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Tweedy, Browne: "Volatility is the Friend of the Value Investor"

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By Robert Huebscher

The Tweedy, Browne Global Value Fund (TBGVX) has had an exceptional track record, outperforming its benchmark and peer-group average by over 300 basis points annually since its inception 25 years ago through December 31, 2018. It is an $8.3 billion international equity fund that currently invests approximately 90% of its invested assets outside the U.S.

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

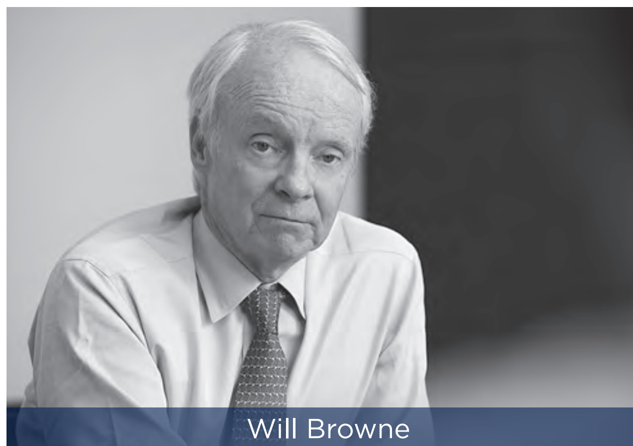
The interview took place on February 5 at Tweedy, Browne's offices in Stamford, CT.

Bob: What is Tweedy, Browne's philosophy and approach to value investing?

Will Browne: The essence of what we do comes from what some people refer to as Benjamin Graham's big idea. Our focus is on determining the value of a business. That is a relatively objective exercise. It's ascertainable within a reasonable range. The share of stock is nothing more than a fractional interest in the business.

If you can get comfortable with the valuation of the business, then you look to the marketplace and see at what price that business is changing hands. We don't subscribe to the idea that market price is the efficient price. It is the result of all sorts of people bringing all sorts of factors to the marketplace to trade those securities. Our investment philosophy gives us an anchor and a framework to think about what we want to do with regard to our investments.

That is the essence. I don't believe that it differs entirely or to a great extent from a number of other people who employ or speak about this approach.


Will Browne

Sometimes the term "value investing" is a bit overused. Even if you ask someone who's got an algorithm or a momentum approach, he'll probably try and weave in the concept of value. No one wants to say that they don't pay attention to value. It's just a question of how you determine value.

Bob: What differentiates you from other value investing funds?

Bob Wyckoff: When thinking about how Tweedy's approach to value investing may differ from that of others in the marketplace, I'd point out a few facts. By reputation, we're considered one of the purer practitioners of the Graham and Dodd style of investing. We tend to be conservative appraisers of businesses. We seek very significant discounts off of our conservative appraisals of business values. We're debt-averse investors. We pay a lot of attention to debt levels in the companies in which we invest.

We pay attention to what's being paid in the real world in terms of multiples of operating income, net income, book value, etc., for businesses when we go to value them. We pay a lot of attention to merger and acquisition "comps," if you will, around the world. We use that as a benchmark for the multiples we use to value businesses in the stock market. We're typically trying to buy at a significant discount (often as much as a third to 40%) off of our estimate of intrinsic value.

In our flagship fund, the Tweedy, Browne Global Value Fund, something that makes us significantly different from many, if not the bulk of our competitors, is the fact that we hedge our perceived foreign currency exposure back to the U.S. dollar.

John Spears: In reading other value managers' annual reports, occasionally people will talk about buying at a discount to intrinsic value. But they don't normally go into much detail about how they calculate it, or what intrinsic value is. Some people use a discounted future cash flow model. But things like that are less straightforward than using industry merger and acquisition comparables to value a company.

Bob: You mentioned the fact that you hedge your foreign currency exposure in your flagship global value fund. Why did you choose to do that?

John Spears: When we first started the fund, we had the idea of expanding the shopping aisle of bargain opportunities and the currency risk was daunting. You could have a three-year period where a non-U.S. currency would drop 30% or 40% in dollars. But we wanted to make non-U.S. opportunities available to our existing client base.

We surveyed the academic research and some empirical studies on hedging equity currency exposure. The academic results showed that over long periods of time, say 20-plus years, the returns were very similar. You did not pay much of an insurance premium for hedging. In fact, sometimes over longer periods you did better by being hedged than unhedged with the same group of equities. It seemed like a good thing to do.

