

Weitz Investment Partners III Opportunity Fund Q2 2022 Commentary

Jul. 30, 2022 4:05 AM ET | **Weitz Partners III Opportunity Fund Investor Class Inv (WPOIX), WPOPX** | AAPL, AMZN, BKI...



Weitz Investment Management, Inc.

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Summary

- Weitz Investment Management focuses exclusively on asset management and provides clients with top-quality, personalized service. Over the past three decades, Weitz has leveraged its research driven approach to capitalize on investment opportunities that arise out of market inefficiencies.
- The Partners III Opportunity Fund's Institutional Class returned -13.84% in the second quarter.
- Year-to-date, the Fund's Institutional Class returned -18.22%.
- As the market selloff accelerated, we stepped up our activity covering shorts in the second quarter.
- Looking ahead, although recent market declines have been painful, we believe we own a collection of very good businesses trading at attractive valuations.



Richard Drury

The Partners III Opportunity Fund's Institutional Class returned -13.84% in the second quarter, compared to -16.10% for the S&P 500 and -16.70% for the Russell 3000. Year-to-date, the Fund's Institutional Class returned -18.22% compared to -19.96% for the S&P 500 and -21.10% for the Russell 3000.

Equity market returns in the first and second quarters of 2022 made for the most challenging start to a year in decades, as inflation approached a 40-year high. After years of accommodative monetary policy, the Federal Reserve has assertively reversed course, engaging in a series of progressively larger interest rate hikes.

The Fed has acknowledged these actions have increased recessionary risks but are necessary to quash inflation expectations before they fully take root. The inflation fight is far from over, however, with more interest rate hikes on the horizon. Meanwhile, swift market declines reflect investors' diminishing hopes for a so-called “soft landing” (i.e., implementing tighter monetary policy without triggering a recession).

The breadth and depth of declines this quarter left investors with no place to hide. Last quarter's top performer, Berkshire Hathaway ([BRK.A](#), [BRK.B](#)), reversed course and became the largest detractor to quarterly performance (but remains a year-to-date relative outperformer).

Amazon.com ([AMZN](#)) shares have lagged as the company works through a pandemic-induced growth hangover, while investors continue to take a “wait and see” approach to Meta Platforms' ([META](#), Facebook parent) ability to monetize its “Reels” short-form video format while working through challenges from Apple's ([AAPL](#)) iOS advertising changes.

Alphabet ([GOOG](#), [GOOGL](#)) and Liberty SiriusXM ([LSXMA](#)) round out the quarter's top detractors, though that is a function of their large position sizes rather than outsized stock price declines.

As market declines intensified, our short positions against ETFs that track the S&P 500 and Nasdaq 100 indexes were the primary bright spots in the second quarter and year-to-date.

Coming into 2022, the Fund's short exposure was 22% of net assets, and our effective net long position was 76%. As the market selloff accelerated, we stepped up our activity covering shorts in the second quarter. At quarter end, we maintained a modest 3% short position against an S&P 500 ETF, the lowest level in recent years. Our Nasdaq 100 ETF short position has been fully closed.

We have written in recent quarters that as valuations become stretched, our short position allows us to reduce our equity exposure without selling any specific holding. In this way, we postpone taking realized gains, eliminate future timing decisions on when to buy something back, and allow our companies' business value growth to continue compounding in our favor.

Conversely, when stocks fall, covering shorts allows us to increase our equity exposure to a carefully curated collection of businesses we know well and believe are well positioned for the future. Importantly, we are not trying to “call a bottom” for the market, and we acknowledge that stocks may fall further.

Nevertheless, with valuation levels well off their highs and a view that our own portfolio of high-quality businesses now trades at compelling prices, we elected to materially increase our effective net long position, ending the quarter at 94% of net assets (compared to 76% at the end of 2021).

Consistent with that approach, portfolio activity among our long holdings tilted toward purchases. We added to almost half our holdings by varying degrees, and we were pleased to initiate new positions in Danaher ([DHR](#)) and Roper Technologies ([ROP](#)) at attractive prices.

