Graham & Doddsville

An investment newsletter from the students of Columbia Business School

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Tweedy, Browne Company is a value-oriented asset manager that manages domestic, international, and global equity portfolios for individuals, family groups, and institutions from all over the world. The firm was one of the few investment firms mentioned by Warren Buffett in his 1985 speech, The Superinvestors of Graham & Doddsville, from which this newsletter gets its name. Founded in 1920, Tweedy, Browne Company now has 53 employees.

Graham & Doddsville (G&D): How relevant is Ben Graham's philosophy today?

Tom Shrager (TS): I would argue that Graham's philosophy is still fully applicable today. He was one of the first investors to create an investing framework that made sense. Graham came from the credit side of investing and, as a fixed income investor at that time, your downside protection was either the collateral put up against the loan or the bond. He later applied that framework to equity investing and argued that the collateral value of an equity investment is the intrinsic value of the business. The value of the business could be its net asset value, it could be its book value, or it could be an earnings-based valuation.

By thinking in terms of business value and buying at a discount from that value, a diversified portfolio of undervalued securities should earn an adequate return. That framework hasn't changed. As markets have evolved, there are fewer net current asset stocks and book value stocks that you can invest in today. That said, we do find them from time to time in places like Japan and Hong Kong ; however, most of our more current investments have been made at perceived discounts from earnings based valuations.

G&D: What types of valuation metrics do you use?

John Spears (JS): We look for "a satisfactory owner earnings yield." For example, if you take a company's operating income after tax and divide that by its enterprise value, and that produces an owner earnings yield of 8-10%, you're getting a pretty good return.

Jay Hill (JH): Another recent change is that tax rates have been going down around the world. One advantage of this owner earnings yield metric is that it gives a company some credit for falling tax rates. All things equal, we believe that lower tax rates lead to higher net income and higher free cash flow.

G&D: How do you use NOPAT (Net Operating Profit After Tax) to EV (Enterprise Value) in evaluating opportunities? Do you compare it to long-term government bond yields?

JS: To an extent. We also look at it relative to other companies. If you rank 100 companies on EV to NOPAT, how does it shape up in comparison to deal valuations?

TS: However, we don't go much below an 8% owner earnings yield. You have to be reasonable and say, "If multiples in the market are 20x EBIT, we are simply going to pass on that because it doesn't make any economic sense, assuming some normalization in interest rates." The analysis is both absolute and relative.

G&D: How is the process for earnings-based valuation different?

Bob Wyckoff (BW): Earnings are less predictable. In conducting our analysis on earnings-based businesses, we spend a lot more time today on qualitative factors, factors that might impact that earnings stream over time.

We try to estimate the earnings power of the business, the sustainability of that earnings power, and what the growth of that earnings power might look like over time. It does involve an evaluation of qualitative factors which might not have been as prevalent in our analysis 40 or 50 years ago.

Frank Hawrylak (FH): Previously, you didn't have to do that. You could find a stock that was trading at 60% of

net current assets, and you might glance at the annual report – which used to be 18-20 pages instead of 250 pages – to get an idea of what the business did. All you had to do was get comfortable with the inventory or accounts receivable.

G&D: How has this impacted valuation?

BW: The valuation framework remains the same – we're still trying to buy companies at significant discounts from a conservative estimate of the underlying intrinsic value of the business. We tend to be pretty conservative appraisers. Today, we often value businesses at 10-13x pre-tax operating income – compared to 6-8x when I first started at Tweedy in 1991 – and try to buy those businesses somewhere between 6-9x. The expansion in our valuation multiples is largely due to this march to the bottom in interest rates. In 1980, when I arrived in New York, the prime rate was north of 20%. You see what has happened since then. Interest rates, with a hiccup here and there, had been in decline for over 35 years, and that has had a significant impact on what people are willing to pay for a business. You see it in corporate transactions and the values people are willing to pay in acquisitions. Debt to EBITDA multiples in leveraged buyouts are very high today. Invariably, if interest rates are low, people are going to borrow a lot of money, and that's going to inflate multiples.

> "It became clear to us that value investing, at least empirically, appeared to work as well outside the U.S. as it did domestically."

