

Tweedy, Browne – Why Value Investing Will Continue to Thrive

By Robert Huebscher
June 8, 2020

This year marks the 100th anniversary of the renowned investment firm Tweedy, Browne. The firm was originally a broker, and one of its clients was Benjamin Graham, co-author and author of the seminal textbooks on value investing: Security Analysis (1934) and The Intelligent Investor (1949). The firm also had brokerage relationships with Walter Schloss and Warren Buffett.

As of April 30, 2020, its flagship fund, the Tweedy, Browne Global Value Fund (TBGVX), has returned 8.17% annually since its inception in 1993. That is 261 basis points better than the hedged MSCI EAFE index and 278 basis points better than the foreign stock fund average (which is calculated by Tweedy, Browne based on data provided by Morningstar and reflects average returns of all mutual funds in the Morningstar Foreign Large-Value, Foreign Large-Blend, Foreign Large-Growth, Foreign Small/Mid-Value, Foreign Small/Mid-Blend, and Foreign Small/Mid-Growth categories).

I interviewed six members of Tweedy, Browne's investment committee: John Spears, Tom Shrager, Bob Wyckoff, Roger de Bree, Frank Hawrylak and Jay Hill.

The interview took place on May 14, 2020, over Zoom. I previously interviewed the members of the investment committee at Tweedy, Browne, on February 5, 2019, when we discussed their investment philosophy, how they differentiate themselves and their views on cur-

rency hedging. Please refer to that interview for information on those topics.

Bob: I'd like to talk about the unique investment and economic climate we are facing. Your fund has done exceptionally well thus far this year on a relative basis. As of May 1, it outperformed the MSCI ACWI ex-U.S. value index by 803 basis points and the Morningstar foreign large-value peer group average by 634 basis points. To what do you attribute that?

Bob Wyckoff: It's sad that it has come on the heels of a pandemic, but we're happy that we have been able to add some value of late. To a great degree, the stocks that have been smashed during this crisis have been the economically-sensitive companies, including some of the deeply cyclical businesses. The higher quality companies and the interactive media and technology companies that the fund owns have held up better.

The fund has a fairly significant exposure to branded consumer products companies, companies like Nestle, Heineken, Unilever and Diageo. Those companies in general have held up better than the deeply economically sensitive businesses.

This has also held true for our pharmaceutical holdings where the fund has significant exposure. Our

value mix has always had exposure to some higher quality companies that are business compounders, where the price is still fair in relation to our estimate of intrinsic value as well as some economically sensitive businesses.

The financial and energy components of the fund's portfolio were hit hard in March. Many of the industrial companies in our portfolio have also been smacked during this crisis. But we do have some of those other high-quality names.

John Spears: It's hard to compare the fund to those indexes. These are stocks that the fund largely doesn't own. It's a question pertaining to a large group of com-



Bob Wyckoff

panies, but we're focusing on one company at a time. We're buying interests in businesses in the stock market.

Bob Wyckoff: Emerging markets have been hit pretty hard. The Tweedy, Browne Global Value Fund has approximately 7 to 8% of its assets in the emerging markets. We know our competitors have higher exposure there. That's

another reason why we've held up relatively better than many.

Bob: You wrote in your March 31 commentary, "It may seem counterintuitive, but at times like this, we begin to feel better about our prospects for future returns." What were some of the opportunities you saw following the market decline that began on February 19?

Tom Shrager: We found opportunities in some smaller companies in Japan. We got an opportunity to invest smaller amounts and hopefully there will be bigger opportunities later.

Over time, we'll probably buy more Japanese companies that in our view have rock-solid balance sheets and significant international exposure, and that are cheap on an absolute basis relative to intrinsic value. Those companies that have a history of paying deference to their shareholders, either through dividends or share buybacks.

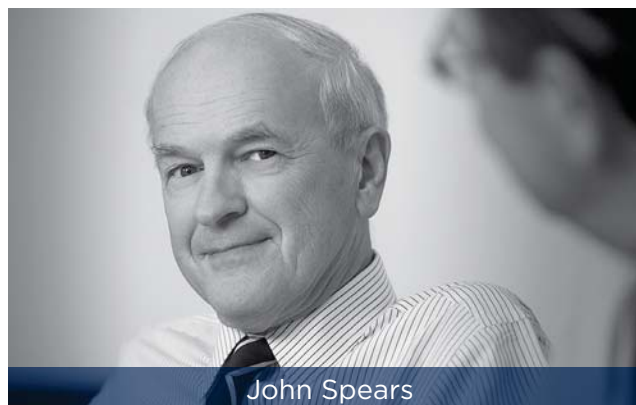
We began looking at Astellas Pharma in the fall of 2019, but got our pricing opportunity during the pandemic sell-off in March 2020. It is a story about a couple of drugs, some that are already being sold, like Xtandi, which is a prostate cancer drug. It has another seven years to run on its patent. Because it's going to be approved and has been approved for additional indications--the probability is that it will continue growing.