Danaher is a provider of instruments and diagnostic tools to medical, life science, and other desirable end-markets worldwide. Originally an industrial equipment manufacturer, Roper has successfully evolved into a provider of software and technology services. (Investors can find an in-depth discussion of our Roper Technologies investment thesis in colleague Barton Hooper's [November 2021 “Analyst Corner” feature](#).) Both businesses generate significant free cash flow, possess strong competitive positions, and have excellent management teams with demonstrated acquisition records.

As we describe in our latest “Value Matters,” we believe these are characteristics that allow companies to “make their own breaks,” regardless of the near-term challenges we may face. During the quarter, we sold our remaining shares of Qurate Retail's ([QRTEA](#)) common equity but maintain a position in the company's 8% preferred shares.

Looking ahead, although recent market declines have been painful, we believe we own a collection of very good businesses trading at attractive valuations. Investment returns never follow a schedule, but from these prices, we believe the potential exists for very good returns in the coming years.

Top Relative Contributors and Detractors

TOP CONTRIBUTORS (%)			
	Return	Average Weight	Contribution
			% of Net Assets

SPDR S&P 500 ETF Trust (SPY)	-16.73	-7.82	1.70	-3.1
INVSC QQQ TRUST SRS 1 ETF (QQQ)	-20.52	-1.20	0.48	0.0
Black Knight, Inc. (BKI)	12.74	2.53	0.19	2.6
Danaher Corp.	6.08	0.84	0.08	2.0

TOP DETRACTORS (%)

	Return	Average Weight	Contribution	% of Net Assets
Berkshire Hathaway, Inc.	-22.65	9.95	-2.42	9.7
Amazon.com, Inc.	-35.05	4.28	-1.59	4.3
Meta Platforms, Inc.	-27.43	5.38	-1.58	4.9
Alphabet, Inc.	-21.68	6.71	-1.54	6.7
Liberty Media Corp-Liberty SiriusXM	-21.25	5.98	-1.33	5.1

Data is for the quarter ending 06/30/2022. Holdings are subject to change and may not be representative of the Fund's current or future investments. Contributions to performance are based on actual daily holdings. Returns shown are the actual returns for the specified period of the security. Additional securities referenced herein as a percent of the Fund's net assets as of 06/30/2022: Apple, Inc. 0.0%, Qurate Retail, Inc. - Preferred 2.4%, and Roper Technologies, Inc. 2.0%.

RETURNS (%)													
TOTAL RETURNS			AVERAGE ANNUAL TOTAL RETURNS								Since Inception (6/2/1983)	Net Expense	Gross Expense
QTR	YTD		1-YR	3-YR	5-YR	10-YR	20-YR	30-YR	35-YR				
WPOFX Institutional Class	-13.84	-18.22	-17.53	2.92	4.99	7.12	8.07	10.89	10.65	11.48	1.43	1.43	
WPOFX Investor Class	-13.83	-18.29	-17.80	2.38	4.44	6.65	7.82	10.71	10.50	11.35	1.86	1.86	
Russell 3000 Index	-16.70	-21.10	-13.87	9.77	10.59	12.57	9.13	9.84	9.77	10.70	-	-	
S&P 500 Index	-16.10	-19.96	-10.62	10.59	11.30	12.95	9.07	9.85	9.82	10.97	-	-	

Original Post

Editor's Note: The summary bullets for this article were chosen by Seeking Alpha editors.

This article was written by



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Wally is the founder and President of Wallace R. Weitz & Company. Wally, a Chartered Financial Analyst, manages Hickory Fund and Partners III Opportunity Fund and co-manages Value Fund and Partners Value Fund. Wally's investment career began in 1961, at age 12, when he invested the profits from various entrepreneurial ventures. After going through a charting phase in high school, Wally discovered Benjamin Graham's Security Analysis and was converted to value investing. After earning a B.A. in

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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 Fund'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. Effective 03/29/2019, the Fund invests the majority of its assets in the common stock of medium-sized companies, which the Fund considers to be companies with a market capitalization, at the time of initial purchase, of greater than \$1 billion and less than or equal to the market capitalization of the largest company in the Russell Midcap. Prior to that date, the Fund invested the majority of its assets in the common stock of smaller- and medium-sized companies, which the Fund considered to be companies with a market capitalization, at the time of initial purchase, of less than \$10 billion. Performance prior to 03/29/2019 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 Russell Midcap tracks the performance of the 800 next largest U.S. companies, after the 1,000 largest U.S. companies

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.

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