We've incrementally increased our appraisal multiples over time, although reluctantly and with a lag. I think a lot of people would still consider us relatively conservative on that front, and we demand a substantial discount off those appraisals.

G&D: What other recent changes have you seen in the markets?

BW: Over the past 25 years we've become more of an international investor – our client portfolios were primarily made up of U.S. equities up until the early '90s. You may have seen a booklet we put together called What Has Worked In Investing. That booklet was a compilation of 40-50 empirical studies looking at value-oriented investment criteria that, when back-tested, looked like very good predictors of outperformance. And about half of those studies were done in markets outside the United States. It became clear to us that value investing, at least empirically, appeared to work as well outside the US as it did domestically.

Today, most of our assets under management are invested outside the US, as we often find greater pricing inefficiency in non-domestic markets. Now, that's all evolving as the world becomes more global and more people begin investing in equities. But I think in general we continue to find the most opportunities internationally.

Another thing that has changed in the past half-dozen years is our increased allocation to technology stocks. We have owned technology stocks in the past, however, they were often businesses under pressure that were trading at discounts to book value.

TS: Digital Equipment was one, I recall.

BW: Yes, DEC. We bought it after it had rolled over and was trading at a discount to book value. We didn't know it at the time, but we were basically buying a cigar butt. Luckily, we bought it pretty cheap and were able to make a little bit of money on it, but that isn't the way investors currently target technology stocks for growth. What has changed recently is that we have found some businesses with world-class technologies and what we believe to be long future runways of growth – but the key is that we have been able to purchase them at prices that fit our valuation framework.

We bought Google in 2012 at a very attractive valuation –

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somewhere around 9-10x forward EV to EBITA and 12-13x forward earnings. It was also compounding its value at over 20%. It was cheap.

JS: Especially considering the cash on its balance sheet and the low tax rate.

BW: And we still own Google today, despite a higher valuation. It's what we call a compounder. In our view, Google is compounding its underlying intrinsic value at a very, very rapid rate and there is still a reasonable relationship between the value of the business and its current stock price.

We also bought shares in Cisco – the router and switching company – about six to seven years ago. Cisco was the Amazon of its day, back when the tech bubble was nearing its peak in 2000. It was the world's largest company – profitable, but trading somewhere around 180x earnings. Then the tech bubble burst in March of 2000 and, before long, Cisco was trading at a fraction of its bubble price.

We got an opportunity to buy our shares in 2011 and 2012 when it was trading at roughly 10x earnings with over $40 billion dollars of cash on its balance sheet. It was still dominant in routers and switches at the time, even though growth had slowed significantly. It may not have been growing at a Google-type rate, but we thought that at the price we were paying, we were getting a lot of value. We paid an average cost around $17-$18 a share. Today, Cisco is trading in the high $40s. We still own the stock. That investment has worked out for us, but again, it's a technology stock that we were able to buy at a very attractive valuation.

G&D: It sounds like you found a solid margin of safety.

BW: We did. We did not have to tie ourselves up in knots trying to develop a rationale for owning Cisco. Companies like Amazon and Netflix are a much harder proposition for us given the way we value businesses. They don't fit our framework. We also recently bought a couple of Chinese technology companies (through US-listed securities): Baidu, which a lot of people refer to as the Chinese Google, and Sina, which is a holding company that owns a controlling interest in Weibo, one of China's most popular social media businesses. You might refer to Weibo as ...

TS: ... the Twitter of China!

BW: Exactly. Through our investment in Sina, we own an interest in Weibo at what we think is an attractive price. As with most of our tech investments, Baidu and Sina have advertising-based business models. That makes sense to us. It's not gadgets and software.

TS: And they're very profitable – insanely profitable.

BW: So that's another thing that has changed. We have a few more technology stocks today than we have had in the past, but we haven't had to abandon the framework or the valuation discipline to accomplish that.

Roger de Bree (RD): I want to add another thing that makes it significantly easier to invest large chunks of our personal money and our clients' money in non-U.S. equities. That is using forward currency contracts to hedge foreign currency exposure back into our base currency – the U.S. dollar – to reduce the foreign currency risk. Investing globally gives you more opportunities to find bargains, and by hedging, you can minimize the risk that movement in exchange rates could severely dilute the local returns earned on your stocks. Our clients can choose whether to hedge their portfolios depending on if they want foreign currency exposure for diversification purposes.

