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Q3 2021 Weitz Quarterly Connection

TRANSCRIPT

Jessica Nagengast:

Hello and welcome to the third quarter Weitz Quarterly Connection.

Just a few things before we get started today.

Today's presentation is being made by employees of Weitz Investment Management, which is the investment adviser to the Weitz Funds. Today's event is being recorded, and all of the opinions are those of the speakers as of today and are subject to change. Investors should carefully consider the investment objectives, risks, 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. Please read the prospectus carefully before investing.

Okay, and on to our presentation. Today, I am joined by Yana Morgan, client portfolio manager, and Eric Lee, portfolio analyst. My name is Jessica Nagengast, and I serve as a senior client relationship representative on our client service team. If you'd like to ask a question at any time during the presentation, please type it in the Q&A box found at the bottom of the screen in the menu bar. If you do not see the menu bar, move your arrow to the bottom of the screen, and it will appear.

Here is our agenda for the call today. I will be providing a performance review, then I will hand it over to Eric and Yana to provide comments on the economy, which will lead into how we invest and a review of the Weitz Partners III Opportunity Fund.

Okay, so first our performance review.

This and the next two slides are required disclosure information. While there is a considerable amount of detail here, we have sent a reminder email for today's event, and in it, we included a link to our performance summary, and these disclosures as of 6/30/21, which you may review at your convenience.

Okay, this graph is showing you the year-to-date 2021 performance results through the end of July. The four Weitz equity funds and the Balanced Fund are so far providing nicely positive performance for the year. Our large-cap Value Fund and multi-cap Partners Value Fund are leading the way. As of the end of July, the Value Fund is up 21.77%, and the Partners Value Fund is up 19.33%. You can also see the five year, the ten year, and each of the funds' since inception performance numbers.

And here you see the performance of our four bond funds as of July 31st. All four funds are in the black and both Core Plus Income Fund and the Short Duration Income Fund have continued to well outperform their respective benchmarks. I would like to highlight their performance. Year-to-date, Core Plus is up 2.25% versus its benchmark, which is down 0.5%. The Short Duration Income Fund is up 1.31%, and its benchmark is up 0.15%. You will also see the five year, the ten year and each of the funds' since inception performance numbers.

Now I will turn it over to Eric to discuss a bit of what's going on in the economy, and we will close by highlighting with one of our equity funds, the Weitz Partners III Opportunity Fund, followed by answering your questions. Again, if you'd like to ask a question at any time, please submit it below.

Okay, Eric.

Eric Lee:

Well, thank you, Jessica, and thank you everyone who's joined us for this this afternoon call and update from Weitz. So, you know, real quickly, last year, the last year and a half actually has been a real roller coaster ride for the economy. 2020 started with promise, but quickly turned. By mid-March, many around the country and the world were experiencing shutdowns of businesses, schools, and in other public places on top of travel restrictions. The effects from steps taken to control the spread of COVID are still very much fresh in our memories.

On the next slide is a graph showing how these restrictions impacted U.S. GDP. So, as you can see here, the graph of U.S. GDP is dating from 2015 through the second quarter. The line clearly shows a steep decline in early 2020 as these unprecedented actions to curb the spread of COVID hit the U.S. economy. Just as remarkable is how quickly the economy rebounded in the following quarters. The second quarter has been generally a good one for stocks and bonds, as many, if not most businesses, grew nicely and the economy boomed with a 6.5% growth rate driven by a nearly 12% surge in personal consumption expenditures. I think we all understand that this booming growth is due to widespread business reopening, unleashing months of pent-up demand. However, the 6.5% growth rate was short of the expected 8.5% rate, and the shortage can be attributed to a drop of over $165 billion in inventories. Now, assuming the inventories pick back up this quarter, that alone should add about 3.5% to GDP in the third quarter. So, the economy is expected to show continued growth, but likely at a slower pace for the second half of the year. The growth should be driven by job gains, pent-up savings and continued fiscal support from Congress. An example of ongoing fiscal support is an advance of the child tax credit many families are receiving this summer, and an additional 300 dollars a month in the pocket of families should fuel consumer spending into the fall.

