

SHORT DURATION INCOME FUND

Portfolio Managers: Tom Carney, CFA® & Nolan Anderson

The Short Duration Income Fund's Institutional Class returned +2.48% in the fourth quarter compared to a +2.71% return for the Bloomberg 1-3 Year U.S. Aggregate Index. For the calendar year, the Fund's Institutional Class returned +6.31% compared to +4.65% for the index, marking the fifth calendar year in a row that the Fund has outperformed the index.

Overview

(from [Fixed Income Insights: Bonds are Back, Redux](#))

A year ago, we penned a piece titled "Bonds Are Back / Return of Income" after a brutal 2022. It seems fitting to revisit since, for much of 2023, fixed income investors were smarting from a seemingly relentless increase in U.S. Treasury interest rates across the yield curve (as well as other segments of the bond market) as the Federal Reserve instituted four additional short-term rate hikes to combat declining-but-still-high inflation readings. Broad interest rate declines in early 2023, accelerated by historic regional bank failures that caused massive deposit flight, reversed by mid-year and began a climb that saw trough-to-peak changes in U.S. Treasury interest rates of approximately 1.5% (150 basis points) across the yield curve, from 2-year to 30-year bonds. In October 10-year and 30-year Treasury bond rates briefly breached 5% for the first time in more than 16 years. However, midway through the fourth quarter, ebbing inflation levels, a slower pace of employment growth, and the long-forecasted Fed 'pivot' or pause in its monetary tightening policy, propelled a powerful fixed income rally. By year-end, fixed income and equity investors were seeing strong overall returns, as the growth below highlights. Treasuries managed to avoid a three-year negative return record by posting modest positive results – with every other credit-sensitive asset class (e.g. investment-grade and high-yield corporate bonds as well as leveraged loans) generating solid results.



FIXED INCOME INSIGHTS: Bonds Are Back, Redux

With memories of "zero interest-rate policy" still fresh in fixed income investors' minds - we believe a return to an environment in which rates are less manipulated by central banks could prove beneficial to investors.

[Read More →](#)

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)					
	12/31/2023	9/30/2023	Qtr Over Qtr Change	12/31/2022	Yr Over Yr Change
Corporate Bonds	10.2	11.2	-1.0	13.2	-3.0
Corporate Convertible Bonds	1.1	1.1	0.0	1.8	-0.7
Asset-Backed Securities (ABS)	41.2	38.5	+2.7	38.7	+2.5
<i>Corporate Collateralized Loan Obligations (CLOs)*</i>	12.2	13.2	-1.0	13.0	-0.8
Commercial Mortgage-Backed Securities (CMBS)	7.5	8.8	-1.3	12.0	-4.5
Agency Mortgage-Backed (MBS)	3.4	3.6	-0.2	3.9	-0.5
Non-Agency Mortgage Backed (RMBS)	5.5	5.9	-0.4	6.2	-0.7
U.S. Treasury	26.7	29.2	-2.5	23.9	+2.8
Cash & Equivalents	4.4	1.7	+2.7	0.3	+4.1
TOTAL	100	100		100	
High Yield**	2.8	3.3	-0.5	4.4	-1.6
Average Effective Duration	1.4	1.4	0.0	1.5	-0.1
Average Effective Maturity	3.5	3.6	-0.1	3.6	-0.1

*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 12/31/2023) consists of investments in the Corporate, Corporate Convertible, ABS and CMBS sectors.

We sourced approximately \$107 million of new investments in the fourth quarter, exceeding the Fund's monthly/quarterly paydowns and maturities of securities (approximately \$65 million in the fourth quarter). By design, one of the Fund's distinct features is that approximately 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 has provided return upside when interest rates, particularly short-term rates, moved higher in the past two years.

Noteworthy additions included:

- **Asset-backed securities (ABS)** issued by Merchants Automotive Group (MFF), LendBuzz (LBZZ), Wheels (WFLF), Dext Capital (DEXT), and Pagaya (RPM) which are backed by fleet lease (MFF and WFLF), equipment (DEXT), and automobile receivables (RPM and LBZZ). 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 3-to-7-year area, principally when reinvestment rates breached/exceeded 5.0%.
- **Commercial real estate collateralized loan obligations (CRE CLOs)** issued by H.I.G. Realty Credit Investments (HIG).

Merchants Automotive Group and H.I.G. Realty were inaugural issuers in their respective areas. Merchants, founded in 1962, has become the fourth-largest fleet management company in the U.S., operating in three interdependent businesses (long-term fleet leasing, short-term mobility leasing, and the remarketing of pre-owned commercial and retail vehicles). The Fund's investment is broadly diversified across vehicle types, lease, and lessee characteristics. H.I.G. Realty is a leader in middle-market real estate equity and credit strategies. H.I.G. invests, redevelops, and provides credit to real estate assets in the U.S., Europe, and Latin America. The Fund's investment consists of an interest in a pool of 16 transitional properties in the U.S., concentrated in the multi-family segment and industrial segments that are geographically diverse, with the largest exposure to New York.