TS: We launched an international mutual fund in the summer of 1993 that hedged its foreign currency exposure, which was quite novel at the time. Even today, there are very few international funds that consistently hedge currency exposure. Investors tend to look in the rearview mirror, and since the dollar declined against most major currencies between 1986 and 1992, the general feeling in the summer of 1993 was that the dollar was toilet paper. People are driven to make investment decisions based on their most recent experiences.

G&D: On the international side, are there additional measures you incorporate into your process?

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JS: Yes. Japan, for example, is somewhat unique and has required additional analysis. For one thing, there are fewer deals in Japan.

TS: You also need some sign that they think the shareholders are alive. Japanese companies are often under-levered and carry too much cash on the balance sheet, which depresses returns. In our international portfolio, we want exposure to international markets – companies that sell their products abroad and can compete in the international arena. If you research the Japanese market, you'll find a lot of cheap stocks that don't fit that criteria.

FH: Typically, Japanese companies aren't as profitable as other companies around the world based on return on capital. Ben Graham wrote an article in the 1930s about the US stock market when a lot of companies were selling way below book value. Essentially, the title was, "These companies are worth more dead than alive." Liquidate them. They're not doing anything for the shareholder. In Japan, a number of companies fall into that category, but nobody cares. They don't buy back stock even though it's trading at a third of book value, half of which is cash. The culture is just different.

G&D: How do you get comfortable with international accounting and auditing?

TS: Good question. I remember when I first joined the firm, Will Browne said to me, "Tom, you're a foreigner. Start looking at these foreign companies." I was overwhelmed because almost every country had its own accounting standards. Over time, I began familiarizing myself with the idiosyncrasies. When I studied British annual reports, I was continually struck by how optimistic certain accruals appeared. German accounting was, by design, very conservative. Their income statements and balance sheets were presented in a way that a bank would prefer. What you had to know was that located at the bottom of the income statement was an adjustment to reported earnings that was supposed to reconcile the underlying profitability with the reported profitability, but the adjusted economic profitability was invariably higher than the reported one. Swiss accounting, in the late '80s and early '90s, didn't tell you what operating income was. They only disclosed revenues and profits. They didn't even tell you what taxes were.

Unraveling international accounting used to be very difficult. It became a treasure hunt in the more conservative countries and an exercise in dodging land mines in the looser ones. Eventually, international accounting standards began to converge, but you still have cultural differences on a country-by-country basis even today.

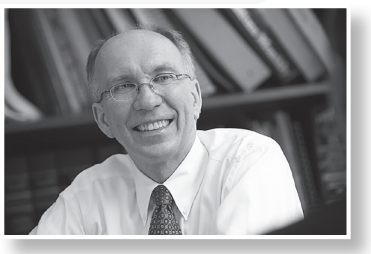
As far as your question on auditing is concerned, it's OK in the developed world.

G&D: What about China? Do you have any concerns there?

TS: There have been these big scandals, of course, and that's one of the risks of investing in China. In our case, our companies have good auditors with international experience, but it's a different environment.

BW: China is a relatively new place for us to invest. We had to get comfortable with the different ownership structures. Andrew and Amelia partnered on the work in Baidu, which we thought was trading at an attractive valuation with a terrific runway for future growth. We gained confidence because we used a similar valuation framework when we previously looked at Google, but we also had to get comfortable with Baidu being in a communist country where the government could potentially interfere.

Andrew Ewert (AE): The Chinese technology companies, even though they're listed in the United States, are deemed strategically important companies by the Chinese government. This means that non-Chinese citizens can't actually own them. The shares listed in the US represent companies that have contractual arrangements with Variable Interest Entities (VIE) in China. For example, Baidu has contracts with the VIEs to receive Baidu's economic rights instead of direct ownership in the company. So you, as a shareholder,



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own a structure with a contract. You don't actually own the underlying business.

TS: Like a non-voting share.

AE: Or a tracking stock even. You kind of own a synthetic company. It's not the real business. You're not a shareholder in the true sense of the word. This is a legal construct to attract capital without giving up direct ownership or control of the companies, because the Chinese government sees these industries as strategically important to their country's development. It's obviously difficult as a shareholder to think like an owner when you don't technically own what you're buying.

