3Q 2023

SHORT DURATION INCOME FUND

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The Short Duration Income Fund's Institutional Class returned +1.07% in the third quarter compared to a +0.74% return for the Bloomberg 1-3 Year U.S. Aggregate Index. Year-to-date, the Fund's Institutional Class has returned +3.74% compared to a +1.89% return for the index. Positive absolute and solid relative results were driven by portfolio positioning (shorter average duration / average life) and overall security selection relative to the index. Longer-term results (3-, 5-, and 10-year), both absolute and relative, continue to outpace the index. We believe recent and longer-term results reinforce and highlight the value of our flexible mandate and ability to reinvest/recycle/redeploy capital from the approximately one quarter of Fund assets that typically pay down/mature annually.

Overview

In July, the Federal Reserve delivered its eleventh increase to the federal funds rate since the cycle began in March 2022, resulting in a 5.25-5.50% target rate at quarter-end. Despite a well-telegraphed pause at the September meeting, the Federal Reserve's message was clear: the inflation fight is not done. The Fed reinforced its higher for longer messaging by removing two interest rate cuts from its latest “dot plot” forecast of Fed rate policy (Fed officials now see a fed funds rate of 5.00-5.25% in 2024, as compared to 4.50-4.75% at the June Meeting), raising its economic growth forecast and lowering its year-end unemployment target to 3.7% from 3.9% in June.

FIXED INCOME INSIGHTS:

Where are We Now?

An uncertain path for interest rates, questions over economic strength, and a tug-of-war between the Fed and the U.S. government continue to fuel challenges for fixed income investors. In today›s environment, the ability to cast a wide net in the bond markets is especially important.

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This may suggest the Fed believes the economy is too strong for them to achieve their inflation objectives despite its expectation that core inflation will peak at 3.7% this year — lower than June's projection of 3.9% — before cooling to 2.6% in 2024. Given that the Fed believes monetary policy works primarily through the “wealth effect” channel, the Fed may be trying to tighten financial conditions by engineering higher long-term interest rates and, therefore, higher borrowing costs for consumers and businesses. In a speech on September 28, following the Fed's September policy meeting, Chairman Powell stated “one of our goals is to influence spending and investment decisions today and in the months ahead.”

Corporate credit spreads narrowed/declined modestly in the quarter, reflecting the continued strength of the U.S. economy. The table below reflects the changes during the quarter in credit spread (incremental return, reflected in basis points — investors require rates above those of comparable U.S. Treasuries as compensation for credit risk) for the broad investment grade corporate (ICE BofA US Corporate) and high yield bond (ICE BofA US High Yield) indexes. The table also shows the changes in effective yield for the indexes. While overall spread levels moved lower in the quarter, the effective yields increased due to the rise in U.S. Treasury rates.

	6/30/23	9/30/23
ICE BofA US Corporate Index		
Option-Adjusted Spread (bps)	130	125
Effective Yield (%)	5.55	6.07
ICE BofA US High Yield Index		
Option-Adjusted Spread (bps)	405	403
Effective Yield (%)	8.35	8.80

The Fund's yield-to-worst (YTW) metric, a reasonably good proxy for expected forward returns, decreased from 6.36% on June 30, 2023, to 6.23% on September 30, 2023 — but still exceeds the index's YTW of 5.4% on September 30. The Fund's YTW continues to exceed the index while the Fund's interest rate risk (duration) remains lower (see table below).

Yield to Worst / Duration Analysis				
	6/30/23	9/30/23	Change	% Change
Yield to Worst (%)				
Short Duration Income Fund	6.36	**6.23**	(0.13)	-2.0%
U.S. 1-3 Yr Agg Index	5.20	**5.40**	0.20	+3.9%
Average Duration (yrs)				
Short Duration Income Fund	1.35	**1.43**	0.08	+5.9%
U.S. 1-3 Yr Agg Index	1.79	**1.78**	(0.01)	-0.6%

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)

	9/30/2023	6/30/2023	Qtr Over Qtr Change	9/30/2022	Yr Over Yr Change
Corporate Bonds	11.2	12.7	-1.5	12.6	-1.4
Corporate Convertible Bonds	1.1	1.1	0.0	2.3	-1.2
Asset-Backed Securities (ABS)	38.5	41.9	-3.4	36.1	+2.4
*Corporate Collateralized Loan Obligations (CLOs)**	*13.2*	*13.2*	*0.0*	*12.0*	*+1.2*
Commercial Mortgage-Backed Securities (CMBS)	8.8	9.3	-0.5	11.0	-2.2
Agency Mortgage-Backed (MBS)	3.6	3.3	+0.3	4.0	-0.4
Non-Agency Mortgage Backed (RMBS)	5.9	5.4	+0.5	5.9	0.0
U.S. Treasury	29.2	24.5	+4.7	25.3	+3.9
Cash & Equivalents	1.7	1.8	-0.1	2.8	-1.1
TOTAL	100	100		100	
High Yield**	3.3	3.8	-0.5	5.0	-1.7
Average Effective Duration	1.4	1.4	0.0	1.5	-0.1
Average Effective Maturity	3.6	2.8	+0.8	3.1	+0.5

*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 third quarter as we sourced a little more than $100 million of new investments for the Fund, exceeding the Fund's monthly/quarterly paydowns and maturities of securities (approximately $70 million in the third quarter). By design, the Fund has a distinct feature of having 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 had been a headwind with rates at historic lows in recent years, it has provided meaningful return upside as interest rates, particularly short-term rates, moved higher when the Fed began to raise rates last year.