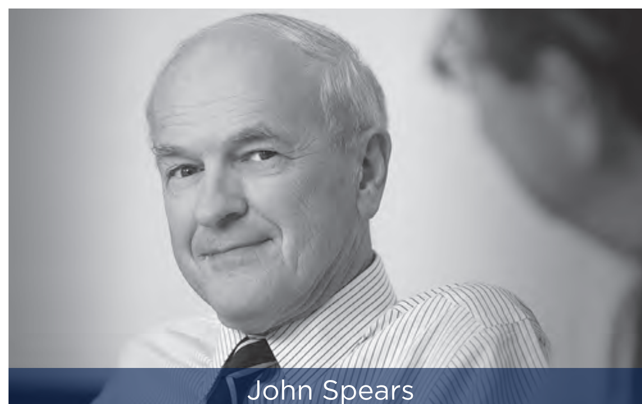
By hedging perceived currency risk, we could buy non-U.S. stocks and minimize the risk of losing money due to currency decline. By hedging the currency exposure, we could reduce the risk, for example, of having a 30% increase in a stock in U.K. pounds and then the pound goes down 25% versus the dollar and we don't make any money.

That said, we realize that many investors want to have currency exposure. They want that from a diversification standpoint, so that's why we have different investment vehicles, some hedged and some not.

Bob: Since its inception in 1993, through December 31 of 2018, the Global Value Fund has had an annualized return of 8.80%. That compares to 5.64% for the MSCI EAFE Index hedged to U.S. dollars, or 5.39% for the Morningstar Foreign Large Value Category. The fund has beaten its benchmark and the Foreign Large Value Category each by more than 300 basis points annually over roughly 25 years. The performance has been lumpy though. There were eight three-year periods where you underperformed, and four five-year periods, but no 10-year periods. Is that a challenge for you, especially since advisers and consultants tend to focus more on three- and five-year track records than on longer periods?

Will Browne: We talk until we're blue in the face.

We try and remind people by asking, "What are you saving for? What's your time horizon in terms of why you're saving?" There are so many things that investors face. So many of the "innovations" that you've seen in the financial world are tools that enable people to focus on shorter and shorter time horizons. With mutual funds, you can get out every day at the end of the day. But that wasn't enough, so the industry came up with ETFs so people can get in and out on a moment's notice.


John Spears

You're constantly seeing this in the marketplace. There's a human tendency to weigh the most recent piece of information as opposed to trying to put that into a longer time horizon. I've often thought that one of the simple advantages we enjoy is that we're trying to arbitrage a longer time horizon. We try to be more reflective as opposed to reflexive. Everything is reflexive today in the world. We use up a lot of oxygen talking about this issue.

Jay Hill: The point that Will just made could be put under the heading of differentiation. We have a long-term investment horizon. We don't necessarily insist on a catalyst when we come up with a new idea. We're willing to be patient.

That often means looking through near-term weakness. There's a reason why stocks that meet our quantitative criteria and are attractive to us trade at big discounts to our estimates of intrinsic value. Oftentimes the short-term outlook is negative. But if you're willing to ask what this company's earnings are likely to look like over a multi-year time period as opposed to just the next quarter or the next six months, there's less competition.

John Spears: We try to be transparent with our clients and with consultants about the inconsistency of returns. We share with them our long-term and since-inception results as well as our three-, five- and 10-year returns. As you note, our returns are not consistent. For example, since its inception through December 31, 2018, the Global Value Fund has beaten its benchmark index in 64% of one-year periods. The fund has also beaten its benchmark index in 68% of rolling three-year measurement periods and 75% of rolling five-year periods. (Bear in mind, of course, that past performance is no guarantee of future results.)

Back around 2000, we completed a 26-year study of all surviving equity mutual funds in the United States. Approximately 400 funds were in existence at the beginning of the study, but only a little over 200 actually stayed in business for the full 26 years, so our focus was on those funds. We found that about a third of those remaining 200 funds had been able to beat the market by at least a basis point. On average, of the third that were able to beat the market, they were able to do so in only half of the 26 calendar-year periods. The funds' performance records were clearly very inconsistent. You have to have a belief system to stay invested and to overlook the inconsistency. If you have to have market-equal results all the time, you should be in an index fund.

We're not going to beat the market every year. [In fact we believe it is normal to have periods of underperformance.] But if you can invest in a way that adds value in excess of an index on an annualized basis, over 25 or 30 years, your ending wealth could be so much more than if you bought a passive index fund. We have to do a lot of persistent missionary work to keep people in during periods when the last three to five years is not that great. That is a normal part of investing. It's hard to think of anyone who's always beaten the market.

Bob: The fund has an annual turnover of only 7%, implying that your average holding period is approximately 14 years. Is that reflective of the fact that your performance should be viewed over longer time frames?

Will Browne: There's still a perception that value investors are the guys who are rag pickers and are over at the garbage dump of stocks trying to find something that's just trading a tick above liquidation value. We have some of those. But in an ideal world, you invest in what is a good business that is likely to have pretty good future returns and you hope that you can get a double dip, if you will:. You get the discounted price and then also get the compounding that goes along with the business.

