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Tweedy, Browne: "Price Matters Again"

By Robert Huebscher
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Tweedy, Browne Company LLC, based in Stamford, CT, is a value-based asset manager with an investment philosophy based on the work of Benjamin Graham. It was originally a broker, and one of its clients was Graham, co-author and author of the seminal textbooks on value investing: Security Analysis (1934) and The Intelligent Investor (1949). The firm also had brokerage relationships with Walter Schloss and Warren Buffett. Tweedy, Browne ceased operations as a broker-dealer in 2014.

As of June 30, 2022, its flagship fund, the Tweedy, Browne International Value Fund (TBGVX; it was previously called the Tweedy, Browne Global Value Fund until its name was changed effective July 29, 2021), has returned 8.28% annually since its inception in 1993. That is 220 basis points better than the hedged MSCI EAFE index and 262 basis points better than the foreign stock fund average (which is calculated by Tweedy, Browne based on data provided by Morningstar and reflects average returns of all mutual funds in the Morningstar Foreign Large-Value, Foreign Large-Blend, Foreign Large-Growth, Foreign Small/Mid-Value, Foreign Small/Mid-Blend, and Foreign Small/Mid-Growth categories).

I interviewed seven members of Tweedy Browne's investment team: John Spears, Tom Shrager, Bob Wyckoff, Jay Hill and Andrew Ewert.

The interview took place on August 3 over Zoom. I previously interviewed several members of the Investment Committee at Tweedy, Browne on February 5, 2019, when we discussed their investment philosophy, how they differentiate themselves, and their views on currency hedging. Please refer to that interview for information on those topics.

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Bob Wyckoff

Bob: We face high inflation, an economy that may be in a recession, the protracted war in Ukraine that is causing global shortages of food and other commodities, and the recovery from the pandemic, with supply-chain-induced shortages that have not been fully resolved. Given the long history of Tweedy Browne, are there any historical precedents that you can cite to gauge how the market will respond? Or are we in a truly unique environment?

Bob Wyckoff: When it comes to macro or market views, we'd say caveat emptor. We're not economists, so we want to preface our remarks with that. Being 101 years old as a firm does offer us some perspective that can be of use. I think about the Farmers Insurance quote, "We know a thing or two because we've seen a thing or two." In thinking about the current environment, it reminds many of us, particularly the older members of the group, a little bit of the 1970s. I think back to Lyndon Johnson needing to drive up government spending to finance the war in Vietnam, his great society, and the war on poverty. I recall all of that in part leading to a creeping inflation in the late 1960s and early 1970s.

You'll remember back in the 70s when there was a group of popular stocks, the so-called Nifty-Fifty, that weren't terribly dissimilar to the group of popular

technology stocks we have today. This included, among other growth companies, many of the great tech stocks of the 1970s, companies like IBM, Polaroid and Texas Instruments, among others. That group of stocks enjoyed extraordinarily high valuations during what was a very strong period for markets after WWII. They became known as "one-decision stocks," where you only had to buy them; you never had to sell them. As a result, their valuations got extraordinarily high. When those valuations confronted an oil shock in late 1973 in the form of an Arab oil embargo, it led to a significant collapse in global equity markets, particularly that group of Nifty Fifty securities.

Similar to today, that was a period of great fiscal stimulus that ran headlong into a supply-shock, the Arab oil embargo, which drove up oil prices in the 1970s, quadrupling prices almost overnight. As a result, we got accelerating inflation in the mid to late 1970s, which ultimately had to be quelled by rather radical monetary constraint imposed by Paul Volcker. I arrived in New York to start my career in 1980, suitcases in hand, and the prime rate was north of 20%. We all know where interest rates were not more than a year or two ago – very low to even zero or negative in parts of the world. They're heading north today in part as a result of unprecedented monetary and fiscal stimulus and supply shocks associated with the pandemic driven closing and reopening of the global economy.