In some ways, these entities are the "national champions" of China. While they are quasi-protected – meaning we can't own them directly – the government does want them to succeed, and from a shareholder's perspective, perhaps there is a benefit to them being sanctioned monopolies. You just have to live with the compromise of not having direct ownership. Maybe those things balance each other out, but we also bought them at what we feel were very attractive valuations. These firms have high returns on capital. The advertising industry in China is more nascent than in the US and is growing at a double-digit rate. In our view, search engines are a more proven business model, given what we've seen with Google. To be able to buy this kind of company at a low double-digit operating income multiple – after adjusting for some of their money-losing subsidiaries – helped outweigh some of the compromises we were making. It wasn't easy though.

> "We own a few more technology stocks now than in the past, but we haven't had to abandon our valuation discipline to accomplish that."

Amelia Koh (AK): We thought a lot about the Chinese government. Yes, it's a communist country, but it's also a very capitalist country. The internet sector is deemed strategically important by the government, and the government has recently been trying to promote Chinese technology and their domestic champions. If the government were to take actions that would jeopardize the VIE structure, that would severely limit the ability of these companies to raise capital and also undermine their international credibility. That is not an outcome they want.

G&D: How do you manage the risks of owning Chinese companies?

BW: We manage our risk by limiting our exposure to China, being very selective in the process, and being stingy on price. We've taken a roughly 1.5-2% position in Baidu. Our maximum position size at cost is 3-4%. We like diversification by issue so we'll often start with a 1-2% position. We're not going to have a significant percentage of our portfolio in China, because of the risks.

JH: To add one final point: a lot of people are drawn to these internet-oriented companies for the moonshot subsidiaries – the businesses that haven't yet produced earnings but could or should at some point in the future. Our valuation of Baidu attributed no value to those secondary investments. We were really just valuing the search business and buying it at an attractive multiple.

TS: For a real business that made money.

BW: Right. The point we're trying to make here is that you can invest in technology companies and still be price sensitive.

G&D: Can you talk about your recent purchase of AutoZone?

JH: AutoZone is the largest aftermarket auto parts retailer in the US and has a fabulous long-term track record. When we study a company, one thing we like to examine is the long-term historical value compound of the business. Let's say we think AutoZone is worth 12x

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EBIT. To find the value compound, take EBIT, multiply by 12, subtract the net debt, and divide by the number of diluted shares outstanding. We apply that same valuation methodology over say the last 10 years and observe how that value has changed over that period, and how much volatility there was from year to year. To avoid a flawed analysis, you need to make certain that the first year and the final year of the period do not represent trough or peak earnings. What you're essentially trying to determine is, if you owned this business over a long time, how would the value have grown? In AutoZone's case, if you look over the previous 11-year period, the estimated intrinsic value grew by 16% per annum, with a significant percentage of that growth driven by share buybacks. The historical record also revealed a stable and defensive business. Same store sales at AutoZone have grown in 19 out of the last 20 years, including in 2008 and 2009.

AutoZone has also historically produced high returns, with a 14% ROA (return on assets) and a roughly 30% lease adjusted ROIC (return on invested capital). The company communicates in a very transparent way – ROIC is disclosed every quarter, along with all of the determinants of the numerator and denominator – signaling that management understands the importance of returns.

Free cash flow is important to us, particularly free cash flow conversion. One of the things we consider is how well a company converts its net income into free cash flow over time. We all know that income statements are full of assumptions and accruals. We also know that most growing companies, on a multi-year cumulative basis, generate less free cash flow than net income. At AutoZone, cumulative free cash flow has essentially been equal to reported earnings over the previous decade, which is indicative of high earnings quality.

We also like that they take every free dollar of cash flow and use it to buy back stock. From 1998 through 2017, AutoZone reduced diluted shares outstanding from 153 million shares to 29 million shares – an 81% decline. Combined with growing profits, these share repurchases have substantially increased shareholder wealth.

G&D: Does AutoZone pay a dividend?