That's a good place to be as opposed to buying something for a quick fix and then turning around to sell it. Sometimes people forget that you have that silent partner called the Internal Revenue Service, and that it takes a big hunk of what you earn if your investment is successful. It's always better to find a business that is going to chug along. A lot of our portfolio is like that and that's a contributing factor to our average turnover number you cited.

Bob: The fund has outperformed its benchmark in every calendar year when the benchmark had negative returns. What do you attribute that to?

Will Browne: We don't pay too much for prospects. We tend not to bring inflated expectations about businesses. We're not willing to say, "Oh, I can really see that road almost to the horizon and it's just so promising it doesn't matter what we pay." We try and use real-world valuations to guide our decisions.

Even if a company doesn't make sense from a financial point of view, we overlay some of our own arithmetic. We ask ourselves what an investor would pay to get those prospects. In many cases we say, "no, not terribly comfortable doing that." There are 50,000-odd securities. You can put that one down and go to the next one. Charlie Munger's great expression is, "We'll put that one in the 'too hard' box, and we'll go look to see if we can find something that's a little bit easier to invest in."

John Spears: We have a booklet called "What Has Worked in Investing," which talks about different academic studies. It shows the investment characteristics that seem to be associated with doing better than the market or the average stock. A number of our holdings fell within those categories at the time of purchase—the cheapest 10%, 20% or 30% of stocks ranked on enterprise value to EBIT or EBITDA, or sometimes the price-to-book value ratio.

There have been those higher quality, compounding, steadier earning stocks, which are heaven if you can buy them cheap enough. We have, especially in recent years, had a larger chunk of our money in those stocks. There have been recent academic studies, such as one by Robert Novy-Marx, on the good performance of low-volatility companies with high gross margins that have tended to do better than most stocks over the long run. We've had a pretty good chunk of the Global Value Fund's money in those kinds of companies.

Bob Wyckoff: Most big down cycles in the market are preceded by speculative excess, high prices and high valuations. Often in that kind of an environment, we're selling businesses that have hit our estimates of intrinsic value into the market strength, building cash reserves. There will be an ebb and flow in cash reserves in our portfolio.

Typically there is more cash in the portfolio when valuations are high in the market, and bargains are hard to come by, and typically less when stocks are cheap and bargains are freely available. The cash, to a certain degree, has been helpful.

Another reason for our strong performance in weak markets is that

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we like under-leveraged businesses. Leverage can help you on the upside. It can kill you on the downside. That's been a defensive aspect as well.

Tom Shrager: If you were a fly on the wall at the research meeting that we hold every Wednesday, you would see that when somebody's presenting a stock idea, 90% of the questions are related to the downside. What can go wrong here?

We seek a financial "margin of safety" in our investments. In addition, there is diversification by stock, country and industry.

Roger de Bree: Indexes are indiscriminate. They are a bit like that old spaghetti western in that they own "the good, the bad, and the ugly." For better or worse, we prefer the fruit of sound analysis and price discovery.

Bob Wyckoff: We owe the approach that we practice to Benjamin Graham, whose concept of investing was built around the notion of "margin of safety." To quote him, "If you take care of the downside, the upside takes care of itself."

Bob: You mentioned cash levels. As of the end of December, you had about 6.5% in cash in the Global Value Fund. How does that compare to historical levels?

Jay Hill: That's a little bit lower than it has been as recently as three years ago. Back then the portfolio had about 20% in cash in an environment where we were having a really hard time putting money to work. The last year has offered up some new opportunities.

Bob Wyckoff: Over the 25 years we've been running this fund, cash has run from a few percentage points at times when bargains were plentiful, to times when cash has been more in the 20% to 25% range. Not often is the fund at the 20% to 25% level. It was, back in 2013, after a very strong market. Equities were trading at premium valuations and we were selling into that strength. Bargains were hard to find to replace those investments. Since the summer of 2015, we've had a pretty strong equity environment, but we've had pockets of volatility.

In the late summer of 2015, the Chinese yuan was devalued and caused a good bit of turbulence in global equities. That produced opportunities for us. The markets of course went straight back up until the beginning of 2016. In January and February of 2016, there was turbulence for those first six weeks of the year. Then the market stabilized and trended up. Then the Brexit vote approached in the summer of 2016 and we had another pocket of volatility. Leading up to the U.S. election in 2016, markets were steady.

Bob Wyckoff

Since President Trump was elected, we've had a surprisingly aggressive bull market. Yet, in late January and early February 2018, when we saw the first signs of wage pressure, inflationary expectations arose, and interest rates went up by 40 to 50 basis points over a matter of weeks. We had turbulence in the market. Again, we were able to do some things. The markets steadied themselves, went to record highs in early September of this year, only to fall again late in the fourth quarter, which again presented us opportunities.

Volatility is the friend of the value investor.

Bob: What has and hasn't changed over the years in terms of your approach?