This feels similar for many of us. Twain said: "History doesn't repeat itself, but it often rhymes." If the past is indeed prologue, it means we may have further to go here on the downside. Just looking at my Bloomberg today, the Dow Jones is off 10.5% year to date, the S&P is off 13%, and the NASDAQ index is down 17%. When you look at the collapse of the equity markets in the 1970s and the one that followed the tech bubble in 2000, those declines were substantially greater than what we have faced so far. We could have further to go, but with all the market volatility, we believe it's still a great time to be shopping for stocks. That is, in our opinion, particularly true in non-US equity markets, which did not experience the same level of excess as U.S. equities achieved over the last decade.

Tom Shrager: The markets didn't recover fully from the crash in 1973 until around 1983. There was a lost decade in that market if you bought before the crash of 1973. After the crash of 2000, it took 12 or 13 years for the market to recover. But those were two different periods of time. In the 1970s, you had inflation that averaged around 9% until 1982. After 2000, you had very low inflation, but it was an asset bubble that had


Tom Shrager

burst. Now we are in a situation where you have very high inflation at both the Consumer Price Index and Personal Consumption Expenditures price index.

With high inflation, there is an additional burden that companies take on because they may have to pay higher wages, they have to pay more to their suppliers, and are not always able to recover those costs. In addition, the government takes a bigger portion of your income because of bracket creep. Also, government spending is growing at a higher rate because Social Security and certain medical expenses are tied to inflation. If there is a lesson to be learned from the 1970s, it is that high inflation means lower real economic growth. The lesson to be learned from the 2000s is that very high valuations that get corrected also tend to lead to under performance in the stock market because people lose confidence in investing if they experience such high losses.

Bob: Your flagship International Value Fund outperformed the standard unhedged MSCI EAFE Index by 666 basis points in the second quarter and outperformed that index by 871 basis points in 2022 as of June 30. But that performance has not been as strong when compared to the MSCI EAFE hedged index. In your quarterly report, you explained that had to do with Japanese equities and the yen. Can you elaborate the sources of your outperformance and the effect of the Japanese markets?

Bob Wyckoff: The Tweedy, Browne International Value Fund hedges its perceived foreign currency exposure back into the U.S. dollar where practicable. But it's not 100% nominally hedged back into the U.S. dollar. The reason for that is that, in our view, the Fund gets a bit of an implicit hedge from the dollar earnings of a

number of the large multinational companies in which it invests. We don't completely hedge those businesses because, in our view, they are implicitly hedged to a degree.

The hedged index, which the Fund is compared to because it hedges, is 100% nominally hedged back to the dollar. Because the Fund only hedges its perceived foreign currency exposure, only approximately 65% to 75% of the Fund's nominal exposure is hedged back to the dollar. What we had recently was a collapse in the Japanese yen; the yen and Japan in general make up a large percentage of the hedged index. Between 20% and 25% of the index is made up of Japanese equities. The Fund's weighting in Japanese equities is approximately 3%.

On a relative basis, the index was more protected because of its greater weight in Japanese yen than the Fund. As a result of the Fund's low weight in Japan and its practice of hedging only it's perceived foreign currency exposure, opposed to its full nominal foreign currency exposure, the Fund did not get the relative boost that the hedged index got when the Japanese yen was so weak.

Tom Shrager: The Japanese TOPIX index is down 3% year to date. But the yen has depreciated 16% or 17%. If the Japanese market is 25% of the index, it means that the hedged index benefited relative to us by between 3.5% and 4%. It had a bigger exposure because of the depreciation of the yen.

It was twofold. We weren't index-benched in Japan and Japan has done better, and the yen depreciated and that's reflected in significant gains in hedges that the hedged index had.

Bob: In the second quarter, you added a position in FedEx. It has a P/E ratio of 11.3, compared to the market's P/E of 20.67. It is also the 50th largest company in the U.S., so it is widely followed. What was the opportunity you saw in FedEx?

Andrew Ewert: As of April 11, FedEx had a 9% owner earnings yield. We often deem companies with greater than an 8% owner earnings yield to be attractive; a 9% yield, especially for a company that we believe can grow like FedEx has the potential to, is quite attractive.

The owner earnings yield is the inverse of the P/E ratio. If the company decided to distribute its after-tax earnings and you owned 100% of it, that's what you would effectively receive as a dividend. It's somewhat theoretical — companies reinvest — but it's a good proxy


Andrew Ewert

to determine the risk premium you need for an equity.

