SHORT DURATION INCOME FUND

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

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The Short Duration Income Fund's Institutional Class returned -1.31% in the second quarter compared to a -0.64% return for the Bloomberg 1-3 Year U.S. Aggregate Index. Year-to-date, the Fund's Institutional Class returned -3.05% compared to a -3.13% return for the index. Negative absolute results are never pleasant to report, especially historically rare back-to-back quarters of negative results — something that has not happened for the Fund since 1994. Longer-term results (3-, 5-, and 10-year), both absolute and relative, continue to outpace the index.

Inflationary pressures remained stiff and showed no signs of abating in the second quarter. These pressures precipitated a large upward move in interest rates as the Federal Reserve announced a 75-basis point interest rate hike for the first time since 1994. On the other hand, investor sentiment has shifted, at least momentarily, from concerns about inflation to recession. This shift was most visible in the U.S. high yield market, which declined almost 10% during the second quarter, and recorded its worst first half on record in 2022 with a decline of -14.2%.

The repricing of interest rates and credit spreads, while unpleasant, has set the stage for more favorable forward returns. This 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 2.7% on March 31, 2022, to 4.4% on June 30, 2022 — exceeding the index's YTW of 3.3% on June 30. The positive variance is partially attributable to the Fund's approximately 22% weight in floating-rate securities versus no exposure in the index. The YTW for our floating-rate securities incorporates the market's current expectations for higher short-term interest rates of 3-3.5% by year-end.

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)

	6/30/2022	3/31/2022	Qtr Over Qtr Change	6/30/2021	Yr Over Yr Change
Corporate Bonds	12.5	12.6	-0.1	16.0	-3.5
Corporate Convertible Bonds	2.3	2.5	-0.2	2.7	-0.4
Asset-Backed Securities (ABS)	34.4	32.8	+1.6	29.7	+4.7
*Corporate Collateralized Loan Obligations (CLOs)**	*11.5*	*11.4*	*+0.1*	*7.7*	*+3.8*
Commercial Mortgage-Backed Securities (CMBS)	11.2	12.5	-1.3	9.6	+1.6
Agency Mortgage-Backed (MBS)	4.7	5.2	-0.5	8.9	-4.2
Non-Agency Mortgage Backed (RMBS)	6.7	7.3	-0.6	5.9	+0.8
Municipal Bonds	0.0	0.0	0.0	0.0	0.0
U.S. Treasury	24.8	23.2	+1.6	20.6	+4.2
Common Stock	0.0	0.0	0.0	0.7	-0.7
Cash & Equivalents	3.4	3.9	-0.5	5.9	-2.5
TOTAL	100	100		100	
High Yield**	5.2	4.8	+0.4	6.0	-0.8
Average Effective Duration	1.6	1.6	0.0	1.5	+0.1
Average Effective Maturity	3.2	3.1	+0.1	2.2	+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. **For the current period, high-yield exposure consists of investments in the Corporate, Corporate Convertible, ABS and CMBS sectors.

Investment activity remained strong in the second quarter as we sourced a little more than $90 million of new investments for the Fund, offsetting the Fund's monthly/quarterly paydowns and maturities of securities (approximately $90 million in the second quarter). 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 for frequent reinvestment of 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 fell to historic lows in recent years, it should provide (and has provided) 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 First Help Financial (FHF), Global Lending Services (GCAR), OneMain (ODART) and Arivo Acceptance (ARIVO), which are all backed by automobile receivables. Like most of our other ABS investments, these second quarter investments are short average life (less than 2.0 years), senior securities from recent securitizations or highly seasoned investments (like OneMain) 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 securities of unsecured consumer loans issued by Freedom Financial Network (FREED), equipment finance loans issued by Octane (OCTL), MassMutual Asset Finance (MMAF), and De Lage Landen Financial Services (DLLFS).
- **Treasury securities**, principally in the 3-year area, purchased at a time when their return exceeded 3%.
- **Commercial real estate collateralized loan obligations (CRE CLOs)** issued by FS Rialto (FSRIA) and Loancore Capital (LNCR).