JH: They do not. Management believes they can create more value, in a tax efficient way, by repurchasing shares. Avoiding a dividend is also beneficial for management's stock options because option strike prices are not adjusted lower for dividend payments.

> "People are driven to make investment decisions based on their most recent experiences."

G&D: How did you determine when to start building your stake in Autozone?

JH: In the first half of 2017, AutoZone's stock price fell from roughly $800 to $500, mostly due to Amazon concerns. AutoZone even reported negative organic growth one quarter – a rarity for the company. With the stock trading in the low $500s, the business was trading 9.5x EBIT, 8x EBITDA and 12x earnings, yet M&A deals in this industry had generally been done at 13x EBIT. Applying a 12x EBIT multiple to AutoZone – a small discount from observed deal multiples – we thought the stock was worth at least $750.

The narrative in the industry was that growth was slowing due to Amazon disruption. Amazon was not a new market entrant; they had been selling aftermarket auto parts for a long time. But we are all keenly aware of Amazon's willingness to forgo profits in the pursuit of revenue growth. Further, cursory research revealed that Amazon's prices were on average 10% to 20% cheaper on identical branded products.

We saw things differently, ultimately concluding that the slowdown was more likely the result of weather and car demographics than competition from Amazon. Amazon's major point of differentiation is price. But for Au-

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toZone customers, there are a few factors that are even more important than price.

Consider the do-it-yourself segment which represents 80% of AutoZone's revenue. In this segment, there are three things more important to the customer than price. First is the urgency of the need. If your car breaks down and you can't get to work, you need it fixed immediately. Two-day shipping from Amazon Prime is irrelevant to you. Second is the convenience factor. AutoZone has approximately 5,500 stores in the United States. 85% of the population lives within five minutes of a store. That's hard to beat, especially if your problem is unplanned and your need is immediate. Third is the technical assistance AutoZone provides. Most people know they have a problem with their car but have no idea how to fix it. Therefore, the expertise of an auto parts professional is highly valued. Moreover, for some repairs, a customer looking to fix her own car would have to buy expensive tools that she's only going to use once. AutoZone can lend you the tools and provide instructions on how to make the repair. In fact, for many of the parts AutoZone sells, an employee will just come out to the parking lot and fix your car for you.

The remaining 20% of AutoZone's revenue comes from the do-it-for-me segment of its business, which consists of selling parts to independent auto mechanics. This portion of its business concerns consumers who don't want to fix their own car but are looking to save some money relative to what a car dealership would charge.

In the do-it-for-me segment, the customer is typically a professional mechanic who cares primarily about inventory availability and speed of delivery. He calls up AutoZone and asks, "Do you have the part and how fast can you deliver it to me?" His expectation is to receive the part within thirty minutes, not the next day. Even if Amazon has two-hour delivery in major cities, that is still not going to cut it, because the independent mechanic cares about turning over his service bays. He wants to repair as many cars as quickly as possible in a day.

G&D: Are there any contractual relationships between mechanics and AutoZone or are they all one-off transactions?

JH: They're all one-off transactions. The goal of the auto parts retailer is to become the first-call supplier, but having the needed part is a huge challenge because there are so many makes and models. The SKU proliferation is unbelievable, so the key to success is having custom inventory at every store that reflects which cars the locals drive.

To achieve this, you have to study the local car market demographics and identify, for example, whether people are driving Ford F-150s or Honda Civics. You also need to know the year and make of the models. Each store has an inventory that is customized to the local car mix. A large store network helps. Many areas have multiple stores that can share parts. If one store doesn't have a specific part but the one across town does, it will deliver it.

G&D: What do you believe were the real reasons for the industry slowdown?

JH: Weather was definitely a factor. Mild winters in 2016 and 2017 hurt auto part retailers because extreme temperatures often lead to parts failure. The presence of snow and salt trucks is like Christmas for auto parts retailers. Those trucks create potholes, and the salt gets into the underbelly of cars and leads to rust. The combination of a more normal 2018 winter and improved growth at the auto parts retailers led us to believe that weather was truly part of the problem.