Aside from valuation, there's been a change in management. FedEx had one of the longest serving CEOs in Fred Smith, who has informally retired; he's become the Executive Chairman. Raj Subramaniam, who was the COO, has become the CEO. With the change in management, there was an analyst day with an update in strategy. FedEx has long been a quality asset in a global oligopoly with secular tailwinds from e-commerce, globalization and outsourcing. But it has underperformed relative to its peers, UPS and DHL.

With a change in management and strategy, and, in our view, a cheap valuation, we saw an opportunity to benefit from a turnaround. FedEx might finally focus on quality and costs versus growth, which was its primary focus in the past. Fred Smith was a very entrepreneurial CEO, and he was always intent on growing the company. Sometimes the growth wasn't profitable or there wasn't an adequate return for shareholders. But the new CEO is emphasizing revenue quality and cost control.

FedEx, UPS, and DHL are in a global oligopoly. They are three players that dominate the small-parcel shipping market. These players operate hub and spoke, sorting and distribution systems. The cost of that infrastructure and the network effect that it creates are high barriers to entry. These players have been able to deliver incremental packages at a far lower marginal cost than any new entrants and that's why you have this oligopoly.

FedEx had done quite well until 2015-2016. But its ground business is the majority of its operating profit. It has had secular tailwinds from e-commerce. But FedEx's network was built to drop off packages in front of office

buildings and it had to redeploy its network into serving the residential areas as e-commerce became 90% of growth in the ground business. It went through some operational challenges, as well as a poorly executed acquisition in its Express business. It bought TNT, which then suffered a cyberattack and had problems during COVID. FedEx, which had historically earned a 10% operating margin, started earning a mid-single-digit operating margin. This is in comparison to UPS, which had generated a 13% margin more recently and Deutsche Post, through its DHL division, had earned about a mid-teens figure.

Functionally, FedEx is a very similar business to UPS, but it had execution and some cultural problems. The change in management and what we view as a cheap valuation spurred our interest. If FedEx can achieve its goals, we believe it has the potential to grow its revenue at a mid-single-digit rate. If it gets to 10% operating-margin, earnings per share will grow at a 14% to 19% annual rate through its fiscal year 2025 per management's Fiscal 2025 Financial Targets that were released at its recent investor day. We were fortunate. After we purchased it, an activist investor, D. E. Shaw, put some pressure on management and has gotten three independent board members and some shareholder-friendly compensation metrics added to management's incentive compensation. Its EPS targets, shareholder return, and cap-ex-to-revenue metrics all reinforce this newfound focus on quality and costs.

Bob: You also added a position in Deutsche Post, which is in the shipping business in Germany. What was the opportunity you saw there?

Andrew Ewert: Deutsche Post has been well run recently. It's more of a conglomerate than FedEx. Approximately 80% of Deutsche Post's operating profit comes from DHL-branded businesses. That gets obscured by the name Deutsche Post, which is the German privatized mail business. It's about 20% of its operating profit. The rest is DHL Express, DHL Freight Forwarding, and DHL Supply Chain Management. Those are all businesses that benefit from globalization, e-commerce and outsourcing, which have nice secular growth drivers that have allowed Deutsche Post to grow at a mid-single-digit rate. It's a leader in most of those industries. Because of COVID, its freight-forwarding business has been over-earning. With all the supply chain shortages, its freight forwarding business has become quite profitable. There's a lot of uncertainty on what the company's earnings might look like in a post-pandemic environment.

We normalized the business and brought some of these segments back to their pre-COVID levels. Even on that basis, in our view it's at 8 times EV/EBIT (as of June 14, 2022); on a stated (last twelve months) basis, it's at 6.8 times. Even when we adjust for some of the over-earning because of COVID, it's still trading at a substantial discount to our estimate of the company's intrinsic value. Deutsche Post has paid a 5% dividend yield.

"Functionally, FedEx is a very similar business to UPS, but it had execution and some cultural problems. The change in management and what we view as a cheap valuation spurred our interest."