Tom Shrager: What hasn't changed is the basic framework, where we look for stocks that you can buy at a significant discount from intrinsic value. What has changed to a certain extent is the depth of research we undertake. In the 1970s, the firm was essentially buying statistically cheap stocks trading at discounts to net-current assets and book value. The amount of research you have to do on a typical stock priced at two-thirds of net current assets is very small. But as the investable universe of "net currents" shrank, our focus shifted towards buying stocks based on a multiple of enterprise value to operating income.

That doesn't mean we don't buy stocks that trade at discounts to net-current assets or book value. We do. In certain areas of the world, you can find those bargains. But the vast majority of the stocks we buy are earnings-based valuations. When you do that, you have to understand the moats around those earnings. Are those companies going to be around? The amount of research that we do on individual stocks has increased.

Bob Wyckoff: When I came to Tweedy in 1991, 27 years ago, our portfolios were largely U.S.-oriented with some exposure to non-U.S.

stocks. It's flipped since then. If you looked across all of our portfolios, we probably have 70% or so of our capital invested outside the United States. Part of that has to do with the availability of bargains. Over the years, non-U.S. equity markets have been more inefficient, which presents more pricing opportunity for people such as ourselves.

We have recently had an opportunity to own some technology stocks. That's difficult for value investors, because of the rapid rates of change associated with technology and the fact that, by the time you know you have a business model that's sustainable, the growth rates are high and the price of entry is very, very high. That makes it difficult for value investors. But we have found opportunities in recent years. We own shares in Google in the Global Value Fund. We had an opportunity to get into Google when we felt that it was priced attractively at 12- to 13-times earnings and nine- to 10-times pre-tax operating income.

We also own some shares of Cisco in the Global Value Fund. Cisco was the biggest company in the world by market cap in 2000, and then it cratered after the technology bubble burst. The fund had an opportunity to get into it in late 2012, when it was trading at roughly 9-times forward earnings with a ton of cash on its balance sheet. It was still dominant in routers and switches, but its growth had indeed slowed.

In the last year and a half to two years, we've made investments in two Chinese technology companies. We had an opportunity to purchase Baidu, which people refer to as the Google of China, at what we feel was a bargain price. More recently, we purchased shares in a holding company called Sina, which owns a controlling interest in one of the most popular social media businesses in China called Weibo.

Will Browne: Our origins were buying Ben Graham statistically cheap securities. In the 1970s, we invested in some wonderful, inactively traded and obscure securities. They were not terribly liquid. We occasionally had other investment professionals come in and ask if they could go through our library. They were people such as **Ron Perelman** and **John Dyson** who were active in the nascent LBO business.

Spears would always be looking over their shoulders and asking, "What are you guys doing?" thinking that they might have another way to look at a business and at business valuation that's not just statistical but as a going concern. While they parsed through our inventory of inactives, we were able to glean from them added perspective regarding business appraisal and private market value.

John Spears: We learned about capital structure. Instead of a P/E ratio, Perelman and Dyson would look at enterprise value—the market value of the equity, plus interest-bearing debt minus cash. They would look at buying the whole capital structure. That made a lot of sense to us. It was how those acquirers of businesses were looking at things. We adapted that as a framework for looking at earnings-based companies. At the time, that was relatively unusual in the investment management field.

I don't remember other people talking about enterprise value to EBIT some 30 to 35 years ago. That was an evolution. Like many people, we've been influenced by the writings and talks given by Warren Buffett and Charlie Munger. We've been fortunate over the years to be long-term holders in Berkshire Hathaway in many of our funds and managed accounts.

Will Browne: In the early 1990s we were managing money for a number of European investors. We'd go there and talk about the undervalued securities that we owned here in the States. They'd sit there and say, "Well, if you're willing to buy that, why don't you take a look at a comparable business located in Switzerland." That was another one of our "aha" moments. It didn't change our framework, but illustrated that there's many more aisles in this supermarket if you can get your hands around some of the data and the background.

Tom Shrager: I would add that as we started investing based on earnings power, we began using EBIT (earnings before interest and taxes) multiples to value businesses. But interest rates have dropped dramatically over a long period of time. In the late 1980s when I started here, we valued a business at eight- or nine-times EBIT, and then we would try to buy it at five- to six-times. As time passed by, we moved to an EBIT multiple of 10. Over the last couple of years, an EBIT multiple of 10 to 12 has become more common. Now it is a little bit higher because of the recent changes in tax rates.

Bob: The past decade has been tough for most value investors. To what do you attribute that?

Bob Wyckoff: There's an ebb and flow to value investing. There are times when value investing can go out of style, and those periods can sometimes last for uncomfortably long spans of time.

Coming out of the crisis in 2008-2009, to get the patient off the ground, the United States began a pretty aggressive monetary stimulus. That quantitative easing together with the lowering of interest rates by the Fed was also

adopted in the U.K., Europe, and in Japan. This monetary largesse, which was necessary to revive the economy, extended for a period of time. Some short-term interest rates have been driven to negative levels in many countries in Europe, and were down to near zero here in the United States for a time.