Then there is a drug that has been recently approved for bladder cancer. Bladder cancer is an area of relatively high need that we believe is going to grow. As far as Astellas's pipeline is concerned, there are a couple of interesting compounds it is working very hard on. One is a treatment for hot flashes for postmenopausal women. It's not a hor-

monal treatment. We believe that it's going to be approved. It could be a big drug.

The most exciting part of Astellas's future could be a drug for dry age-related macular degeneration. The market for such a drug—and there is no treatment now—could be a minimum of \$10 billion. Some people put the total market size higher than that. It's a new cell therapy. It has a type of stem cell to use in this treatment that is expected to reduce the chance of the product being rejected.

Last but not least, we valued the business at 14-times its EBIT and we bought it in the market at around 10-times EBIT. In addition, over the last couple of years it bought back a lot of shares. It is a



John Spears

Japanese company that appears to act in the interests of its shareholders and has been relatively good in discovering new drugs.

John Spears: CK Hutchison Holdings is a Hong Kong company. Its symbol is 1HK and its price is about \$55. At purchase, the company had a 5.7% dividend yield. It's priced at five-times earnings. If we owned the entire business, the reciprocal of that five multiple is a 20% after-tax earnings yield. The company is a conglomerate. A large number of its businesses are stable—telecommunications and infrastructure, which is a utility businesses.

It has a port business that will be suffering because of the decline in world trade. But a big part of the earnings power and value is in the telecommunications and the utilities. There's debt on the balance sheet, but a lot of the debt is non-recourse, related to those very steady businesses—telecommunications and utilities, that typically have debt as part of their capital structure. The earnings yield is largely useful free-cash-flow-type earnings, and the analyst who valued the company came up with an estimated intrinsic value of \$108 which is approximately double the current stock price.

Its stated book value is \$120 a share and it is very interesting to see that the insiders are buying millions and millions of dollars of the stock. One of them is the wealthiest man in Hong Kong—Li Ka-shing. Li Ka-shing and his son have been buying millions and millions of dollars of the stock at current prices,—recently post-corona and pre-corona. That's a very good sign statistically. Empirically, a lot of academic studies have

indicated that when insiders buy their own company's stock, the stock tends to beat the market.

Bob Wyckoff: From a big picture perspective, we've been very busy for the last eight weeks given the volatility in the market, particularly during that late-March period when prices were coming down significantly. But we've approached things thoughtfully, deliberately and incrementally. We don't know how long this is going to go on or how deep it will get.

We've had a lot of activity on the buy side in a short period of time.

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We've also trimmed and sold some securities. Anytime we're looking at a new security, we have to weigh it against what we already own. Is there something about the new security we like better? We consider whether we have available cash.

Often during periods like this, we add to existing positions that we have in the portfolio. We did a good bit of that in late March and into April. Who knows what the future holds. We didn't spend all of the fund's cash overnight. It's been an incremental approach, but we have been very active.

Bob: Your cash position was 11.9% as of March 31. When we spoke last year, on March 4, it was approximately 6.5%, about half of its current size. You mentioned that it has been as high as 20% or 25%. What should investors infer from your 11.9% level?

Tom Shrager: The cash is residual. But what happened was in the second half of last year we had a takeover in the portfolio. It was a company called Axel Springer, which was a 2.5% position. In addition to that, we sold some stocks to realize tax losses to reduce potential distributions resulting from realized capital gains and appreciation in the currency forwards.

The result was that distributions at the end of the year were rea-

sonable. In addition to that, on the buy side, we bought a couple of stocks, but we had redemptions. The fund's cash went down compared to the end of 2019 as a percentage of a total portfolio. We will continue to deploy the cash as opportunities arise. The backlog of ideas on the international side is still very large.

Bob Wyckoff: If this volatility stays with us, my bet would be that the fund's cash level is going to come down over time as we take advantage of pricing opportunities we're seeing in the market. Investors sometimes get skittish during periods like this. We've had redemptions in the fund, so we have maintained some cash to fund redemptions.

Tom Shrager: But as of now the cash has continued to go down.

Bob: One of your largest holdings has been Berkshire Hathaway. Andrew Ross Sorkin reported on Buffett's recent annual meeting in the New York Times. Sorkin compared Buffett's attitude to 2008, when Buffett was a vocal advocate for buying U.S. stocks. Now, Buffett has been reticent to allocate capital and, according to Sorkin, is fearful that things will get worse. Do you share Buffett's pessimism? Are you still bullish on Berkshire Hathaway?