There are, of course, some issues that could slow growth more than expected at this time. Some of those issues include the Delta variant, supply chain disruptions, and the shortage of skilled available workers slowing production and driving up wages. Wally and Brad noted in their second quarter letter to shareholders, which we call Value Matters, that they shake their heads a bit at the dichotomy of the economy that is mostly doing quite well, but the Fed, the Congress, and the administration continue to offer up extraordinary support. In our view, the historical fiscal and monetary policy, along with the economy reopening and near-term supply issues where supply is insufficient to meet demand, all have helped to drive up inflation.

And I'm sure you're aware, right, inflation news is in the talk everywhere. Inflation statistics, as both the producer and the consumer level, just vaulted to heights not seen in nearly 10 years. The most recent monthly consumer price index reading shows inflation running at 4.2% annualized rate with the most recent producer price index running even higher at 6.2%. Some economists would caution that these results are impacted by what they term as base effects, which refers to a low base number from the prior year, causing the current rate to appear higher. But no matter how low your base or prior year statistic is, you can't miss the impacts of rising prices across the economy, especially in commodities such as oil up over 54% from the beginning of the year, or copper up 19%, and lumper peaking up 95% before retracing in the last few months.

On the next few slides, we'll explore how inflation can affect both equities and fixed income securities. In addition, we touch on what the Federal Reserve means when they say inflation is transitory, what others think that may not be the case.

So, let's take a quick look at inflation, starting with how it impacts bonds. Inflation is a bond's worst enemy because it erodes the purchasing power of each dollar you receive from a bond’s interest payment in the future, as most bonds are originally issued with a set interest payment for a set amount of time. As an example, a 3% rate of inflation will cut your purchasing power by 26% after 10 years and 45% after 20 years. Retiring with a million dollars may sound fine today, but if we have relatively modest but consistent inflation rate of 3% a year, that one million dollars will have the purchasing power of about five hundred and sixty thousand dollars in 20 years and less if inflation is higher. This is precisely the reason we need our investments to outpace inflation. And if we get too much inflation, the Federal Reserve usually responds by raising rates to cool the overheating economy. And when rates rise, bond prices fall. The longer the duration of a bond, the more its price is affected by a change in interest rates. As an example, if interest rates rise by 1%, the price of a bond with a 10-year duration, right, holding other factors constant, would decline by 10%, while a bond with a 2-year duration would decline by 2%. The good news is the Fed usually only increases or decreases rates by a 0.25% at a time versus a full 1% increase at any single meeting. But that 1% increase could happen very easily over a year period.

So, what are we doing about it within the Weitz bonds funds? Tom Carney and Nolan Anderson, the Weitz bond fund portfolio managers, are currently keeping our bonds funds positioned with relatively short duration and high-quality bonds. Looking for opportunities where they're able to pick up additional yield without taking on large amounts of credit risks. And in fact, this is not unusual for Weitz bond portfolios to be managed with a shorter duration than their respective benchmarks.

And now, with regards to inflation in stocks, inflation's impact on stocks isn't as clear cut as it is with bonds. The impact inflation has on the stock or its underlying business depends on the rate of change in the business’s ability to pass on the increase in cost to consumers. Low to moderate levels of inflation can actually be helpful in a stock's performance, but too much of inflation can harm even the best businesses. Inflation is usually seen as negative for stocks because of its impact on the underlying businesses. Assuming the Fed raises interest rates to slow inflation, that move in general increases borrowing costs. Additionally, overhead costs such as materials and labors also increases. And because inflation increases a company's cost, it reduces expectations of earning growth, which puts downward pressure on the stock price. Over time, companies are able to make adjustments to pass on negative impacts of inflation by price increases to consumers. A real-world example from a stock we own, Martin Marietta, has raised prices twice this year on the building and construction materials it sells. Studies have shown that some stocks actually performed better with medium amount of inflation compared to very low or high levels of price growth. When inflation rises quickly or by more than what was predicted, stocks often react negatively. Another reason stocks may react negatively is that if interest rates rise, newly issued bonds will have higher rates and become more attractive to investors and thus becoming more competition for stocks. So, sometimes investors will sell stocks to invest in, say, in the example, a U.S. Treasury bond with no risk of defaulting that is yielding 2-3%. However, generally, stocks are a good hedge against inflation because in theory, the company's revenue and earnings should grow at the same rate as inflation.