Noteworthy additions in the first quarter included:

- **Treasury securities** — nearly half of new Fund investments in the quarter consisted of U.S. Treasury securities, principally in the 3-to-4-year area, with late quarter additions in 7-year Treasuries. We have been methodically adding duration as rates climbed (approximately 40 basis points (bps) in the 3- and 4-year area, and nearly 70 bps in 7 years). Overall Fund duration was unchanged in the quarter while effective maturity increased by nearly a year. Higher interest rates have had a meaningfully positive impact for incremental investments and future returns — but have made it mathematically harder to collectively move duration higher.
- **Asset-backed securities (ABS)** issued by Pagaya, Research-Drive Pagaya, Foundation Finance, and Marlette, which are backed by automobile receivables and consumer loans (both secured and unsecured). Like most of our other ABS investments, these third-quarter investments are short average life (less than 2.5 years), senior securities from recent securitizations.
- **Agency and non-agency mortgage-backed securities (MBS)** — increasing nominal interest rates and widening spreads on MBS presented opportunities to add 15-year agency MBS and front cash flow securities from well-structured non-agency MBS sponsors (JP Morgan, Goldman, and Sequoia).
- **Commercial real estate collateralized loan obligations (CRE CLOs) and middle-market collateralized loan obligations (MM CLOs)** issued by Argentic and CIFC-LBC.

In terms of overall portfolio metrics, from June 30, 2023, to September 30, 2023, the Fund's average effective maturity increased from 2.8 years to 3.6 years, and its average effective duration was unchanged at 1.4 years. These measures provide a guide to the Fund's interest rate sensitivity. Another portfolio attribute to re-highlight is the Fund's investments in floating-rate securities (mainly MM CLOs and CRE CLOs) — representing 22% of Fund assets as of September 30, 2023. These investments continue to experience increased coupon income due to the year-to-date tightening moves (increases in short-term interest rates) that the Fed has undertaken to combat inflation.

Top Quarterly Contributors

- **CLOs (both CRE CLOs and MM CLOs)** were the Fund's top quarterly contributors due to stable valuations and rising coupon income from these adjustable-rate investments resulting from the ongoing increase of short-term interest rates by the Fed. ABS investments broadly, U.S. Treasury securities, and corporate bonds issued by Redwood Trust were also noteworthy contributors.

Top Quarterly Detractors

- **One non-agency commercial mortgage-backed security (CMBS) investment,** representing less than 0.2% of Fund assets, declined in the quarter. Mentioned in last quarter's commentary, this investment, a single asset, single borrower (SASB) security, is backed by two very large convention center hotels in San Francisco and operated as part of the Hilton lodging brand. In June, the owner, Park Hotels and Resorts, ceased making payments on the CMBS loan secured by these two hotels. Interest payments continue to be made by the special servicer (Wells Fargo) whose role will be to work on behalf of CMBS investors to resolve this situation. We have been and will continue to be monitoring developments, which are minimal to date, and we will work toward the best outcome possible. A case study may be written at some point about how COVID-related shutdowns and state (California) governance, combined to meaningfully weaken the economic position of what had previously been a marquee convention center in California.

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), 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.

We believe our ability to cast a wider net across the fixed income landscape, particularly across securitized products that have meaningful structural enhancements, where higher income relative to indexes is available, is a meaningful advantage in today's environment.

The Benefit of Higher Rates

A final note on higher rates. The last few years have been challenging for fixed-income returns given the possibility of three years of negative results for longer-term bonds as measured by the Bloomberg Aggregate Index. However, the higher rates climb, the less impact future rate increases can have on a portfolio of bonds. Using our Fund as an example and understanding that duration is a measure of interest rate sensitivity, every 1% move would (theoretically) impact our Fund results by 1.4% (duration times interest-rate change). But now that the Fund is generating coupon returns in excess of 6% (as measured by the Fund's YTW), current interest rates would have to increase hundreds of basis points before the Fund's 12-month total return would be negative. Overall, considering the 'math' of duration, the level of current interest rates relative to inflation, and the Fund's ability to reinvest/recycle/redeploy capital from the approximately one quarter of Fund assets that typically pay down/matures annually, we continue to believe that now is a good time for investors to consider adding to their fixed income allocation.

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	1.07	3.74	4.92	0.92	2.05	1.76	2.91	3.92	4.61	0.45	0.60
WSHNX Investor Class	1.05	3.70	4.77	0.84	1.94	1.59	2.80	3.85	4.55	0.55	0.86
Bloomberg U.S. Agg 1-3 YR Index	0.74	1.89	2.80	-0.73	1.16	1.01	2.01	3.29	n/a	-	-

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

Data is for the quarter ending 09/30/2023. 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 10/20/2023, 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 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 07/31/2024.

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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