Bob Wyckoff: Buffett is generally an optimistic guy. It depends on your horizon. Over the long term, he made that very clear at his Berkshire meeting. If you're a long-term investor, never lose faith in America. That was his message.

He's a long-term bull, but it was a more so-

bering presentation this year at the Berkshire conference. I agree with Andrew Ross Sorkin's comment that Warren didn't seem quite as ebullient, and there's a tremendous amount of uncertainty, health-wise and for the economy. That was reflected in Buffett's demeanor.

John Spears: In his array of businesses, Buffett is seeing some get hit. He talked a lot about changes in psychology that may continue to affect consumer demand in a negative way. He expressed earnest uncertainty.

He was asked why the stock price of Berkshire was down. Why Berkshire wasn't buying more shares? The company had paid more in the past than its current stock price. Warren basically said he's less certain about some of the intrinsic values within Berkshire. Short run, it looks like in his view, Berkshire's intrinsic value has declined. He doesn't see it as quite a bang-up bargain, even though the price is down.

But long run, we're bullish on Berkshire. Across all the assets we manage, Berkshire is among our largest holdings, and it's a holding in many of our personal accounts as well.

Jay Hill: One of the things that I took from that meeting was Buffett talking about the 2008 and 2009 experience. He observed that over that time period, all of the problems that became evident weren't evident in the beginning. It took time for some negative events to trip other negative events.

The whole world is interconnected, and it's very possible that things get worse over time. All of the problems aren't visible on day one. Buffett was saying that there's a reasonable possibility that things could get materially worse. He's still bullish long term, but he's observing that in the short term



Tom Shrager

there's a wide range of possible outcomes.

Tom Shrager: There was an interview with Charlie Munger before Berkshire's annual meeting. He said that their phone isn't ringing very much. There is a lot of support from the government, from the Federal Reserve, and an enormous amount of money for distressed companies. In the past, more companies would approach Berkshire during a time of distress like this, and they could get very attractive terms on convertible preferreds.

Frank Hawrylak: The government has been giving out better deal terms than what Warren Buffett finds acceptable. It's also helpful to remember a Buffett quote from one of his annual reports written a long time ago: "To finish first, first you must finish."

Buffett has a lot of shareholders who have their entire net worth tied up in Berkshire Hathaway. He's not going to put up a "zero." He will wait for better terms. We're only two months into what most people believe will be a deep recession.

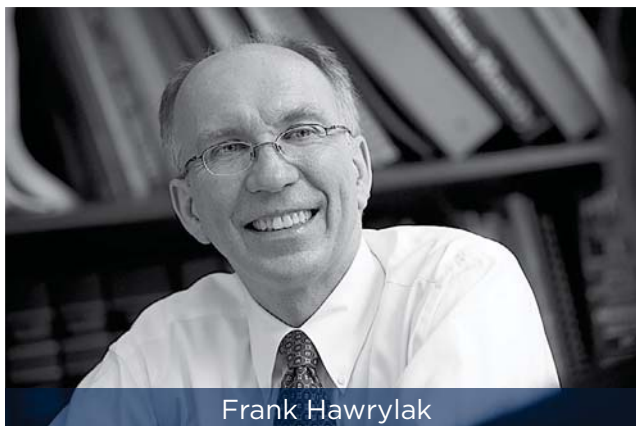
Roger de Bree: There is a huge difference between what happened in 2008 and what is happening now. Back then, the financial system was in trouble and it started to have an effect on the real economy. Now it is the opposite. I was speaking to a company yesterday that had drawn on an existing credit line out of prudence. The bank told them, "If you need more, let me know." We are in a very different situation now. We may have issues in insurance companies this time related to uncertainties surrounding busi-

ness interruption claims, but so far at least, the banking system seems unaffected compared to what was happening back then.

I find it mysterious and somewhat scary, but there it is.

It was reported that Buffett sold 18% of his stake in Delta Airlines in the first quarter. Your March 31 commentary states that you took a position in Delta. What was your rationale for buying Delta at a time when Buffett was selling it?

John Spears: Buffett's sales occurred very late in the quarter after we had established our position in the Tweedy, Browne Value Fund. We noticed in an insider filing that



Frank Hawrylak

Berkshire Hathaway, which had a 10% position in Delta Airlines, was buying more in late February. It was going above 10% and you could see that Berkshire was reporting each transaction. You could see what it was paying—around \$50.