So, what are we doing at Weitz about this? Our equity funds and our Balanced Fund are holding stocks of companies that we think are high quality and can weather a storm and even take advantage of the downturn to provide values to shareholders over time. Yana will discuss our investment process in more detail later in the presentation.

So, I find this a great cartoon, and I believe it captures how many consumers feel. The Fed is so far, though, sticking to their view that inflation will be transitory, citing that some of the large price increases for things like used cars and airline tickets will level out. An example of what the Fed is referring to as transitory can be seen in the lumber market, where prices rose rapidly through the second half of 2020 and into the spring of ‘21. The high inflation in lumber prices we were experiencing this spring has dissipated with prices returning to a more normal trend, and now lumber prices are at levels seen in last seen in 2018. The Fed has also changed their tune slightly at their last meeting. That is, in December, the Fed said it would not change its program of buying bonds and holding down interest rates until there had been substantial further progress in the labor market, which at that time was still 10 million jobs short of where it was before COVID. But after their last meeting in June, the number was below seven million, and the Fed then acknowledged the economy had taken steps towards its benchmark for trimming their bond purchases. Trimming their bond purchases, likely the first step they'll take before they embark on increasing the Fed fund rate, which is currently in the range of 0-0.25%. We at Weitz would welcome the Fed beginning the process to normalization of interest rates, but we'll see how things transpire for the rest of this year given the variant and unemployment.

So, is inflation transitory, kind of the pros and cons. The Fed's view that inflation will be transitory has support, but there are also factors that don't support it. And you hear both sides of the issue being debated on the airwaves. Some factors pointing to more persistent, I'm sorry, some factors with more persistent inflation is what I should have said, including energy prices are up considerably over the past year, which tends to impact the price of other goods, but the Fed strips out energy and food prices when looking at inflation. Wages are up in the U.S. by 3.2% year-over-year, as the second quarter. But the Fed seems mostly unconcerned, given we are still not to full employment. Though the employment numbers for July reported on August 6th were stronger than expected and June was revised up. So, we're now at the point where unemployment rate has dropped to 5.4% with payrolls about 5.7 million short of the pre-pandemic levels. Some factors that may point to the Fed's transit position includes aging demographics, demand for goods and services decline and the economic growth is usually slowed given the older age of our population. Supply is and should continue to catch up to demand. And much of today's inflation, as earlier noted, has been with autos, travel, and lumber, and other items that should settle down. However, part of the reason lumber supply is catching up is because housing prices have risen so much that new home formations are again leaning toward rentals, which is starting to raise rents. And rent, unlike home prices, are factored into inflation measure. So, if this continues, it could add pressure on the Fed to raise rates sooner than expected. Whatever the Fed does to start curtailing their bond buying and raising rates, as we just discussed, it would not be surprising for the stock market to draw down, at least initially, like it did in the fourth quarter of 2018 when the market was down 20%. You'll recall that the Fed quickly reversed its course to prop up the stock market.

So, at Weitz, you know, that our process is to buy stocks when they are selling for less than we think they're worth. So, when we often look at the stock market drawdown is a time of opportunity, it doesn't feel good when our market and our funds are in negative territory, but it can be a good buying time.

I'll now hand the baton to Yana as she takes a deeper look at our Quality at a Discount investment process that we use in helping to identify companies to buy.

Yana Morgan:

OK, thank you, Eric, and hello to everyone on the call. I'm going to keep this moving so that we have a good amount of time remaining at the end for your questions. But so, you know, Quality at a Discount, or QuaD for short, is how we describe our investment process, and it transcends the traditional value and growth labels. In other words, we invest in the stock of companies that others

might label as value or growth. And for several of our portfolios, we invest across the market cap spectrum of large-, mid- and small-size companies. So, you know, we offer well-diversified equity investment portfolios.