The other catalyst that helped us get comfortable with it was the insider buying. The soon-to-be-retired CEO, as well as several other directors, bought almost $900,000 in shares at a slightly higher price than we paid. That gave us comfort that they saw the outlook being more positive than the market.

Mispricings like this happen because people don't know what's going to happen in the near term and they avoid it entirely. But if you have a longer time horizon, you can weather some of these bumpier up-front issues.

Bob: Talk about the opportunity you saw in Nabtesco, a Japanese industrial company, which was another position you added in the quarter.

Tom Shrager: It is a Japanese machinery and components company. It makes hydraulic products that go into excavators, for example, construction machinery. It makes aircraft landing gears and industrial precision cutting equipment. It is involved in producing equipment that is used in the transportation industry like breaks and wiring. It has also highly specialized business in which it is a leader, which is precision reduction gears for industrial robots. Those are gears that allow for increased accuracy so a robot can do more delicate tasks. It's a very important part of an industrial robot.

This is a stock that has grown its revenues and operating income in the high-single digits on an underlying basis. It's diversified globally. It's not just a Japanese company; it sells products in China, the U.S., Europe, and all over the world. When you look at more sus-

tainable margins, we valued it at around 13-times EBIT, and we bought it at around nine times. It has a pristine balance sheet with net cash representing around 25% of its enterprise value. It has very good characteristics, decent returns, is not dependent on one country, and the yen is working in its favor.

What gave us the pricing opportunity in part was the downside volatility associated with the invasion of the Ukraine. Also, China had significant shutdowns in major industrial centers. If you are going to be one of the suppliers of hydraulic equipment for excavators and they don't excavate and the Chinese real estate sector is in trouble and you have shutdowns, then you'll sell less. Despite these worries, in the first and the second quarters, orders reached an all-time high.

Bob: In our interview last year, Jay Hill said that your investment approach had evolved insofar as "valuing currently unprofitable business segments that mask underlying consolidated earnings power in an otherwise profitable core underlying business." Have there been any examples of this in the past year?

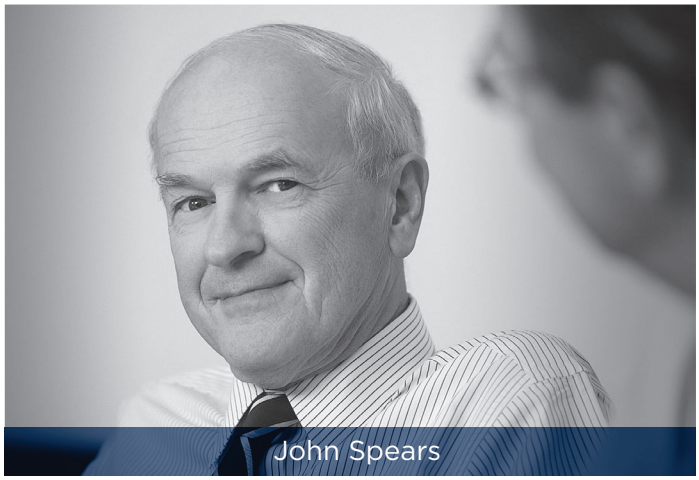
Tom Shrager: During the last year, we bought a company in the United States called Ionis Pharmaceuticals. Ionis doesn't make any money, because it is investing hundreds of millions of dollars in developing new drugs. It already has an existing book of business in drugs, primarily in the drug Spinraza that is being sold in conjunction with Biogen.

But Ionis has tremendous opportunities in a couple of different areas. That includes two different types of amyloidosis, which is caused by a plaque that is very similar to the plaque that Alzheimer sufferers get on their brain. But instead of the plaque entangling the brain, it gets around nerves in the heart. This drug has just finished clinical trials and it was a success. The probability of it being approved is very high.

If a specific company is losing money at a moment in time, but it has a good probability of becoming profitable in the future because of new drugs or a new product, as long as the company doesn't have a lot of debt (so it doesn't need to come to the market to constantly raise money), then we will consider investing in it.

Ionis is cash positive. It doesn't have any reason to come to the market within the next two years, and it trades at a discount to our estimate of its intrinsic value if you put reasonable valuations on the individual drugs.