If you look at the other insider transactions, there were a cluster of buys. The Delta CEO had bought as well as a former investment banker who sits on Delta's board. He had bought a considerable amount of stock. You had those expressions of confidence in the company.

Buffett was describing how he was

looking at the airlines. He bought 10% each of United, American, Southwest, and Delta. When he described it in the shareholder meeting, he said, "The way I looked at it, I was paying \$8 billion for \$1 billion of earnings."

He was getting a 12.5% owner-earnings yield after tax from this investment. He expected, long-run, that the airlines would be in a better position than they had been in the past. That the industry was more consolidated and management is smart. They would do good things with the cash generated—buy back stock or pay a dividend.

He was more confident in the industry than he had been. It was particularly interesting to see Warren Buffett, who has often said that investors in airlines would have been better off if the Wright brothers had not invented the airplane because so much money had been lost in the airline industry. As an owner of NetJets and Precision Castparts, which supplies the aviation industry, it was interesting to see him buy into airlines at eight-times earnings and a 12.5% earnings yield.

Now, we have the coronavirus and we see him selling. We reassessed, and we are out of it. We sold it. We saw him selling also. We saw him selling in the low \$20s. We sold around the same price. As Buffett says, you don't have to make it back with the stock that lost it.

Bob: We're speaking on May 14. The S&P 500 is down 11.1% for 2020. The MSCI ACWI ex-US index is down approximately 20%. But we are in a world characterized by extreme uncertainty—with respect to the medical and epidemiological outcome, the economic outcome and the political landscape. Do those market corrections properly reflect the

depth of the crisis, specifically the degree to which corporate cash flows have been impaired and the degree to which investors should demand a higher risk premium?

John Spears: We're spending our time looking at one business at a time trying to think and analyze like business owners. What's the company really worth as a business?

We're not really spending much of our time on opinions about the overall market. But our heads aren't in the sand. We see statistics about the overall P/E ratio on the S&P 500. It is around 21-times earnings—less than a 5% after-tax earnings yield. The earnings are, of course, very iffy given the economic climate.

The individual stocks in the Global Value Fund portfolio, especially some of the ones we've been buying recently, are a lot less expensive, in our view. We believe they give our investors higher earnings



Jay Hill

and more assets for every dollar that we invest than you would get in the S&P 500 or some of the other indexes.

Roger de Bree: Our thinking incorporates normalization. We are, and we have to be, optimistic. If we are going to have 15 or 20 years of an economic depression, some of the stocks the fund owns will likely turn

out not to be cheap now. However, all our stocks go through our rigorous financial stress-tests and that should help. We think that this year is a write-off because that's what most companies we speak to think. We believe that things should get better next year.

Although we don't like to make macro calls, the positive attitude that we have implies some long-term optimism about what will happen.

Jay Hill: We're not trying to value businesses based upon coronavirus-depressed 2020 earnings. This year is going to be very negative for many businesses. It would be a mistake to try to value companies on depressed 2020 earnings and then try to buy companies at two thirds of that valuation. That would be too conservative.

We believe that the impacts of the coronavirus are going to be temporary, but unfortunately we can't define that timeline. We don't know when or whether businesses are ultimately going to recover. We believe most will at some point. But the science is going to determine the timeline of when the economy reopens and begins to recover.

The best way that we can defend ourselves against that unknowable timeline is to focus on businesses that in our view are more likely to not be permanently impaired by the coronavirus. Secondly, we focus on businesses that have sound balance sheets and positive free-cash-flow generation ability to try to assure ourselves that they can not only survive, but come out of this downturn with a balance sheet that doesn't have substan-

tially more net debt than it did entering the crisis.

That was one reason to ultimately sell Delta. That was so even if we ultimately convinced ourselves that, "Hey, domestic flying will recover first and then ultimately international flying will recover whenever we have a vaccine." The critical point was that this was a company that was going to burn free-cash flow every day for an uncertain period of time. Even if the business survives, it is very possible that Delta could have net debt that is multiples of its pre-crisis net debt.

Roger de Bree: Don't forget that the companies that we own tend to be strong players in their industries. That may very well create great M&A opportunities or great competitive opportunities for them.

Bob: I recognize that you are value investors and use a bottom-up analytical framework, and that you, to some degree, insulate yourselves from macroeconomic considerations. But surely the coronavirus has affected your thinking. For example, when you look at the different countries where your investments are domiciled, are you factoring in that country's response to the virus?

Tom Shrager: The science is very complicated. It's very difficult to say if a country, say Sweden or Italy, is doing it right. Is New York doing it right? There is no cure. There are medicines that can lessen the number of deaths. And at some point, perhaps in 2021, we may have a vaccine.