Another reason behind the slowdown was a car demographic problem. The sweet spot for spending on after-market auto parts is when a car is between 6 and 10 years old. Below 6 years, the car is probably still under warranty and the owner will go to the dealership. Between 6 and 10 years, the car is likely not on warranty anymore, but is still new enough to justify repairs. At some point, the car gets too old, and repairs end up costing more than the car is worth. If you look at 2017, cars aged 6-10 years old were cars that had been sold new between 2007 and 2011 – a period when new car sales collapsed because of the financial crisis. New car sales picked up dramatically beginning in 2012, making it a mathematical certainty that the 6-10 years-old cohort

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will grow in the next several years, which will benefit all of the auto parts companies.

G&D: Could you tell us more about this idea that some companies can survive an Amazon threat because price is not the differentiating factor? Are there any other companies that fit that theme?

JH: This summer we looked at the drug distributors: AmerisourceBergen, Cardinal, and McKesson. The stocks were down partly due to fears that Amazon would enter the drug distribution industry or the retail pharmacy industry. We knew Amazon was planning to enter healthcare in some fashion – it was already announced that Amazon was teaming with JPMorgan and Berkshire Hathaway to form a healthcare joint venture. Amazon was wreaking havoc among many traditional distribution businesses, and after a good bit of study we concluded that it was very possible that Amazon could disrupt pharmaceutical distribution.

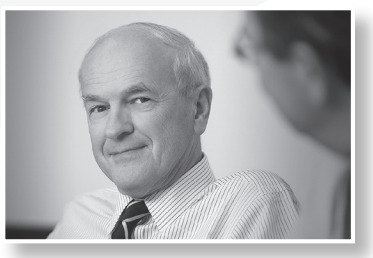
Pharmaceutical distributors make a lot of money selling generic drugs to retail pharmacy customers, but they make a disproportionate amount of money distributing products and services to independent pharmacies as opposed to national chains like CVS or Walgreens. With respect to generic drugs, we learned that following Amazon's purchase of online pharmacy PillPack, Amazon acquired the ability to eventually sell generic drugs to consumers at cash prices below the cost of a co-pay using insurance. When consumers realize they can cash buy generic drugs on Amazon at prices even lower than using insurance co-pays, retail pharmacies are at risk of losing some volume. In addition, a growing number of consumers now have pharmaceutical deductibles as part of their health insurance, which likely means they will shop around for the lowest price when purchasing drugs for chronic conditions. Since drug distributors ultimately sell to retail pharmacies, they could be negatively impacted.

Another key profit pool is independent pharmacies. Independent pharmacies do not make up a significant portion of pharmaceutical distributors' revenues, but they account for an inordinate share of profits because they're high-margin customers. Independents rely on distributors for additional services like business consulting and insurance reimbursement support. Independents are already slugging it out with Walgreens and CVS and there is evidence that they are slowly losing market share over time to the large chains. We concluded that Amazon's recent entry into online pharmacy will likely speed up the demise of the independent pharmacy. It won't happen overnight, but we think it represents a long-term headwind to the pharmaceutical distribution model.

AE: Another source of opportunity is technological disintermediation. We recently invested in WPP, a large advertising firm in the UK. To some degree, we got this opportunity from the market's fear of Google and Facebook disrupting the advertising industry. But after conducting analysis similar to our AutoZone research, we concluded this idea was a bit overdone.

Still, advertising faces issues on two fronts. First, marketing is increasingly moving online, because that's where the audience is. In the next few years, over half of marketing spend will be digital. Google and Facebook are a duopoly in digital, so advertising is not only moving online but it's moving exclusively to two players. Second, the internet has lowered the barriers to entry for many companies. A lot of WPP's clients are consumer branded goods companies that are currently experiencing increasing competition from smaller upstart brands. As a result, these large companies are cutting their ad budgets as their businesses slow.

Due to these headwinds, WPP trades at just over 9x earnings with a 5% dividend yield and an almost infinite return on capital (excluding goodwill). These financial characteristics are very attractive, provided the current issues are not secular and that clients will continue to deem agencies as valuable intermediaries to help them solve modern problems. Marketing is constantly evolving, yet agencies have always occupied the role of trusted advisor.



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The perception is that agencies sell commercials, but in reality, they act more like consultants in helping clients define their audience, select appropriate messaging, and target customers. We think they will still fill this role in the future, but in a different way. A recent advertising book quotes the founder and former CEO of WPP, Martin Sorrell, saying, "75% of what we do has nothing to do with Don Draper. He wouldn't even recognize it."