Rates are somewhat higher now, especially on the shorter end of the yield curve. But in my 38 years in this business, the true anomaly of my career was seeing zero interest rates. That led to a calming of the investment waters. When you're able to reduce volatility, it encourages people to acquire risk assets. It emboldens people to take risk. Of course, that was one of the things the Fed was trying to accomplish. But what happened as a result is significant multiple expansion across virtually every risk asset category, whether it's private equity, distressed debt, venture capital, public equities, etc.

This coincided with the tremendous growth and maturation of the FAANG stocks, which have become inordinately popular here in the United States. They've had fast rates of growth. A more aggressive risk-taking environment, together with the rise of the FAANGs, can pose difficulties for value investors, because we don't get a chance to see the kinds of margins of safety and discounts that we require to put money to work.

However, we've seen an increase in volatility of late. Having done this for a long period of time, we've learned that volatility breeds a certain fragility that can lead to a hair-trigger mentality in the market. Things can begin to move the market very aggressively. We saw that in the fourth quarter of last year, where just the slight bit of concern about where the Fed might be heading with interest rate raises in 2019, together with the trade problems and other macro issues around the globe, affected investor confidence, and we had this significant selloff in December of last year.

It seems like we're once again back to stronger equity markets. The Fed has reassured investors by its rather dovish comments in early January, but looking back over the last 10 years I would say it's the decrease in the cost of money that has led to high valuations and an increasingly challenging environment for value investors.

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Will Browne: At the risk of sounding like I'm an ancient historian, every market cycle seems to have had some factors at work which drive it. In a number of instances, we weren't willing to hitch our wagon onto that train. Back in 2000, we got letters from folks complaining that we weren't invested in technology stocks, saying, "When are you guys going to wake up? Elvis is dead." But we couldn't put those factors into our framework. Yet fund flows drive valuations. It's not as if we hadn't earned a good return. It's just when you threw it up against where the money was flowing and what was going on, we were falling behind.

In the most recent years we've had the same sorts of things at work. I think someone who's investing and trying to save for an extended period of time has to look back, look at it and say, do those factors make sense? Is that the sort of thing I want to attach my wallet to, or do I want some other set of variables that I can have a greater degree of comfort with? It's interesting. If someone asked me, what hasn't changed through all the years I've sort of been at this, I'd say the one constant that runs through it all is human behavior.

Individuals drive valuations. People, generally speaking, are not well-wired to be rational about their money and their investing. If you can have a framework, an anchor, to mitigate some of those pressures and forces, then you have an edge up in the game – as long as you're not falling into the trap of "what did you do for me for the last 90 days?" One thing that gives us an ability to stay calm is you can look at the stock price and go home and say, "Huh, well, I wonder what the business is doing?"

If the business is doing all right and you're reasonably confident about how it's going, that gap between price and value has a way of closing. That provides an enormous edge in terms of what behavior you bring to this process.

John Spears: If you think a business is really worth $100 a share and its market price is $60 but then it drops to $50, and you're still comfortable that it's undervalued, it is calming. It's a less stressful framework. Having this valuation framework and thinking of discounts gives you confidence in crummy periods. It goes against human behavior when you have this framework.

Bob: We touched on this earlier when I asked about your cash po-

sition, but what are your thoughts regarding the current opportunity set available to value investors, particularly in view of the recent volatility in the equity markets?

John Spears: I recently did an analysis using the Bloomberg database. I took the Russell 3000 Index and ranked all 3,000 stocks on their investment return over the last 100 days. Only 20% of those stocks had had any increase at all. The rest were down. Roughly 20% of those stocks were down 20% or more. The picture was about the same in Western Europe.

I did another study where I looked at the returns over the last 100 days for 1,300 Western European stocks with a market cap of at least $1 billion, and it was the same kind of thing. We have an information source that looks at insider transactions, and the insider buying is not as heavy as it was in mid-January. But in most of the countries around the world where they track this information, there was still more buying than selling in the last week or two, which in our view is a good sign and a broad statement about the opportunity set.

Bob: Many advisors have adopted a quantitative or factor-driven approach to value investing. What guidance would you offer to our readers who are challenged by the tradeoff between traditional Graham and Dodd value investing, such as your firm practices, and a so-called smart-beta approach?

Will Browne: In a general sense, there's a kernel of truth in the following statement: More data doesn't necessarily mean more judgment. What I glean from it is that a lot of the factors that the algorithms are focused on and responding to lack an ability to put these things into a perspective or a context. That's very important if you're going to try and make investments that you can hopefully live with for some period of time. A lot of quantitative investing seems to be increasingly focused on narrower and narrower time windows. You see it every day. They announce something or another and the security is off 5%, 6% or 7%, and then three days later it's up 5%, 6%, or 7% because someone said this, and then the next guy said that.