We do not know how infectious the disease is. We know that it affects elderly people more, but we don't know what the effect is on other groups because we haven't done enough testing. There are too many uncertainties for us to say, "Italy did it right or Sweden did it right."

We are aware that, with lockdowns, certain countries' economies are worsening more than others that may have had less stringent lockdowns. Italy is going to suffer more because of how stringent its lockdown has been. But that doesn't mean that we are going to look at Italian companies and their balance sheet differently, beyond their general economic background.

Roger de Bree: It's relatively easy to decide to go into a lockdown, but it's not easy to get out. That's what we're experiencing. We're aware that certain countries seem to be doing better than others with the coronavirus. In our analysis, we take those things into consideration as background information when looking at specific businesses.

Sweden as a country is doing well. But does that then mean that you should be looking at Swedish stocks? Any large, global Swedish company you study will only have five or 10% of its sales in Sweden.

Its valuation will be affected similarly, irrespective of what Sweden does in dealing with the virus. That's true for Italian companies too.

Jay Hill: Consider the sequence of the virus. It started in Asia and then slowly went to Europe and then to the United States. That is also evident in corporate earnings.

If you're a global industrial with business in China, your Chinese business in February and March was terrible. But many people are becoming a little bit optimistic about the observation of green shoots in China, which was the first place that was affected. Its econ-

omy seems to be coming back reasonably well so far in April and May. A lot of companies are talking about positive organic sales growth year-over-year by late April or early May.

That may be a blueprint to how our economy or other countries are going to ultimately recover. There is some optimism that China could be viewed as a blueprint and things are getting better in general there.

Bob: How has the Fed's unprecedented intervention in the markets affected your analytical framework?

Tom Shrager: During the economic crisis 12 years ago, there was a period of time when people were afraid that the whole thing would collapse. But this time the federal



Roger de Bree

government quickly injected a lot of liquidity and spent a lot of money to try to counteract the recession that we are in.

We don't have to worry as much about banks or the financial system collapsing, compared to 12 years ago. On a net basis, in the short term, that was a positive. The effect of huge budget deficits on the future growth of the economy will probably be a negative, but at least we dealt with a very serious situation when almost everything stopped.

Bob Wyckoff: The anomaly of my investment career, and I started back in 1980, is negative interest rates. Who would have thought we'd ever see zero to negative interest rates? Part of that has to do with the unprecedented stimulus we've had since the financial crisis and actions that the Fed has taken to bring down interest rates.

It's unclear what the long-term impact of negative rates will be and whether or when we're going to get more normalized interest rates. But that has had an enormous impact on the valuations of risk assets. You name it—junk bonds, equities, private equity, real estate, venture capital—leading up to this pandemic, they had full to high valuations. A lot of people might say, "Well, with flat to negative interest rates, those valuations are not too high." But of course it is subject to debate whether those rates are going to be with us for a long period of time.

When you get big declines in rates like we've had over the last 10 years, it does cause us to stretch the rubber band a bit in terms of the multiples we use to calculate the intrinsic values of businesses. When I first came to Tweedy, Browne in the early 1990s, Frank Hawrylak used enterprise value to EBIT multiples of six-, seven- or eight-times to value businesses, and we were trying to buy those businesses in the stock market at a discount to those multiples.

When I got into this business in 1980, I showed up in New York and the prime rate was 20%. Paul Volcker had just become head of the Federal Reserve and was trying to choke off inflation, and interest rates were at very, very high levels. Since then, we've been in an almost 40-year bull market in bonds.

Certainly the multiples we use to value businesses have gone up

over the years as interest rates have come down. Over the last 10 years, it's expanded a little bit more, but we tend to be pretty conservative on that front. When we look at deal multiples—what's happening in mergers and acquisitions and takeovers – we often see those happen at very, very high multiples.

Sometimes we'll step away and we won't use quite those multiples to value our businesses. We'll haircut them a bit because we may not believe they're sustainable. We've taken a little bit of a conservative approach, despite those low interest rates and unprecedented central bank intervention around the world.

This is not just an American phenomenon. It's happened in the UK, in Europe and in Japan. It remains to be seen what this is going to mean for the future.

“ We believe that the impacts of the coronavirus are going to be temporary, but unfortunately we can't define that timeline.

The Fed's balance sheet is growing, and may grow even more. As you heard from Chairman Powell yesterday, the Fed may have to step in and do more at some point. And this is on top of a massive amount of fiscal stimulus. We don't have the answers. Your crystal ball is as good as ours.