Another issue is that Martin Sorrell has recently left the company, creating uncertainty about future management. As a result, the stock is selling at an attractive price, and we're willing to wait for things to improve. Are the threats to the industry temporary or secular? We're betting they're temporary. The agencies have evolved with their clients and are able to go where the business opportunities are. If they're not able to do this, then their clients won't see them as offering a valuable service. Mark Read just took over as the new CEO and has already announced some changes in strategy. Ideally, the management turnover will allow the company to focus more on making the necessary changes their clients need and want.

> "Don't sell short the traditional, long-only way of investing. It's not a lost art. As the world becomes more passive, we think the market will ultimately present more opportunities ."

RD: Changes in the consumer goods industry have also affected advertisers. 3G Capital, which owns Heinz, Kraft Foods, and Anheuser-Busch InBev, moved to a model where companies ratchet up their prices, cut costs, including advertising, and choose the short-term over the long-term. The focus on short-term profits was another blow to advertising agencies.

Anheuser-Busch InBev now sells 50% less beer in the United States than they did six or seven years ago. Part of that may be due to the rise in popularity of micro brews, but their decreased advertising budget was also likely a factor. This is a wind that has blown through the fast-moving consumer goods industry. Companies lose shelf space, business shrinks, and shareholders are unhappy. We think the pendulum will swing back, which will help WPP, whose biggest clients are companies like Unilever, Procter & Gamble, and Nestle.

G&D: You are long Unilever and Nestle, right?

BW: Yes, as well as Heineken. They've almost become semi-permanent holdings. We have owned them for 15-20 years. They have durable competitive advantages that have allowed them to compound our estimate of their underlying intrinsic values at an attractive and predictable rate. It's a very tax efficient way to invest.

We'll sometimes trade around their estimated intrinsic value, meaning we'll trim the position if the stock price moves ahead of intrinsic value and add to the position if the stock price drops below. These companies also give us exposure to faster growing parts of the world. When growing middle classes around the globe get more discretionary income, they want a better beverage and a better food product. These companies are serving that demand, which is growing all the time.

G&D: How do you handle disagreements on your investment committee?

TS: We would characterize the decision-making process as a consensus building exercise. The Investment Committee says yea or nay, but it's a process. An analyst or a partner starts the process by presenting an idea. Following that initial vetting, the analyst or partner begins the research process, which culminates in a written memo that includes a valuation model, a competitive analysis, a complete examination of the drivers of the business, and any other pertinent findings. The idea is then debated in a respectful and collegial manner with the entire investment team.

People often ask us, "How can you be efficient in reaching a decision by consensus?" We believe the

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process is similar to the College of Cardinals without the Pope. It's easier to reach an agreement when you look at the issue through the same lens. We might disagree on price, or someone may want additional questions answered, but we use a framework we all believe in. Also, most of us have type B personalities. It's easy to work together because we respect each other's judgment. If you have the good fortune of becoming a member of the Investment Committee, it means you've shown good judgment and have proven yourself over the years.

G&D: Do you have any advice for MBAs who want to break into the industry?

BW: In 2020, Tweedy Browne will celebrate its 100th birthday. Though we are a small place, the organization has been through multiple generations, proving the efficacy of the value investing approach. This firm has lasted so long because people with the right temperament collaborated to implement an approach that works and is sustainable over the long term.

We have nothing against hedge funds – we think it's great that many investment partnerships have popped up over the years. Many are managed by very talented investors, and MBA students are obviously drawn to them. Yet our advice would be to not sell short the traditional, long only way of investing. It's not a lost art. As the world becomes more passive, we think the market will ultimately present more opportunities for people like ourselves.

You are coming out of a fantastic MBA program that firms like ours believe produces capable and passionate value investors. You have a material advantage over most people in the country in getting a job in a value shop. Our advice is to think long-term. If you do that, your competition will be more limited. Think about getting rich over a lifetime by doing something that's repeatable and sustainable. Investing on a highly concentrated and leveraged basis may allow one to beat the market by a substantial margin from time to time with great subsequent reward, but the risks and stress are considerable and sometimes consequential. At firms like ours, you can spend a lifetime building wealth by doing what you like to do. It's hard and challenging work, but the risks are reasonable, and the stress is manageable. It's also incredibly rewarding, more stable, and allows you to have a nice balance between your professional and family life.