And, you know, this diagram displays how we think about QuaD investing and what makes a stock a good value. And for us, it comes down to two characteristics, and those are quality and price. So, we seek to buy above-average to excellent businesses for less than what we think a private market owner would pay. And, you know, if we can buy the stock of a company that's growing at a nice rate and selling for less than what we think it's worth, then this is a timeless investment strategy. And it's really what we've employed year after year here at Weitz.

So, a question may be how do we identify quality companies? And, you know, we go about our process using both quantitative and qualitative analysis. The analysis that our investment team members undertake is certainly extensive, as you would expect it to be, and this slide provides a look at our proprietary quality score matrix and the six factors that the investment team focuses on when they're researching a company.

So, we score each factor on a scale from one to seven, with one being the best and seven the worst. Then we roll up those scores to arrive at a total quality score for each company. We're most interested in owning quality score one and two companies, but we'll also own quality score three and a few quality score four companies, usually if we believe that there's a clear pathway for that company to move higher in the months and years ahead. We're really not interested in owning the stock of companies that we score at a five through seven.

Of course, you know, valuing companies is not an exact science. And some of the quality factors require, you know as Wally has often said, more art than science. But by evaluating each company based on the factors that you saw in that previous slide, we believe we have a process that works and is repeatable.

And on this slide here, you know, you can see a few of the companies among our current top holdings, depending on the fund. And I think most of these companies, you probably recognize and know them as strong businesses. And our focus on quality businesses is because whenever the times come that the market corrects, we want to be sure that we own companies that can not only survive, but also take advantage of the distress. And we believe that sticking to our approach allows us to help grow investors’ capital over time.

Okay, so Jessica said we were going to take a look at one of the funds, the Partners III Opportunity Fund, so that we can see in practice a bit of what we've just reviewed. And as a quick reminder, this fund is managed by Wally and Drew Weitz. So, you know, as discussed, all Weitz equity funds are managed with the same underlying investment philosophy. But the Partners III Opportunity Fund is a long/short fund. So, we not only buy the stock of quality companies that are selling for less than what we think they're worth. We also have the added tool of using shorts to hedge against some market risk.

For the short positions, instead of shorting individual stocks that we think may go down in price, Wally and Drew generally short, they hold short positions, using index ETFs. For example, as of June of this year, we were short almost 20% of net portfolio assets, and our short positions were on the S&P 500 and the Nasdaq using ETFs that represent those indices. So, if those two markets draw down, then our approximate 20% short position will have positive returns, helping to shore up the fund's performance during an overall negative market.

Okay, so let's take a deeper dive into the fund. The two graphs on this slide provide data on the fund for each quarter from March 31, 2018, through June of 2021. The top graph shows you the

portfolio's allocation to stocks owned, the short position, and then the net of those two positions. So, the dark blue line represents the percent of stocks owned, which we also call our long position. The light blue line is the percentage of shorts in the portfolio. And the gray line in the middle is the net of the two, which represents the portfolio's actual stock exposure. Just like any other stock fund, most of our long positions inside the portfolio will not be immune from a full market sell off, but our shorts should not only help the portfolio to hold up some, they also provide us dry powder, meaning that, you know, when Wally and Drew think it's the right time, they can cover those shorts, which has the effect then of turning the portfolio more net exposed to stocks. And then the bottom graph provides you the performance of the fund, the performance of the S&P 500, which is the fund's benchmark, and then the return of the fund over or under the S&P 500.

So, let's take a look at this example. In the first quarter of 2018, the Partners III Opportunity Fund owned stocks long totaling 90% of the portfolio and owned shorts equaling 29% of the portfolio. So, the total net exposure to stocks was 61%. And you can see these numbers in the top graph and the first segment to the left. Down below, you see the performance during that same quarter. The S&P 500 was down a bit at a 0.76%, while the Partners III Opportunity Fund returned a positive 1.8%. So, the fund had a net return of 2.56% over the S&P 500. Now in an overall down market, you know, many of the stocks we owned long were probably also down, but the shorts that we owned against the markets helped us to stay positive, even if by only a small amount. The next quarter, so the second quarter of 2018, you see that our stocks owned long, were 96%, and our short position was at 30%. So, the net exposure to stocks was 66%. For performance, you see a bit of a reverse from the first quarter. The Partners III Fund returned a positive 0.93% during this quarter, compared to a positive 3.4% for the S&P 500. So, you see here that in a strong market, our net stock exposure of just 66% held the fund back. And maybe a few of our stocks were also down during that quarter.