John Spears: We bought some shares of Paramount Global. It hasn't worked out very well as of yet. But we noticed that Shari Redstone, whose family controls the voting shares in Paramount Global, had been buying it at $35. It dropped, and she bought more at around $28, about $3 million worth of stock.


John Spears

It's a grab bag of assets: CBS, TV stations around the country, and cable content. The thing that caught my eye when I read the 10K was the disclosure concerning the losses from its new streaming business called Paramount Plus. This may be an incorrect assumption, but it's one that appealed to me: Its legacy assets, CBS, the TV stations, the film library, etc., have an independent value that is being masked by the losses of getting into this streaming business.

Some people say you have to get into the streaming business and legacy assets are dead or dying. But they were chugging along well — Paramount Global was priced at six times earnings if you take out the losses from the streaming business. It had that combination of insider buying and losses masking inherent profits in the legacy business

We've been doing some empirical, historical back testing work based on U.S. stocks. We bought a data file that goes back about 20 years. The criteria were inflation-adjusted market cap of $500 million, which going back about 20 years ago it was approximately $350 million, and C-suite insider buying. By that I mean the president, chief financial officer, chief operating officer, treasurer — top executives who presumably are more knowledgeable about the business than most people. We combined insider buying by top executives where the insider had bought at least $100,000 worth of his or her own company's stock with typical valuation ratios such as bottom-decile stocks ranked

on price-earnings ratio, or enterprise value to EBITDA or enterprise value pre cash flow EBITDA, etc.

The data indicated that many of the companies included in the study often outperformed passive indexes in the years following the insider buying, particularly when you combined knowledgeable insider buying with low valuations. (Of course, not all companies in the analysis produced significant excess returns, and some produced significant losses). We're getting ideas that way, not just in the U.S. market. We are assuming that the same idea holds true around the world. We get a daily feed of insider buying for companies with a $500 million market cap or above for countries around the world. We can get that on South Korea, Europe, Australia, and the United Kingdom. We have a way of filtering through it and scoring companies based on combinations and characteristics. It is a very fertile territory for looking.

Bob Wyckoff: I think that is particularly helpful in an uncertain environment like we're in right now, with all kinds of market volatility and economic uncertainty, to see knowledgeable insiders, people who eat, live, and breathe the business day in and day out, opening their wallets and spending their money on their company's shares. It offers additional reassurance and confidence during what is a very, very uncertain time.

John Spears: We will be doing an empirical study using non-U.S. data. We've been talking about getting a big historical file on companies throughout the world that have had insider buying.

Bob: You're focusing on management buying, because directors are often forced to buy shares as part of their appointment as a director, right?

John Spears: It's more focused on top management. But there can be instances where we'll look at the background of a director. In my own case, there's a company in the UK, Aviva, in the property casualty business. A gentleman who was a top executive at Zurich Insurance came over and became the chairman. That is a C-suite position, but there were some other people who had insurance and financial knowledge that would put them in a better spot in terms of assessing a property casualty insurance business. We'll look at the background of directors, and sometimes you'll have a director who is not in the top executive category, not an operating person, but is connected to the family holding company that may own a stock we own. That was the case recently with Suzanne Heywood, a woman who was a top executive at Exor. She


Jay Hill

bought over a million dollars of stock in CNH Industrial. Her background impressed me. She was a financial person with a background at McKinsey.

Jay Hill: We're calling the companies and asking them, "Are the insider buys of free will or are they to meet minimum ownership requirements?" Clearly the signaling power is much less if the insider buying occurred to meet minimum ownership requirements.

Bob: Environmental, social and governance (ESG) concerns are a growing trend among asset managers. You don't offer ESG "flavors" of your funds, but you have said in prior interviews that ESG is always a concern when you evaluate companies. Were there any recent activities in your funds that were motivated by ESG concerns?

Jay Hill: The best example of that is we sold 3M, which was a business that we first bought in 2008 at approximately $50 per share. We've sold it now, 14 years later at roughly $145. The reason was primarily related to two substantial legal liabilities that added too much uncertainty. The first is something called PFAS or polyfluoroalkyl substances. 3M began manufacturing PFAS back in the 1950s and it's used in products to repel water. Products using PFAS include Scotch Guard, and waterproof shoes. It was also used by the U.S. military in what is called aqueous firefighting foams. If the U.S. military had to put out a fire, it would use this foam that had PFAS in it.