FH: To echo what Warren Buffett has said to countless numbers of students: integrity matters. At Columbia, there's plenty of intellectual horsepower and there's tremendous energy. We have a culture in which honesty and humility are important elements of our success. When you're given difficult choices, take the high ground.

TS: Coming back to success. First, you have to be lucky. It's better to be lucky than smart. Next comes hard work. It means working as hard as you possibly can, finishing before you are expected to, having all your t's crossed and all your i's dotted. It means having a passion for what you do, even if you may not be initially rewarded.

JH: I would add: be persistent. Several of us got to Tweedy, Browne by writing a letter or contacting somebody cold. Don't just contact once. We try to make it a point to help people who contact us, but we can't get back to everyone, or sometimes we forget about it. But the people who are persistent, who circle back with the second email or third voicemail, those are the people we eventually call back. Those are the people we think really want it. I wouldn't worry about bugging somebody. Worry about not being persistent enough.

RD: The greatest gift is just curiosity about what the dynamics of the business are. This keeps you going during dry patches, instead of simply thinking that you have to find a stock to buy or sell. Discipline is essential. If you can combine that sort of curiosity with the right temperament, you're in a lucky spot.

G&D: Thank you for your time.

From their inception through July 28, 2021, the Tweedy, Browne International Value Fund and Tweedy, Browne International Value Fund II - Currency Unhedged were known as the Tweedy, Browne Global Value Fund and Tweedy, Browne Global Value Fund II - Currency Unhedged, respectively.

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 October 2, 2018 unless otherwise noted, 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 which own these securities.

As of June 30, 2026, Tweedy, Browne International Value Fund, Tweedy, Browne International Value Fund II – Currency Unhedged, Tweedy, Browne Value Fund and Tweedy, Browne . Buybacks . Dividends + Value Fund* had each invested the following percentages of its net assets, respectively, in the following portfolio holdings: Alphabet (Google) (0.0%, 0.0%, 1.6%, 0.0%); Cisco (0.0%, 0.0%, 0.0%, 0.0%); Baidu (0.0%, 0.0%, 0.7%, 0.0%); Sina (0.0%, 0.0%, 0.0%, 0.0%); Weibo (0.0%, 0.0%, 0.0%, 0.0%); AutoZone (0.0%, 0.0%, 0.8%, 0.0%); WPP (0.0%, 0.0%, 0.0%, 0.0%); Unilever (0.0%, 0.0%, 0.0%, 0.0%); Nestlé (3.1%, 2.0%, 2.4%, 4.5%); and Heineken (3.4%, 2.0%, 1.7%, 2.3%)

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, which are more pronounced in emerging markets, include economic and political considerations not typically found in U.S. markets, including currency fluctuation, political uncertainty, and different financial and accounting standards, regulatory environments, and overall market and economic factors. 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 and does not protect against a loss in a declining market. Past performance is not a guarantee of future results. Please refer to the Funds' prospectus for a description of risk factors associated with investments in securities which may be held by the Funds.

Although the practice of hedging against currency exchange rate changes utilized by the Tweedy, Browne International Value Fund and Tweedy, Browne Value Fund reduces the risk of loss from exchange rate movements, it also reduces the ability of the Funds 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 Funds.

Price/earnings (or P/E) ratio is a comparison of the company's closing stock price and its trailing 12-month earnings per share. Enterprise Value (or EV) 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). 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). Net operating profit after tax (or NOPAT) is earnings before interest and taxes (EBIT) adjusted for the impact of taxes. Free cash flow is the cash a company produces through its operations, less the cost of expenditures on assets.

Tweedy, Browne International Value Fund, Tweedy, Browne International Value Fund II – Currency Unhedged,
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**Formerly known as Tweedy, Browne Worldwide High Dividend Yield Value Fund prior to May 27, 2026.*

This material must be preceded or accompanied by a prospectus for Tweedy, Browne Fund Inc.

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