But now let's look at the third quarter of 2018, the fourth quarter of 2018, and then the first quarter of 2019 as a group. So, this combination is a good example of how the fund often, not always, performs. So, at the end of the third quarter, the fund was still positioned with a net stock exposure of 66%. And the fund's performance for that quarter was up 4.6% while the S&P was up 7.7%. So, the fund trailed the index that quarter. Then in the fourth quarter of 2018, as Eric already noted, the stock market sold off about 20%. And during such a large selloff, again, the stocks that we owned long, which made up 96% of the portfolio at the beginning of that quarter, those stocks also sold off. But our short positions helped us to hold up a bit better versus the index. In fact, Partners III closed the quarter down a negative 11.8%, while the S&P 500 was down 13.5%. But Wally took advantage of the drawdown to cover some of the fund’s short positions so that by the end of the fourth quarter, you see that the portfolio was invested with 98% stock and only 17% short for a net stock exposure of 81%. So, you know, compare that 81% net stock exposure at the end of the quarter to the first three quarters of 2018 when the fund's net stock exposure was only in the 60-66% range.

In fact, during the fourth quarter selloff, Wally continued the build positions in high-quality businesses like Charles Schwab, Markel, and Facebook. He made new investments in Black Knight, which is a dominant provider of mortgage servicing software, and he also bought Amazon. He also added to some existing holdings during that time. So, he was very active. And that activity turned into a nice return by the end of 2019’s first quarter with the fund, so again, at 2019’s first quarter, the fund then was up 19.5% compared to the S&P 500, which was up 13.7%. And the fund's total return for the full year of 2019 was a positive 34.2% compared to the S&P 500 which was up 31.5%.

Now, as you can see from the top graph, following the first quarter of 2019, Wally and Drew have moved the Fund’s gross longs and shorts around such that the Fund’s net stock exposure has ranged from a high 80 to a low of 74.

On the bottom graph, you see that all but one of the time periods from June of 2019 through June of 2021 have been positive for the stock market and for the Fund, but the Fund's low net stock exposure during each period meant that Fund performance trailed the market during most of the stock market's positive quarters, although the Fund did outperform during a couple of those positive quarters as well as during the first quarter of 2020 when Covid-19 hit stocks.

So, you can see here that, you know, volatility can be and usually is our friend within Weitz Investments, the way that we invest, but maybe especially so within Partners III Opportunity Fund, because of its use of shorting. For sure, we cannot totally sidestep market drawdowns, but we definitely can and expect to be able to take advantage of them.

So, and then here you can see the return of $10,000 that was invested in the Partners III Fund compared with the S&P 500 and the Russell 3000. And, you know, this timeframe is over the life of the fund, which dates back to June of 1983. So, as we just walked through, often when the stock market is up, up, up over long periods of time, our short positions hold the portfolio back some. But over the long run, holding up better in down markets as well as good stock picking during those market selloffs has helped us to provide shareholders with a few percentage points of gain over the markets, and a few percentage points of gain, you know, turns into significant dollars over many years of compounding as you can see here with this graph.

So today, Partners III is about 94% invested in stocks, and it's about 20% short, which means that our total net exposure to stocks is about 74%. And Wally recently said on a call that I was on with him, that when he looks company by company, that he and Drew hold in the portfolio, he loves what we own. And that comment also holds true for our other stock funds.

So, with that, I'm going to turn it over to Jessica to begin our Q&A.

Jessica:

Thank you. Thanks, Yana and Eric, for a great presentation. We covered a lot of information and we already have received a few questions. You can keep the questions coming, and we will do our best to address all of them. If we do not have time to get to your question, a member of the client service team will reach out to you individually. Also, you will see the email address to client services on your screen right now. If you would like to address a question offline or would like more information about the Partners III Opportunity Fund or any of our funds, please contact us there.