Everybody's blaming everybody else for the volatility, but it does seem that there is this focus on the most recent data points as opposed to trying to contextualize those factors and put them into a broader perspective. An individual as opposed to a computer program is still better able to put things into a broader context and think about what it means for the business, as opposed to what it means for the immediate stock price.

Tom Shrager

Roger de Bree: Depending on the situation in a particular stock, the things that you need to look at vary. You can't catch all of this in a model. It's somewhere between science and art. Thinking that you can make computer models that are more and more sophisticated and catch all factors is not a constructive road to be on.

With certain businesses, let's say pharmaceuticals, you don't talk about the growth of the economy. You don't talk about the risk of inflation. The risks are innovation and politics and that's what you need to concentrate on. Then there are other businesses where you concentrate on completely different factors. You may have to study raw materials or the strength of the franchise based on dense local logistics or whatever it is.

Collectively, we've built a framework where we can look back at what people before us did and have a pretty fair idea about what matters in different businesses. This is what the computers miss—what I call the art element—the complex element of knowing what factors matter in a particular business.

Tom Shrager: There are two providers of smart-beta products that are very well-known. Some of the products that are offered are very, very good. The challenge is, as an advisor, how are you going to time growth versus value? How are you going to judge whether this product is going to be better than that product? In a sense, as an advisor, you become a money manager that has to, in addition to dealing with the client's needs and holding his hand or her hand, you have to become an asset allocator. Finally, some people have raised the question as to whether smart-beta approaches have become overcrowded, given the amount of money that is being managed that way.

Bob Wyckoff: One of our heroes, Charlie Munger, years ago said that if it can be counted, it will be emphasized. He indicated that it was often the more hard-to-measure

stuff that was more important in investment decision-making. That's something that's not taken into consideration in these smart-beta approaches.

Will Browne: It's always interesting to me to think about these various indexes, ETFs or funds, whatever the structure of the vehicle. They ultimately are driven and their goals are fulfilled by the investors pushing money into them. Are they wired to stay with it?

Once doubt begins to crawl into people's minds, it eats away at the psychology. They are simply not going to be able to stay where they are. Index funds and ETFs are not going to continue to do well in perpetuity if folks turn around and say, "I want my money back." Then they have to sell those securities in the same fashion that they bought them. Who's going to be there to provide liquidity, and what's going to take place in those circumstances? That's where folks such as ourselves come back into play in a very valuable sense.

John Spears: There are quantitatively oriented money managers that are good competition, including some of these smart-beta products. You're certainly seeing money flows into quantitative and smart-beta products. Many of our clients have some of their money with other money managers, including in these more quantitative approaches.

Bob: We touched on the fact that the fund has exceptionally low turnover. How important are tax considerations in your approach and how do you attempt to maximize after-tax returns?

Bob Wyckoff: We've always been sensitive to keeping tax recognition in our portfolios as low as we can. Taxes are a meaningful cost to investing and we do our best to keep those low, and the low turnover rate certainly helps that. Also, higher turnover is associated with higher transaction costs.

Low turnover helps to lower two of what we often refer to as the hidden costs of investing in a mutual fund: transaction costs and taxes on gain and income in a portfolio, which are not part of a portfolio's expense ratio. Some studies have shown those costs taken together can at times be higher than a portfolio's total expense ratio. For us, because of our low turnover, those costs are lower than those of many of our competitors.

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John Spears: The individuals at Tweedy, Browne, the current Managing Directors and retired principals, employees and their families, have our own money on the line. We're co-investors with our clients in these portfolios and in these value-type stocks. We have over a billion dollars of our own collective money invested as of December 31, 2018.

Bob Wyckoff: On our website, we show our funds' after-tax returns. We show returns net of fees, net of estimated taxes on distributions, and net of estimated taxes on distributions and an assumed sale of fund shares.

One of the things we're most proud of is that the Global Value Fund has added considerable value, net of our fees and net of estimated taxes on distributions, over the last 25 plus years through December 31, 2018. The fund has produced an average annualized return of 7.75%, net of fees and estimated federal taxes on distributions (calculated using the historical highest individual federal marginal income tax rates) versus an annualized return of 5.64% for the hedged index, and 4.76% for the unhedged index. This means that an initial $100,000 investment in the fund at its inception would have grown to $673,818 after fees and net of the federal government's take, versus $407,532 for the hedged index. Of course, past performance is no guarantee of future results, and the experience of individual investors varies.

John Spears: We've often thought that it would be a fairer, more apples-to-apples comparison if we compared the fund's performance to that of an actual index fund that invests in the fund's benchmark, with expenses and capital gains distributions, etc. The SEC requires funds to compare their performance against that of an appropriate broad-based market index, but it always feels as though we're hitting ourselves on the head by using this comparison to an index that has no trading costs or expenses.

