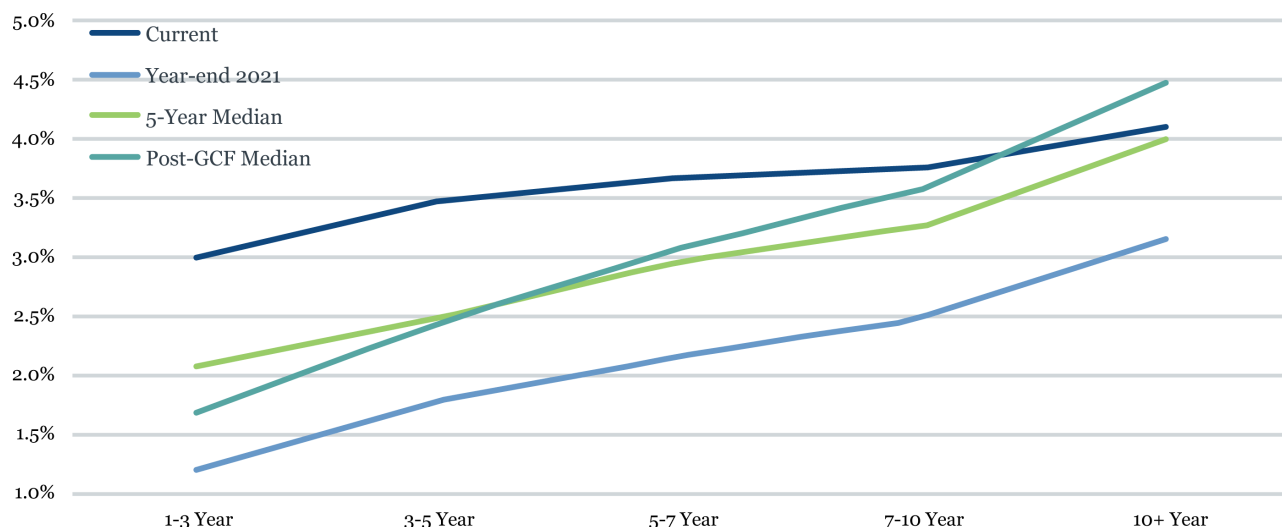
The far-left portion of the chart reflecting the 1–3-year segment highlights the improved forward return prospects that are squarely within the purview of our Short Duration Income Fund. By design, the Fund has a distinct feature of having about a quarter of its holdings paydown or mature in any given year. This allows us to reinvest proceeds into today’s improved forward-return environment. Part of this improvement (outside of the quarter’s unrealized mark-to-market declines) can be seen in the Fund’s improved yield-to-worst (YTW) metric. As a reminder, YTW has historically been a reasonable predictor of forward returns. The Fund’s YTW increased from 1.44% at year-end to 2.72% on March 31, 2022 – comparing favorably to the index’s YTW of 2.40% as of March 31.

WEITZ INVESTMENT INSIGHTS
FIXED INCOME INSIGHTS:
Navigating Turbulent Times

Fixed income investors are navigating skyrocketing inflation, a surge in volatility, and the start of what could be the fastest rate-hiking cycle in decades. With multiple rate increases already priced into the market, we break down how we are reinvesting cash flows at higher base rates while continuing to move forward with patience and flexibility to take advantage of new credit opportunities.

[Read More →](#)

US IG Yield Curve



Source: CreditSights, FactSet, ICE Data Indices, LLC

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) | | | | | |
|---|------------|------------|---------------------|------------|-------------------|
| | 03/31/2022 | 12/31/2021 | Qtr Over Qtr Change | 03/31/2021 | Yr Over Yr Change |
| Corporate Bonds | 12.6 | 15.4 | -2.8 | 16.1 | -3.5 |
| Corporate Convertible Bonds | 2.5 | 2.6 | -0.1 | 2.8 | -0.3 |
| Asset-Backed Securities (ABS) | 32.8 | 33.1 | -0.3 | 34.9 | -2.1 |
| <i>Corporate Collateralized Loan Obligations (CLO)*</i> | 11.4 | 11.7 | -0.3 | 7.0 | 4.4 |
| Commercial Mortgage-Backed Securities (CMBS) | 12.5 | 11.4 | 1.1 | 7.7 | 4.8 |
| Agency Mortgage-Backed (MBS) | 5.2 | 6.1 | -0.9 | 10.3 | -5.1 |
| Non-Agency Mortgage-Backed (RMBS) | 7.3 | 7.2 | 0.1 | 6.7 | 0.6 |
| Taxable Municipal Bonds | 0.0 | 0.0 | 0.0 | 0.1 | -0.1 |
| U.S. Treasury | 23.2 | 20.4 | 2.8 | 17.6 | 5.6 |
| Common Stocks | 0.0 | 0.0 | 0.0 | 0.6 | -0.6 |
| Cash & Equivalents | 3.9 | 3.8 | 0.1 | 3.2 | 0.7 |
| Total | 100.0 | 100.0 | | 100.0 | |
| High Yield** | 4.8 | 5.2 | -0.4 | 6.3 | -1.5 |

| | | | | | |
|------------------------------------|-----|-----|-----|-----|-----|
| Average effective duration (years) | 1.6 | 1.6 | 0.0 | 1.3 | 0.3 |
| Average effective maturity (years) | 3.1 | 2.8 | 0.3 | 2.2 | 0.9 |

*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 03/31/2022) consists of investments in the Corporate, Corporate Convertible, ABS and CMBS sectors.