In terms of overall portfolio metrics, from September 31, 2023, to December 31, 2023, the Fund's average effective maturity decreased from 3.6 years to 3.5 years, and its average effective duration was unchanged during the quarter at 1.4 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) – representing about 20% of Fund assets as of December 31, 2023. These investments have experienced increased coupon income due to the Federal Reserve's tightening moves (increases in short-term interest rates) to combat inflation. As of December 31, 2023, the Fund's high-yield exposure as a percent of net assets was 2.8%, down from 3.3% on September 30, 2023.

Per the table to the right, the Fund's yield to worst (YTW) remains higher than the Bloomberg 1-3 Year U.S. Aggregate index, while the Fund's interest rate risk (duration) continues to be lower. We believe constructing a portfolio that produces 'carry' – income achieved from regular coupon payments – (via the YTW measurement) and lower interest rate sensitivity (via lower duration) remains a win-win combination for the Fund over time.

Yield to Worst / Duration Analysis				
	12/31/22	12/31/23	Change	% Change
Yield to Worst (%)				
Short Duration Income Fund	6.5	5.5	-1.0	-15.9%
U.S. 1-3 Yr Agg Index	4.7	4.6	-0.1	-3.0%
Average Duration (yrs)				
Short Duration Income Fund	1.5	1.4	-0.1	-6.7%
U.S. 1-3 Yr Agg Index	1.8	1.8	0.0	0%

Top Quarterly Contributors

- **U.S. Treasury, agency, and residential mortgage-backed securities (RMBS)**, both agency and non-agency, as rates declined and mortgage-backed spreads narrowed.
- **CLOs (both CRE CLOs and middle-market CLOs)** as continued increases in coupon income from adjustable-rate investments were enhanced by increases in market value.
- **ABS investments and corporate bonds** broadly as the fourth quarter was a near-everything rally (interest rates and spreads down).

Top Quarterly Detractors

- One non-agency commercial mortgage-backed security (CMBS) investment, representing less than 0.1% of Fund assets, continued to experience price declines in the quarter. Mentioned in the Fund's two previous quarterly commentaries, this investment, a single asset, single borrower (SASB) security, is backed by two very large convention center hotels in San Francisco and is operated as part of the Hilton lodging brand. In June 2023, 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.

Normal for Longer?

A significant amount of press has focused on the possibility of interest rates staying “higher for longer.” Having painful memories of what approximated ‘zero forever’ during the ZIRP (zero interest-rate policy) days, we’d welcome a return of some semblance of normalcy to interest rates overall, where rates are determined in a world less manipulated by central banks. This would benefit investors and decision makers of all types, from savers in money market funds to investors of capital all along the yield curve. And ultimately, it would lead to more rational investment decisions à la philosopher/economist Adam Smith’s “invisible hand” (metaphor describing unseen forces of self-interest that impact free markets).

As we embark on a new year where everyone’s investment results are reset to zero, it certainly is plausible that the strong bond market rally to end 2023 may have borrowed from 2024 returns (the first week of the new year seems to support this). Either way, we believe the prospects for fixed-income investors coupled with an easing (if not plateauing) inflationary backdrop continue to provide a compelling environment for both nominal and, in particular, real (after inflation) return opportunities. If this describes “normal for longer,” we can be tempted to reiterate, cliché or not, that ‘bonds are back’ – especially from an income perspective.

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. We utilize a bottom-up, research-driven approach and select portfolio securities one 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 2008-09 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 we seek to avoid interest-rate bets, particularly those that depend on interest rates going down.

Our goals remain the same: (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	35-YR	(12/23/1988)		
WEFIX Institutional Class	2.48	6.31	6.31	1.47	2.39	1.98	2.95	4.01	4.65	4.65	0.45	0.60
WSHNX Investor Class	2.46	6.25	6.25	1.39	2.29	1.82	2.84	3.94	4.58	4.58	0.55	0.86
Bloomberg U.S. Agg 1-3 YR Index	2.71	4.65	4.65	0.08	1.46	1.25	2.13	3.36	n/a	n/a	-	-

YIELDS (%)			
	30-DAY SEC YIELD		Distribution Yield
	Subsidized	Unsubsidized	
WEFIX	5.12	4.96	4.14
WSHNX	5.02	4.70	4.06

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

Data is for the quarter ending 12/31/2023. 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 01/20/2024, 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: **30-Day SEC Yield** represents net investment income earned by a fund over a 30-day period, expressed as an annual percentage rate based on the Fund's share price at the end of the 30-day period. **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. **Distribution yield** is a measure of yield calculated by taking a fund's most recent income distribution payment divided by its net asset value (NAV) and expressed as an annual rate. **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. **Subsidized yield** reflects fee waivers and/or expense reimbursements during the period. Without such fee waivers and/or expense reimbursements, if any; yields would have been lower. **Unsubsidized yield** does not adjust for any fee waivers and/or expense reimbursement in effect.

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.