We wonder what this means post-crisis, in terms of very large deficits and unprecedented balance sheets for our Fed, and what that may mean for the future of interest rates or the value of our currency, et cetera. But those thoughts work in the background. We do our business every day,

stock-by-stock. That's what we do.

It's been a tough stretch for value investing, particularly for those who take a statistical or a factor-based approach. The value factor has underperformed for a very, very long period of time. There are different ways to think about value. We use enterprise value multiples much more than book value, when calculating intrinsic values.

We still use book value when we look at cyclical-based businesses. But book value still plays a considerable role in the definition of value indexes and the like. As a performance metric, book value has been very difficult for a long time, going all the way back to 2007. It's been a long, difficult stretch for book value.

Using enterprise multiples in a value-based approach has worked better over the last 13 years. But the last five to six years have been particularly tough, as the FAANGs have ascended and claimed some dominance in the marketplace. As a result, value relative to growth investing is at a pretty extreme spread today.

Quants like Rob Arnott, Cliff Asness and others have noted that value has rarely if ever been cheaper than it is today relative to growth. This has come up of late because, during the downward leg of the crisis in March, the technology stocks continued to do well and the more economically sensitive, so-called value stocks performed poorly. There was a big differential between growth and value even during the downdraft.

Value has typically outperformed during a downdraft. But stay tuned. A bomb has gone off. We've been at this for only eight weeks.

We had a dramatic cliff drop in the market in March. As the pundits on television say, we've been in an incredible bull market in the month of April and into May.

We'll have to see where it goes from here. Looking at previous tough environments, the dot-com bubble began to burst in March of 2000. The carnage was not undone until late 2002 in terms of the impact that it had on stock market indexes.

When you think back to the crisis in 2008, the first cracks began to develop when those Bear Stearns funds started breaking down in late summer of 2007. We began to learn that we might be in a sub-prime, housing crisis. Sure enough, we didn't see the bottom until March of 2009.

We've been in this pandemic-affected market for about eight weeks. Everybody has an opinion. Have we seen the new lows? Have we not? My advice to investors is to stay tuned to value investing. As Frank said, this recession is likely to be very deep and Warren Buffett's skepticism is real. We could be in for a grind, and if that happens, we believe value investing is likely to prove its mettle during and coming out of the grind.

Bob: Looking at the range of risks we face, from a medical or epidemiological perspective, an economic perspective and a political perspective, is there a scenario that worries you? I am not asking about a doomsday scenario at the first percentile, but a remote-but-still-possible scenario at the fifth percentile.

Tom Shrager: The negative scenario is one in which in the fall we have a second wave of the coronavirus. It combines with the typical flu season and hospitals get overwhelmed. Add to that a vaccine

not coming until the end of 2021.

There are some signs of hope, however. Some drugs seem to be reducing the number of days somebody is hospitalized and may reduce the death rate. Those are Remdesevir and a drug that is being tested in Japan from Fuji called Avigan.

As far as the immune response, you have Actemra from Roche, in addition to some other ones that are being tested. There are some drugs that may result in lowering the severity of a renewed attack.

There are the people who are talking about a vaccine coming at the beginning of 2021. Those are the positives. The negatives are the second wave. You have to look at outcomes as possibilities on a continuum.

There are billions of dollars being spent by the government, private firms and charitable organizations to narrow this gap between extreme negative and positive events.

Bob Wyckoff: Deep stock market declines and recessions go with the territory. Buffett did a wonderful job at the Berkshire conference going through the economic and stock market history of the country, going back to before the great Depression. One of the things I've gained solace from is that 40% to 50% declines in the stock market can and will happen, but the markets eventually recover. The fifth percentile disaster that your question suggests is a Depression-like environment. One thing that I took away from Buffett's history lesson was the run on the banks that we had during the Depression, and the devastating impact bank failures had on the economy.

Out of the Depression period we got legislation for the FDIC to discourage runs on financial institu-

tions. Because of the severity of the financial crisis and the actions that were taken post-2008, the banks are in much better shape today. That doesn't mean if the economy remains shut down and people can't make payments on their loans it won't be a problem.

We have lots of governmental backstopping. I take some comfort in Buffett's lessons and the fact that our financial system and banks are stronger today. I surely don't hope we see a fifth percentile experience, but we could see a bigger decline in the equity market.

Part of it will depend on the length of this shutdown. Parts of the economy are running. I'm not thinking Depression, but I'm one person with one view.

Bob: This year marks the 100th anniversary of Tweedy, Browne. Coincidentally, the firm was founded just after another global pandemic, the Spanish Flu. Looking back at its 100-year history, how do the risks your investors face compare to those in the past? What makes you most optimistic about the future?