Totals may be greater or less than 100% due to rounding.

Investment activity remained strong in the first 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 (approximately \$80 million in the first quarter). As mentioned, about a quarter of the Fund's holdings paydown or mature in any given year allowing us to frequently reinvest investor capital into areas of the fixed-income market that we believe provide the best current relative value opportunities. While this continuous reinvestment has been an occasional headwind as rates have fallen to near-historic lows in recent years, we believe it will provide return upside when interest rates, particularly short-term rates, move higher as has been the case so far in 2022.

Noteworthy additions included:

- **Asset-backed securities (ABS)** issued by Westlake, Santander Drive, and First Investors backed by automobile receivables. Like most of our other ABS investments, these first-quarter investments are short average-life (less than 1.5 years), senior-most (first to be repaid and last to receive any possible future loss) securities from recent securitizations, or (like Santander) highly seasoned investments where underlying credit performance has been strong and credit enhancement has materially improved. We had refrained from investing in most auto ABS in 2021 as we believed both base rates and credit spreads were too low to participate. Those decisions proved out in the first quarter of 2022 as nominal returns improved materially from rising base rates and credit spreads. We also participated in the senior-most securities of unsecured consumer loans issued by Freedom Financial Network and Marlette Funding.
- **Middle-market collateralized loan obligations (CLOs)** issued by Ivy Hill.
- **Commercial real estate CLOs (CRE CLOs)** issued by Starwood Property Trust, Loancore Capital, and KKR Real Estate Finance.

In terms of overall portfolio metrics, from December 31, 2021, to March 31, 2022, average effective maturity increased from 2.8 to 3.1 years, and average effective duration stayed steady at 1.6 years. These measures provide a guide to the Fund's interest rate sensitivity. A higher average effective maturity and longer average effective duration increase the Fund's price sensitivity to changes in interest rates (either up or down). Another portfolio attribute to re-highlight is the Fund's investments in floating-rate securities (mainly middle-market CLOs and CRE CLOs). As of March 31, 2022, more than 23% of Fund assets are represented by floating-rate securities. We don't invest based on any wager that the Fed will raise 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. However, we believe the Fund's exposure to floating rate investments will provide coupon income upside now that the Fed has decided to move away from its zero interest-rate policy (ZIRP) and has begun to raise (potentially meaningfully) short-term interest rates.

Top Quarterly Detractors

- Nearly every segment detracted from results in the first quarter; short-term interest rates were the epicenter of repricing (higher) as investors grappled with the implications of the Federal Reserve's response to inflationary pressures in the economy. U.S. Treasury; agency and non-agency residential mortgage-backed securities (RMBS); and a broad segment of asset-backed securities (ABS) were the main detractors from Fund performance in the quarter.

Top Quarterly Contributors

- Contributors in the quarter, while modest, were concentrated in the Fund's floating rate segments (middle market and commercial real estate collateralized loan obligations). We would expect this segment (as mentioned) to provide income upside as the underlying floating rate loans are reset (typically quarterly) higher due to the Fed's likely actions to continue raising short-term interest rates.

Fiscal Year Results

Fiscal year results were negatively impacted by the Fund's U.S. Treasury; agency and non-agency residential mortgage-backed securities (RMBS); asset-backed securities (ABS); and select corporate bond investments (e.g., FS KKR and Ares Capital). Noteworthy positive contributors included the Fund's floating rate segments (middle market and commercial real estate collateralized loan obligations) and select corporate bond investments (e.g., Redwood Trust, EPR Properties, Starwood Property Trust, and iStar Inc.).

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.

Average Annual Total Returns (%)

| AS OF 03/31/2022 | | | | | | | | | |
|--|-------|-------|------|------|-------|----------------------|----------------|-------------|---------------|
| | YTD | 1 YR | 3 YR | 5 YR | 10 YR | Since Fund Inception | Inception Date | Net Expense | Gross Expense |
| Short Duration Income Fund - Investor (WSHNX) | -1.77 | -1.46 | 1.65 | 1.66 | 1.65 | 4.68 | 08/01/2011 | 0.55% | 0.88% |
| Short Duration Income Fund - Institutional (WEFIX) | -1.77 | -1.41 | 1.73 | 1.80 | 1.83 | 4.74 | 12/23/1988* | 0.48% | 0.62% |
| Bloomberg 1-3 Year U.S. Aggregate | -2.50 | -2.91 | 0.92 | 1.21 | 1.08 | N/A | N/A | - | - |

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

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

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 04/21/2022, 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.

1Q 2022

SHORT DURATION INCOME FUND



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.

Short Duration Income Fund's inception date is December 28, 1988. The investor class inception date is August 1, 2011. Performance for investor class shares before their inception date uses the historical performance and expenses of institutional class shares. Effective December 16, 2016, the Fund revised its principal investment strategies. Since that time the Fund has generally maintained an average effective income duration between one to 3½ years. Prior to that date, the Fund maintained a dollar-weighted average maturity of between 2 to 5 years. Performance prior to December 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. **Commercial real estate collateralized loan obligations (CRE CLOs)** are a type of asset-backed security backed by a pool of commercial loans. **Investment Grade Bonds** are those securities rated at least BBB- 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. **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. **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.

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