Bob: Tell me about the Tweedy, Browne culture. I see many of you have been here for quite a number of years. What has been the stability of the team and the organization over the decades?

John Spears: People never leave.

Bob Wyckoff: Next year will be the firm's 100th birthday. We're a pretty small place. We are just over 50 people. We've never been bigger than that, and the firm has survived through multiple generations of partners. Our roots go back to the 1920s, when we were a market maker in inactive securities and a broker to Benjamin Graham, who

first introduced us to this idea of value investing.

Then when Tom Knapp left Benjamin Graham's firm in the 1950s and joined Tweedy, it marked an evolution from being a market maker in so-called mispriced securities that Graham had an interest in to beginning to manage money. We're going on about 60 years of managing money, about 50 years of managing money for others. When Ed Anderson joined, he brought a partnership with him and we got our first clients in 1968.

Will's father, Howard Browne, was one of Warren Buffett's brokers and helped him buy virtually all of his interest in Berkshire Hathaway in the 1960s. There's a long history of association with the originators of value investing. A lot of us have been here for a long time. The stories, the history and the institutional memory of those years are alive and well here. Because of that heritage, we're able to attract the best and the brightest young analysts, who want to practice what some of us refer to as the craft of value investing.

That has had a lot to do with the strength of the culture here, and as you mentioned, the stability of the management team. Will has been here 41 years, John 45 and Tom Shrager 30. I've been here 28. If you expand this to the rest of our analysts and the rest of the firm, about 70% of us have been here in excess of 10 years and about a third have been here in excess of 20 years.

Will Browne: Stating it somewhat differently, the organization is built around a process. It's not built around any one, two or handful of personalities who have made it go. We try very hard to see if the people we hire "get it," meaning how to look at things. That results in people leaving a little bit of their ego and hubris behind when they come into the business.

All of us here have a dysfunctional ego, or at least not a lot of ego. It's not anyone's insight or wisdom alone. We've owned literally hundreds upon hundreds of securities. No one person can put his finger on that and say, "Oh, that's all my work." It results in a collective approach to doing things. Your thinking doesn't get watered down. It's an open forum and you don't bring the weaker dimensions of an individual's personality to the office every day.

Jay Hill

Tom Shrager: It's also Type B personalities. Temperament in investing is very important. The people who come here, if they have an ego, after a couple of years they get humbled. You learn the meaning of humility by being in the investment business.

Bob Wyckoff: The 100-year longevity and stability of this organization is largely a testament to the efficacy of value investing. That whole idea of a margin of safety is almost a risk-management system for survival.

Jay Hill: It's a very team-based approach. When a single idea doesn't work, Will Browne doesn't come into my office and say, "Jay, why did you pick this clunker?" He would come into my office and say, "Look, every analyst is going to come up with ideas that don't work out a certain percentage of the time. That's just the nature of the business. You got to get back up on the horse," and, "It wasn't your decision individually. It was the investment committee's collective decision." That builds loyalty amongst the employees and it makes a great working environment.

We also look for strong cultures in the companies in which we invest. Lots of companies like to talk about their terrific culture. But the best objective measure of a culture from afar, if you're not inside the organization, is the tenure of the people. If the tenure of the people is long, that means the employees enjoy working there with their colleagues, and that they feel like their opinions are respected.

Bob: Speaking of margin of safety, the media has reported that Seth Klarman's year-end letter to shareholders was widely circulated and discussed at the Davos Forum this year. A key point that he made was that the erosion of democratic norms—and I'm using mostly his words – and the demise of social cohesion have made it harder for investors. He cited, for example, the president's singling out of companies and individuals with whom he disagrees, and the threat that rising sovereign debt poses to social stability. To what extent do you share those concerns and does that enter into your thinking?

Will Browne: Right now we're in a political ditch. I don't know that we're in an economic ditch, certainly not an economic ditch of the same magnitude of the po-

litical ditch that we are in. You've got an economic and a political world. The economic world seems to be functioning reasonably well. There's always the question of debt because of the unbridled enthusiasm and willingness to reach. I don't know what ultimately will be the consequences when that gets sorted out.

You have to get off of social media and, if nothing else, restrict yourself to reading newspapers. In a newspaper, the writer at least has an evening to reflect before he starts writing and tweeting and reacting in a knee-jerk fashion. There have been difficult political environments in the past. I don't know that this is a permanent state of affairs. I don't know that it holds looming, significant negative implications for a lot of businesses.

For some businesses, the issue is not politics but general trends within society. What does an aging society mean? What does that say about healthcare? How do we afford those sort of things? Which industries benefit or get hurt by it? I don't know that you should turn around and say that it looks like we're at the end of the game.