Okay, so we'll get started with the questions we've received. First question, I am going to send this to Yana. Yana, any comment on the value of the dollar versus the euro and other world currencies as the U.S. adds trillions in debt?

Yana:

Thanks. Yeah, thanks, Jessica. And thanks to whoever offered up that question. You know, the conventional wisdom would say that printing dollars should make the dollar weaker. But as we all know, the EU is doing the same thing. They're printing as well. And interest rates are much higher in the U.S. than in the EU, which advantages the dollar. Kind of going around the globe a little bit, China has a whole different set of issues internally and versus the world. And it's also experimenting with a digital currency. You know, there are Fed members who also want the U.S. to step up its work on a digital currency. So, we'll see where that goes. But if China is ahead of the U.S. on testing that rollout, for sure. You know, many of our companies are multinational and do their own hedging. That may make the impact on one the opposite of the impact on another. But, you know, smaller companies and emerging market or smaller countries, I should say, and emerging market countries often borrow in dollars and all countries have significant dollar flows due

to trade, and, you know, this benefits the dollar. So, I mean, the bottom line is, it's an interesting subject, we generally don't really have or try to have an opinion on currency. Big moves up or down in the dollar have an impact on company earnings via hedging gains or losses and currency translation and financial reports. But overall, it's an unknown and usually not as important as other factors when it comes to investing, or at least in the way that we invest.

Jessica:

Thanks, Yana, for that explanation. The next question we received is regarding the Fed and, Eric, I'm going to send this to you. The Fed will likely taper later in the year. How does that impact Weitz stock selection and our process around stock selection?

Eric:

OK, well, thanks for that question, this is a good question. The Fed beginning to taper, which may also lead them to raising the Fed fund rates, has us staying focused on our process of owning quality companies. Also, you know, with our intentions to you know, we're long-term investors, so we're typically looking out over the next three to five years. And over that horizon, we're incorporating a moderately higher interest rate environment into the models that we use to drive kind of wider termination of value is. And that's putting downward pressure on the valuations generally. But, you know, I think we need to be clear here and that we're not projecting rampant inflation or financial panic. But if multiples do compress, it reinforces the importance of earnings. And in that price to earnings ratio. We've always been cautious about owning speculative high-growth companies, trading at super premium valuations. And we're even more wary of that in this current environment. It's very possible some of those high fliers could get hit the most, the hardest.

Instead, what we do like owning is a portfolio of businesses with very durable cash flows. So, think of things like broadband providers, Comcast and Charter, or companies with faster growth prospects, you know, trading, still reasonable prices such as digital advertising giants, Google, their parent Alphabet, and Facebook.

Jessica:

Thank you, Eric. And again, to everyone on the call, if you would like to ask a question, you can do so in the bottom menu bar using the Q&A down at the bottom. Okay, so the next question we have gotten, I'm going to send this one to Yana. What is your outlook for the finance industry given the low interest rate environment that that we currently have?

Yana:

Sure, thanks, and certainly we do own some companies that fit into this sector. But no, financial services is a huge category. It covers a lot of different types of businesses which are affected in different ways by the level of interest rates. So, spread lenders like banks have suffered in this near-zero rate environment that we've all been in. And they'll have a better chance of earning a higher net interest margin when rates when rates are maybe a little more normal. You know, insurance companies often have large bond portfolios and will benefit from higher yields, though there are lots of variables that complicate their profitability structure. Bonds are not especially important to Berkshire, for example, though, the 150 billion of cash on hand would certainly benefit from higher T-bill rates for them. And, you know, mortgage lenders may make more profitable loans, but perhaps fewer of them if higher rates reduce the demand for new mortgages and refinance mortgages. So, you're, as usual, kind of the general answer is – it's complicated. And the advantage under any conditions goes to the financially strong, efficient, disciplined companies with strong cultures. And certainly that's what we're trying to invest in and think that we have invested in.

Jessica:

Thank you, Yana. All right, so moving on to the next question, Eric, I'm going to send this one to you. We've heard about this in the news. Does the semiconductor shortage give the analysts any concern for the tech holdings that may be in our funds?

