

# 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 +1.14% in the fourth quarter compared to a +0.90% return for the Bloomberg 1-3 Year U.S. Aggregate Index. For the full year 2022, the Fund's Institutional Class returned -2.73% compared to a -3.72% return for the index. Negative absolute results are never pleasant to report, but we are pleased that longer-term results (3-, 5-, and 10-year) remain positive and continue to outpace the index.

## 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)					
	12/31/2022	9/30/2022	Qtr Over Qtr Change	12/31/2021	Yr Over Yr Change
Corporate Bonds	13.2	12.6	+0.6	15.4	-2.2
Corporate Convertible Bonds	1.8	2.3	-0.5	2.6	-0.8
Asset-Backed Securities (ABS)	38.7	36.1	+2.6	33.1	+5.6
<i>Corporate Collateralized Loan Obligations (CLOs)*</i>	13.0	12.0	+1.0	11.7	+1.3
Commercial Mortgage-Backed Securities (CMBS)	12.0	11.0	+1.0	11.4	+0.6
Agency Mortgage-Backed (MBS)	3.9	4.0	-0.1	6.1	-2.2
Non-Agency Mortgage Backed (RMBS)	6.2	5.9	+0.3	7.2	-1.0
U.S. Treasury	23.9	25.3	-1.4	20.4	+3.5
Cash & Equivalents	0.3	2.8	-2.5	3.8	-3.5
TOTAL	100	100		100.0	
High Yield**	4.4	5.0	-0.6	5.2	-0.8
Average Effective Duration	1.5	1.5	0.0	1.6	-0.1
Average Effective Maturity	3.6	3.1	+0.5	2.8	+0.8

\* 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.

We sourced approximately \$64 million of new investments in the fourth quarter for the Fund, exceeding the Fund's monthly/quarterly paydowns and maturities of securities (approximately \$45 million in the fourth quarter). By design, the Fund has about 25%-30% 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 was the case in 2022.

Noteworthy additions included:

- **Asset-backed securities (ABS)** issued by MassMutual (MMAF), Theorem (THRM), Stonebriar (SCFET), Pagaya (PAID), and Prestige Auto (PART) which are backed by automobile receivables, equipment and unsecured consumer loans. Like most of our other ABS investments, these fourth quarter investments are short average life (less than 3.5 years), senior securities from recent securitizations.
- **Treasury securities** in the 1-to-3-year area, principally when reinvestment rates exceeded 4.5%.
- **Commercial real estate collateralized loan obligations (CRE CLOs) and middle-market collateralized loan obligations (MM CLOs)** issued by Ares (HERA), Antares (ANTF), Brightspire (BRSP), and Brightwood (BWCAP).



### FIXED INCOME INSIGHTS: Bonds are Back / Return of Income

*The past 12 months have been challenging for fixed income investors. But as we enter 2023, the bond landscape is no longer an environment of 'return-free risk.' Rather, it is filled with new opportunities to generate income from a portfolio of fixed income securities.*

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In terms of overall portfolio metrics, from September 31, 2022, to December 31, 2022, the Fund's average effective maturity increased from 3.1 years to 3.6 years, and its average effective duration stayed steady at 1.5 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 MM CLOs and CRE CLOs) — representing about 25% of Fund assets as of December 31, 2022. These investments have experienced increased coupon income due to 2022 tightening moves (increases in short-term interest rates) that the Fed has undertaken to combat inflation. As of December 31, 2022, the Fund's high-yield exposure as a percent of net assets was 4.4%, down from 5.0% on September 30, 2022.

While 2022 was a brutally memorable year for all fixed-income investors, if not one to forget, it also 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 5.6% on September 30, 2022, to 6.5% on December 31, 2022 — exceeding the index's YTW of 4.7% on December 31. The positive variance is attributable to timely investments throughout 2022 and to the Fund's approximately 25% weight in floating-rate securities versus no exposure in the index. The Fund's YTW accounts for how our floating rate securities are influenced by the market's current expectations for higher short-term interest rates of nearly 5% by year-end.

The improved year-over-year YTW is also worth highlighting (box below). The Fund's YTW remains meaningfully higher than the Bloomberg 1-3 Year U.S. Aggregate index, while the Fund's interest rate risk (duration) is much lower.

Yield to Worst / Duration Analysis				
	12/31/21	12/31/22	Change	% Change
<b>Yield to Worst (%)</b>				
Short Duration Income Fund	1.44	<b>6.50</b>	5.06	351%
U.S. 1-3 Yr Agg Index	0.82	<b>4.73</b>	3.91	477%
<b>Average Duration (yrs)</b>				
Short Duration Income Fund	1.55	<b>1.54</b>	(0.01)	-0.65%
U.S. 1-3 Yr Agg Index	1.86	<b>1.80</b>	(0.06)	-3.23%

### Quarterly Contributors

- **CLOs (both CRE CLOs and MM CLOs)** as continued increases in coupon income from adjustable-rate investments were enhanced by increases in market value.
- **U.S. Treasury, agency, and residential mortgage-backed securities (RMBS)**, both agency and non-agency, as rates declined and mortgage-backed spreads narrowed.
- **ABS investments** broadly and corporate bonds issued by Redwood Trust and EPR Properties were also noteworthy contributors.

### Quarterly Detractors

- No segment detracted from results in the quarter.

While it is particularly unpleasant to report on negative performance for the Fund, we are pleased to reemphasize that most of our investments continue to have underlying fundamentals (credit quality) that match, or exceed, original expectations. This solid 2022 credit performance has been recognized by rating agencies with meaningfully more upgrades to credit ratings than downgrades (more than 15-to-1). Additionally, prepayments have allowed for reinvestment at meaningfully higher returns, helping to enhance our YTW of 6.5% at year/quarter-end.

### 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 in environments 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.

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 those brought about by the Global Financial Crisis of 2008-2009 and the COVID-19 pandemic that began in 2020.

Overall, we strive to be adequately compensated for the risks assumed while seeking to maximize investment (or reinvestment) income and avoiding interest-rate bets, particularly those 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. Whatever the path of credit spreads or overall interest rates, we believe our flexible mandate will allow us to take advantage of any further valuation disparities that may develop.

RETURNS (%)	TOTAL RETURNS		AVERAGE ANNUAL TOTAL RETURNS							Since Inception	Net Expense	Gross Expense
	QTR	YTD	1-YR	3-YR	5-YR	10-YR	20-YR	30-YR	(12/23/1988)			
WEFIX Institutional Class	1.14	-2.73	-2.73	0.52	1.42	1.48	2.95	4.06	4.60	0.48	0.62	
WSHNX Investor Class	1.04	-2.86	-2.86	0.43	1.28	1.30	2.84	3.99	4.54	0.55	0.90	
Bloomberg U.S. Agg 1-3 YR Index	0.90	-3.72	-3.72	-0.42	0.86	0.86	2.02	3.36	n/a	-	-	

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

Data is for the quarter ending 12/31/2022. 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 01/20/2023, 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](http://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](http://weitzinvestments.com) or from a financial advisor. Please read the prospectus carefully before investing.**

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