John Spears: I haven't lived 120 years, so I can't go back to the Spanish Flu. Reading history, though, there have been some very tough and uncertain times. Just imagine what this country faced in World War II. Just terrible.

Think of the loss of lives and the risk. We had Nazi submarines off Nantucket. I've been an investor since about age 12. I'm 71. This is the most uncertain thing I've ever experienced - the medically-induced, global government shutdown of the private sector. What an incredible economic experiment we have.

It's like a chemistry experiment. We don't know how this is going

to turn out, but you rationally have to be an optimist. If we can avoid nuclear war and terrible things like that, including incredible pandemics that kill a lot of people, human beings are going to keep improving, building on the knowledge of the past, looking for innovation and adapting, and creating new things that will improve our standards of living.

The great experiment in working remotely, like we are doing now, using Zoom and having meetings that may not require the wear and tear of travel, may change the nature of our economy, especially to promote green causes. It may reduce carbon emissions. I'm an optimist.

Tom Shrager: I have an aunt who is 104 years old. She was born in 1916 and she was a baby during the First World War, and remembers the terrible years of suffering that followed, particularly for the countries in Europe. For many of them, the 1920s were a lost decade, and those years were soon followed by the rise of Nazi Germany.

My aunt described her century of life to me as one in which you could have been very pessimistic about the future of humanity. That said, the Cold War eventually became a bit warmer. The Chinese developed economically. They're more assertive now in foreign policy.

But from the standpoint of nuclear annihilation, of having World War III, the probabilities have diminished.

The pandemic of 1918 was much more destructive than it seems this pandemic will be. People learned how to live with it. We are now in a phase during which there's a lot of confusion. But I'm optimistic that, with science involved and with the money being spent on trying to find solutions, the sense of fear

that people have now may in time be overcome.

Jay Hill: I remind myself of what I've learned from the more senior managing directors at Tweedy, Browne. I know that fear breeds bargains. You can't have a bargain in the absence of fear. All great investments start with discomfort. Often the very best investments with the best returns are made during recessions when there are big, mass sell offs.

Ultimately, it has always paid over time to be an optimist. You've got to be selective, but it's the fear itself that allows you to be able to exploit large differences between current stock price and intrinsic value. You don't get those opportunities unless there's serious fear.

Bob Wyckoff: My understanding of

the history of America, is that it's a story of resilience. Value investing capitalizes on that resilience. As value investors, we're ultimately optimists.

As a firm we had the incredible good fortune way back in our early days to have relationships with people like Benjamin Graham, Warren Buffett, Charlie Munger and Walter Schloss. We basically adopted a framework - with all credit to Ben Graham - that allows for great resilience over time.

It was a risk-management framework, going back to Warren Buffett's comment, "To finish first, you first must finish." That lies at the heart of our value framework. If there's one thing we've learned over 100 years, it's that price matters in investing.

Assuming we live to see another day, and we are in an uncertain period, we expect value investing to continue to thrive. I have great hope for Tweedy as well. We are 48 people. We were a lot smaller in the old days. But if a small firm like Tweedy can make it 100 years, it speaks a great deal about our framework that has served us so incredibly well during that period.

John Spears: We're still investing in our own product. As of the end of March, the current Managing Directors and retired principals and their families, as well as employees of Tweedy, Browne, had more than \$1.1 billion in portfolios combined with or similar to client portfolios, including approximately \$113.8 million in the Tweedy, Browne Global Value Fund.



Tweedy, Browne Company LLC

Investment performance and portfolio data for the Tweedy, Browne International Value Fund (the “International Value Fund”) in the attached article is as of April 30, 2020 (unless otherwise indicated) and is subject to change.

The average annual total returns of the International Value Fund for the 1-, 5-, and 10-year periods ending September 30, 2021, were 25.85%, 6.48%, and 7.84%, respectively. The Fund’s total annual operating expense ratio, as disclosed in its most recent prospectus, was 1.38%.

The preceding performance data represents past performance and is not a guarantee of future results. Investment return and principal value of an investment will fluctuate so that an investor’s shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data shown. Please visit www.tweedy.com to obtain performance data that is current to the most recent month end. The International Value Fund does not impose any front-end or deferred sales charge.

Tweedy, Browne has voluntarily agreed, effective May 22, 2020 through at least July 31, 2021, to waive the International Value Fund’s fees whenever the Fund’s average daily net assets (“ADNA”) exceed \$6 billion. Under the arrangement, the advisory fee payable by the International Value Fund is as follows: 1.25% on the first \$6 billion of the Fund’s ADNA; 0.80% on the next \$1 billion of the Fund’s ADNA (ADNA over \$6 billion up to \$7 billion); 0.70% on the next \$1 billion of the Fund’s ADNA (ADNA over \$7 billion up to \$8 billion); and 0.60% on the remaining amount, if any, of the Fund’s ADNA (ADNA over \$8 billion). The Fund’s performance would have been lower had fees not been waived from May 22, 2020 to December 31, 2020.