Eric:

Oh, OK. Yeah. You know, from kind of talking to the analysts, any disruptions from the semiconductor shortages are likely to be very short term. Right. Less than a year. And at any rate, don't really impact most of our holdings. So, that that's kind of the top level that the analysts are saying. You know, some of our industrial businesses have noted shortages amid an uptick in demand. But, you know, we're the view that this is more of a deferred sales versus a permanent change. And our semiconductor holdings are generally working to expedite prior expansion plans, right, to increase and meet this demand. But we're seeing some issues, you know, fully meeting the demand, as noted. Some of that has to do with supply chain and other things. But, you know, on most of our holdings are actually in analog semiconductors versus, say, a logic memory, where the shortage issue is much more acute. So, not a significant impact.

Jessica:

OK, thank you, Eric, for that insight. And the next question is pretty straightforward, and Yana, I'm going to send it to you. Are energy stocks a good buy?

Yana:

That's a good question. I don't know whether they're a good buy or not. I do know this. You know, I've been at the firm for 21 years and we've seldom owned energy stocks. It's not that we've never owned them. We have. But very seldom. And currently we don't own any energy stocks in the portfolios. We do hold some energy bonds in the fixed income funds. But, you know, again, our focus on quality and businesses with durable cash flows generally has us steering away from companies that are more cyclical and have some dependency on commodity pricing, like energy. So, you know, we will note, however, that we own one of the largest domestic energy producers. So, I said, you know, we don't own any, but we do through Berkshire Hathaway. So, Berkshire Hathaway Energy, it used to be called MidAmerican Energy, you know, that's one of the largest in the country. And I think we're happy to have that exposure through them and not own any of those stocks directly. Certainly not now. And I'd be surprised to see us do a lot of it in the days ahead as well.

So, whether they're a good buy right now or not, I don't really have an answer to that, but that would be how I'd answer that question. But thank you for that question.

Jessica:

Thanks, Yana, for that detail. Okay, now for the next question. This is around the consumer staples stocks, and the question is, I see a lot of consumer staples stocks appear to be correcting. Do we have any thoughts on this? Yana, I'll let you maybe start with that one and Eric, if you'd like to jump in.

Yana:

Sure. Sure. Thanks, Jess. So, you know, consumer staples stocks, mostly what we're talking about, food and beverages or household goods. You know, maybe those ran up quite a bit with the reopening trade. You know, we've seen obviously consumers out spending money. And so, it seems like some of those stocks kind of ran up earlier part of the year. And, you know, maybe they're correcting some. I don't know if the Delta variant is playing a role. It seems like the consumers are still out spending, at least in my neck of the woods they are. So, we don't own a lot in this sector. And so, but, you know, maybe they're just taking a bit of a breather from having run up so much previously. Eric, do you have anything that you might want to add to that?

Eric:

No, I don't have any kind of further insight beyond what you had mentioned.

Jessica:

Another question that we have received, some value investors have been buying the Chinese stock, Alibaba. Do we have any thoughts about these Chinese stocks? Eric, I'll let you start with that one.

Eric:

Okay, well, I guess the first thing I would premise this, you know, we are focused on U.S. equities for the most part right now. U.S. domiciled names. That's where our expertise is, that’s where our knowledge base is. We're obviously aware, right. We're not oblivious to names. And in a lot of our names are multinational. Right. So, they're very much impacted by what's going on in the global – in the world. You know, there's a huge opportunity in China, given population, given the growth of their economy. But there's also some warning signs for foreign investors, and given just the lack of transparency and the control economy, the communist economy of China, that I think would gives us pause. But, you know, names like Alibaba are very similar, you know, to some of the businesses that we do own that are that are U.S. based. So, I wouldn't say we don't see it as something that could be interesting, but it's not something we're focused on and it's not something that will probably end up in the portfolios in any time in the near future.

Jessica:

Thank you, Eric. All right, so the next question that we have is sort of a deeper dive onto two of our holdings and an updated view on the intrinsic value of Dun & Bradstreet and Fidelity National Information Services. Yana, I'll go ahead and throw that one over to you.