FIXED INCOME INSIGHTS:
Clouds With Silver Linings

Stock and bond prices are falling, inflation has gone from bad to worse, and the Fed is raising rates at its fastest pace in years. While the fixed income marketplace remains challenging, there is a silver lining that should have fixed income investors feeling optimistic

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In terms of overall portfolio metrics, from March 31, 2022, to June 30, 2022, average effective maturity increased from 3.1 to 3.2 years and average effective duration stayed steady at 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). Another portfolio attribute to re-highlight is the Fund's investments in floating-rate securities (mainly middle-market CLOs and CRE CLOs). As mentioned, a little more than 22% of Fund assets are represented by floating-rate securities as of June 30, 2022. We believe the Fund's exposure to floating-rate investments will provide upside-to-coupon income now that the Fed has decided to move away from its zero interest-rate policy (ZIRP) and began raising short-term interest rates.

As of June 30, 2022, the Fund's high-yield exposure as a percent of net assets was 5.2%, up from 4.8% on March 31, 2022. We increasingly view the high-yield market as attractive and will be looking to add exposure on further weakness.

Top Quarterly Detractors

Nearly every segment detracted from results in the second quarter as short-term interest rates remained the epicenter of repricing (higher) as investors grappled with the implications of the Federal Reserve's response to inflationary pressures in the economy. Widening credit spreads also impacted Fund results. U.S. Treasury, agency, and non-agency residential mortgage-backed securities (RMBS); real estate investment trust (REIT) bonds issued by Redwood Trust, EPR Properties, iStar, and Starwood; and corporate middle market collateralized loan obligations (CLOs) were the main detractors from Fund performance in the quarter.

Top Quarterly Contributors

No segment contributed positively to 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 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. 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.

Outlook

While it is a near certainty that the Fed will continue raising short-term interest rates as the rest of the year progresses, the market has moved accordingly. Forward returns available to investors today have not been this attractive since the first and second quarters of 2020. Nominal rates on short-term (e.g., 2-year) Treasuries have increased more than 10-fold from a year ago. Credit spreads (the incremental return investors receive above Treasuries) have also increased materially. Please see this quarter's Fixed Income Insights for further detail.

Some added historical perspectives of how long investors (particularly short-term) have been return/yield-starved — since April 2008, the Fed Funds rate (a key driver of returns for short-term investors) has spent only six months above 2%. The Fed appears set to breach that level (2%) and then some in the second half of 2022. The more common experience for investors during and after the Great Financial Crisis of 2008/2009 was dealing with and suffering through nearly 9 (!) years of ZIRP. May ZIRP RIP.

Widespread worry/concerns/fears/confusion about the macro environment (further inflation, stagflation, possible recession, consumer spending slowdown, etc., etc.) often present opportunities for the fundamental investor. We believe now is one of those times — and the Weitz Short Duration Income Fund is well-positioned, as described above, to take advantage of today's opportunities and any further valuation disparities that may develop. While there could still be some price declines ahead, as timing is always uncertain, we see greener pastures from today's levels.

RETURNS (%)

	TOTAL RETURNS		AVERAGE ANNUAL TOTAL RETURNS						Since Inception		
	QTR	YTD	1-YR	3-YR	5-YR	10-YR	20-YR	30-YR	(12/23/1988)	Net Expense	Gross Expense
WEFIX Institutional Class	-1.31	-3.05	-3.18	0.84	1.41	1.64	3.14	4.14	4.66	0.48	0.62
WSHNX Investor Class	-1.41	-3.15	-3.31	0.73	1.26	1.46	3.04	4.07	4.60	0.55	0.90
Bloomberg U.S. Agg 1-3 YR Index	-0.64	-3.13	-3.58	0.21	1.01	0.99	2.23	n/a	n/a	-	-

This material must be preceded or accompanied by a prospectus or summary prospectus.

Data is for the quarter ending 06/30/2022. 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 07/20/2022, 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.

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 07/31/2023.

The Gross Expense Ratio reflects the total annual operating expenses of the fund before any fee waivers or reimbursements. 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. The net expense ratio represents what investors are ultimately charged to be invested in a mutual fund.

Performance quoted for Investor Class shares before their inception (08/01/2011) is derived from the historical performance of the Institutional Class shares and has not been adjusted for the expenses of the Investor Class shares, had they, returns would have been different.

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.

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