As of September 30, 2021, the International Value Fund and the Tweedy, Browne Value Fund (the “Value Fund”) had each invested the following percentages of its net assets, respectively, in the following portfolio holdings: Nestle (5.0%, 3.3%), Heineken (3.3%, 2.6%), Unilever (2.9%, 2.6%), Diageo (4.8%, 3.0%), Astellas Pharma (1.0%, 1.0%), CK Hutchison Holdings (0.8%, 0.7%), Axel Springer (0.0%, 0.0%), Berkshire Hathaway (2.7%, 5.8%), Delta Airlines (0.0%, 0.0%).

Current and future portfolio holdings are subject to risk. The securities of small, less well-known companies may be more volatile than those of larger companies. In addition, investing in foreign securities involves additional risks beyond the risks of investing in securities of U.S. markets. These risks include economic and political considerations not typically found in U.S. markets, including currency fluctuation, political uncertainty and different financial standards, regulatory environments, and overall market and economic factors in the countries. Force majeure events such as pandemics and natural disasters are likely to increase the risks inherent in investments and could have a broad negative impact on the world economy and business activity in general. Value investing involves the risk that the market will not recognize a security’s intrinsic value for a long time, or that a security thought to be undervalued may actually be appropriately priced when purchased. Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time. Diversification does not guarantee a profit or protect against a loss in declining markets. Investors should refer to the prospectus for a description of risk factors associated with investments in securities held by the Funds.

Although the practice of hedging against currency exchange rate changes utilized by the International Value Fund and the Value Fund reduces the risk of loss from exchange rate movements, it also reduces the ability of a Fund to gain from favorable exchange rate movements when the U.S. dollar declines against the currencies in which a Fund’s investments are denominated, and, in some interest rate environments, may impose out-of-pocket costs on a Fund.

The information presented in this reprint is designed to be illustrative of the general investment philosophy and broad investment style overview of Tweedy, Browne Company LLC. It contains forthright opinions and statements on investment techniques, economic and market conditions and other matters. These opinions and statements are as of the date indicated, and are subject to change without notice. There is no guarantee that these opinions and statements will prove to be correct, since some of them are inherently speculative. The information included in this reprint is not

intended, and should not be construed, as an offer or recommendation to buy or sell any security, nor should specific information contained herein be relied upon as investment advice or statements of fact.

The Managing Directors and employees of Tweedy, Browne Company LLC may have a financial interest in the securities mentioned herein. The financial interest stems from the fact that, where consistent with the Firm's Code of Ethics, the Managing Directors and employees may own these securities in their personal securities trading accounts or through their ownership of various pooled vehicles that own these securities.

Price/earnings (or P/E) ratio is a comparison of the company's closing stock price and its trailing 12-month earnings per share. **Earnings before interest and tax (or EBIT)** is an indicator of a company's profitability, calculated as revenue minus expenses, excluding tax and interest. **Enterprise Value** is a measure of a company's total value (market value of common stock + market value of preferred equity + market value of debt + minority interest – cash and investments). **Owners earning yield** is the net profit after tax divided by enterprise value.

The **MSCI EAFE Index** is an unmanaged, free float-adjusted capitalization weighted index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. The **MSCI EAFE Index (Hedged to US\$)** consists of the results of the MSCI EAFE Index 100% hedged back into U.S. dollars and accounts for interest rate differentials in forward currency exchange rates. Index figures do not reflect any deduction for fees, expenses or taxes. The **MSCI ACWI Index** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets consisting of 46 country indexes comprising 23 developed and 23 emerging market country indexes. The **MSCI ACWI Ex-U.S. Index** is the MSCI ACWI Index excluding U.S.-based companies. Investors cannot invest directly in an index.

The Morningstar Foreign Large-Value Average reflects average returns of all mutual funds in the Morningstar Foreign Large-Value category. The average assumes reinvestment of dividends. The funds in the category may or may not be hedged to the U.S. dollar, which will affect reported returns.

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This material must be preceded or accompanied by a prospectus for Tweedy, Browne Fund Inc. Investors should consider the Tweedy, Browne Funds' investment objectives, risks, charges and expenses carefully before investing. Investors may obtain a free prospectus, which contains this and other information about the Tweedy, Browne Funds by calling (800) 432-4789. Please read the prospectus carefully before investing.