Yana:

Okay, thanks. So, Dun & Bradstreet stock price currently sells at a pretty significant discount to its intrinsic value, at least in our opinion, as of today. So, maybe somewhere close to a 60% discount - the price-to-value is on that stock. Dun & Bradstreet is essentially kind of like a FICO score system but for companies. It provides information to help understand what kind of credit risk a company is taking with their vendors. There's new managers there. The new managers are recasting the business after having taken it private and then re-coming out public. And, you know, we believe that the organic growth comeback will happen. Probably it's still maybe a few quarters away. But the time for us to buy was now. And so far, kind of throughout this year, we've been dabbling by adding shares, I should say, to that stock. So, you know, again, that's our view as of today.

I would make kind of the same statement with regard to Fidelity National Information Services. The stock price also sells at a pretty good discount to its intrinsic value, maybe it's around the low 80s

range price-to-value. And again, that's our opinion as of today. With Fidelity National, the market hasn't liked the delays in the return to normal with the portion of its merchant business that caters on kind of on-premise customers. And the e-commerce volumes continue to grow, and other portions do as well. Their banking and capital market software business continues to outperform on a sales basis. And, you know, we believe they're ahead of the competition with respect to core banking modernization. So, you know, both of these companies we like quite a bit. There is, you know, discount to value that that's the time that we tend to be buying a company like that. So we'll see what's ahead. But at this point in time, we like both companies.

Jessica:

Thank you, Yana, and thank you to everyone that attended today's meeting. We appreciated your thoughtful questions and we did get through all of them, so we will go ahead and end the call. Again, if there is anything that you'd like to discuss offline, please email us at clientservices@weitzinvestments.com. And we will reach out to you again. Thank you, everyone, for attending. And thank you to Yana and Eric for the presentation.

Yana:

Bye, everyone. It was nice talking to you.

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As of 06/30/2021, the following portfolio company constituted a portion of the net assets of Balanced Fund, Hickory Fund, Partners III Opportunity Fund, Partners Value Fund, and Value Fund as follows: Alphabet, Inc.: 2.2%, 0.0%, 5.9%, 6.7%, and 7.0%; Aon PLC; 2.2%, 0.0%, 4.2%, 4.0%, 4.8%; AutoZone, Inc.: 1.7%, 4.2%, 0.0%, 2.3%, 2.7%; Axalta Coating Systems Ltd.: 0.0%, 3.5%, 0.0%, 2.6%, and 0.0%; Berkshire Hathaway, Inc.: 2.2%, 0.0%, 9.6%, 5.1%, 4.6%; Black Knight, Inc.: 0.0%, 2.4%, 2.7%, 2.3%, 0.0%; Dun & Bradstreet Holdings, Inc.: 0.0%, 2.7%, 2.6%, 2.0%, and 0.0%; Facebook, Inc.: 0.0%, 0.0%, 4.9%, 3.6%, 4.9%; Fidelity National Information Services, Inc.: 1.5%, 0.0%, 2.7%, 0.0%, and 3.4%; Ingersoll Rand, Inc.: 0.0%, 2.9%, 0.0%, 0.0%, and 0.0%; Liberty Media Corp.-Series C Liberty SiriusXM: 0.0%, 4.8%, 5.9%, 4.8%, and 3.0%; LICT Corporation: 0.0%, 5.0%, 0.0%, 0.0%, 0.0%; Linde PLC: 1.2%, 0.0%, 0.0%, 0.0%, and 2.2%; LKQ Corporation; 0.0%, 5.0%, 0.0%, 3.9%, 0.0%; Markel Corporation; 1.8%, 4.3%, 5.6%, 3.2%, 0.0%; Martin Marietta Materials, Inc.: 1.3%, 2.9%, 0.0%, 2.8%, and 0.0%; Mastercard,

Inc.: 1.6%, 0.0%, 4.6%, 3.4%, 3.7%; Roper Technologies, Inc.: 1.3%, 0.0%, 0.0%, 0.0%, and 2.6%; The Charles Schwab Corporation: 2.2%, 0.0%, 3.7%, 4.4%, 4.4%; Visa, Inc.: 1.6%, 0.0%, 5.0%, 4.0%, 4.0%; Vulcan Materials Company: 1.9%, 2.4%, 1.2%, 3.6%, and 3.6%.

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