It's curious because, while it's a restricted letter, it seems everyone has read it. He raises some serious concerns that while unsettling are also starting to produce some ideas for us to look at and invest in.

I don't know when the debt thing blows up. They've been writing that story about Japan for years, and its debt-to-GDP ratio is 230%. The U.S. is at about 105%. You can obsess about these things, but you have to take it back to a more granular level. What underlies a lot of what we do is that we're ultimately optimists. It will get sorted out over time in a way that's not going to produce an extended, cataclysmic economic environment.

John Spears: The firm's been at it a long time, through a lot of different political regimes. There have been a lot of regulatory changes. The tax code is a rollercoaster. These things are background noise. We read the newspapers. We're aware of it. We take it into consideration when it affects the analysis of specific businesses. But we're not facing anything like Europe faced in the 1940s. We're blessed in this country, even though we have this hyper-partisanship and gridlock.

Bob Wyckoff: I'm reminded of a story that Chris Browne used to tell years and years ago about a day during the 1960s when the Cuban Missile Crisis was upon us. The Russian ships were heading with missiles to Cuba. The markets were in great turmoil. Chris and Will's father, Howard Browne, used to have lunch every day at a restaurant in New York called Schrafft's. He comes back from lunch one day during the crisis and sees Joe Riley frantically buying stocks right and left. Howard asked Joe, "How can you be so confident, Joe? How come you're buying these stocks so aggressively?" Joe's response was, "Well, either we're going to have thermonuclear war and the world's going to come an end and it's not going to matter, or those ships are going to turn around and this is going to be one of the greatest buying opportunities of all time."

To a degree, that's the mentality of value.

Investment performance and portfolio data for the Tweedy, Browne Global Value Fund (the "Fund") in the attached article is as of December 31, 2018 (unless otherwise indicated) and is subject to change.

The average annual total returns of the Fund for the 1-, 5-, and 10-year periods ending June 30, 2019, were 4.44%, 4.04%, and 9.44%, respectively. The returns after taxes on distributions of the Fund for the 1-, 5- and 10-year periods ending June 30, 2019 were 2.90%, 3.18%, and 8.72%, respectively. The returns after taxes on distributions and the sale of fund shares of the Fund for the 1-, 5- and 10-year periods ending June 30, 2019 were 3.57%, 3.08%, and 7.88%, respectively. The Fund's total annual operating expense ratio, as disclosed in its most recent prospectus, was 1.36%. This expense ratio has been restated to reflect decreases in the Fund's custody fees effective August 1, 2017. (This expense ratio reflects the inclusion of acquired fund fees and expenses (i.e., the fees and expenses attributable to investing cash balances in money market funds) and may differ from that shown in the Fund's financial statements.)

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 Fund does not impose any front-end or deferred sales charge. However, the Fund imposes a 2% redemption fee on redemption proceeds for redemptions or exchanges made less than 15 days after purchase. (The redemption fee will no longer apply for redemptions or exchanges made on or after July 29, 2019.) Performance data does not reflect the deduction of the redemption fee, and, if reflected, the redemption fee would reduce any performance data quoted for periods of 14 days or less.

After-tax returns are calculated using the historical highest individual federal marginal income tax rates, and do not reflect the impact of state and local taxes. Returns after taxes on distributions are adjusted for federal income taxes associated with fund distributions, but do not reflect the federal income tax impact of gains or losses recognized when fund shares are sold. Returns after taxes on distributions and sale of fund shares are adjusted for federal income taxes associated with fund distributions and reflect the federal income tax impact of gains or losses recognized when fund shares are sold. Actual after-tax returns depend on an investor's tax situation and may differ from those shown, and the after-tax returns shown are not relevant to investors who hold their fund shares through tax-deferred arrangements such as 401(k) plans or individual retirement accounts.

As of March 31, 2019, the Fund had invested the following percentages of its net assets, respectively, in the following portfolio holdings: Alphabet (Google) (2.0%); Amazon (0.0%); Apple (0.0%); Baidu (1.9%); Berkshire Hathaway (1.7%); Cisco (2.1%); Facebook (0.0%); Netflix (0.0%); Sina (0.8%); Weibo (0.0%).

Current and future portfolio holdings are subject to risk. Investing in foreign securities involves additional risks beyond the risks of investing in U.S. securities markets. These risks include currency fluctuations; political uncertainty; different accounting and financial standards; different regulatory environments; and different market and economic factors in various non-U.S. countries. In addition, the securities of small, less well-known companies may be more volatile than those of larger companies. 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. Diversification does not guarantee a profit and does not protect against a loss in a declining market. Please refer to the Funds' prospectus for a description of risk factors associated with investments in securities which may be held by the Funds. Past performance is no guarantee of future results.

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

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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. ***Earnings before interest, taxes and amortization (or EBITA)*** is used to gauge a company's operating profitability (earnings before tax + interest expense + amortization expense).

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 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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