PFAS chemicals are sometimes called "forever" chemicals, which means they bio-accumulate over time. They're persistent in the environment and they can become absorbed in the water supply, and frankly that's what's happened. PFAS have now been found in at least 43 states, including in drinking water. 3M

decided to voluntarily phase out production of PFAS in 2000 and it completely stopped making it in 2008. But now the EPA and other regulatory bodies that are doing testing are detecting large quantities of PFAS in the drinking water all over the country. There's some evidence, not necessarily causal, from scientists that there's a link between exposure to PFAS in the drinking water and things like high cholesterol, thyroid disease, testicular cancer, kidney cancer, and pregnancy -induced hypertension.

The Biden administration's EPA at some point, I think within the next year, is expected to designate these PFAS chemicals as a "hazardous substance". The companies that manufactured and used PFAS in their products are going to be responsible for the cleanup and for removing the PFAS from drinking water. This is in the United States, but it's also a global problem. In addition to clean up costs, 3M is going to be exposed to product liability lawsuits related to PFAS claims. The estimates of how big this liability could be are all over the map. I've seen them between $7 and $30 billion to be paid out over years just for PFAS. This is something we've known about for a year or two.

The second issue is something we started hearing a lot about in 2022, and it relates to Combat Arms Earplugs. In 2008, 3M bought a company, Aearo Technologies, that makes earplugs for the United States military that protects hearing during combat. It turned out that the earplugs had a defective product design and incomplete instructions on how to properly use them to protect against hearing loss. An attorney who we spoke to, who is involved in this case on the plaintiff's side, believes that these cases are very easy to describe to a jury. You're talking about United States veterans who, because of faulty earplugs, now have tinnitus. They have ringing in their ears that doesn't go away or have hearing loss. It's very easy to explain to a jury: "Here's a United States veteran providing service to his country that used these earplugs that were defective. 3M knew they were defective, and it continued to sell them and now my client can't hear." There have been 16 bellwether earplug cases, and 3M has lost 10 of the trials. The plaintiffs have been awarded huge verdicts — some as high as $50 to $70 million dollars per plaintiff.

The attorney who we spoke to believes that there's approximately 200,000 to 250,000 claimants. Ultimately, he believes these cases could be worth $50,000 to $250,000 each in a settlement. If you assume 250,000 claimants at $50,000 apiece, that's $12.5 billion. If you assume 250,000 plaintiffs at $250,000 apiece, that's $62.5 billion. Those are massive potential legal liabilities. In addition, 3M has been an average to sub-average performer in the industrial space over the last five years. Even though we believe 3M is not particularly expensive– it has a P/E of 15x and has attractive attributes like a good balance sheet and has increased its dividend for more than 60 consecutive years – the legal risks at this point cloud the investment case for 3M. There are easier things to invest in.

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Bob Wyckoff: As Charlie Munger often says, it went into the "too hard" file.

Bob: Looking back over the last 40 years, it has been an exceptional time to be invested in either the stock or bond markets. We've seen the precipitous decline in interest rates, which has been accompanied by and indeed driven the strong bull market in equities, despite periodic declines. That bull run in equities was also driven by the increase in P/E ratios from roughly 7 in 1980 to nearly 21 today. For our audience of advisors whose focus is on retirement investing with 30-year or more time horizons, will the results be as good for the next 40 years as the last 40 years?

Bob Wyckoff: We have no clue what the returns over the next 30 to 40 years are going to be. Declining interest rates since 1980 have played a huge role over that period to fuel multiple expansion in the markets. We are not too far beyond zero to negative interest rates. It's hard to imagine that can continue. There has to be a shift.

But 30 years is a long enough time horizon, whether you get in at a high or a low point in the market. If you're going to be an investor over 30 years, particularly if you're a price-sensitive investor, it's a good time to be investing in equities.

We've got a lot of volatility in the markets. Even though the broad indexes haven't collapsed, they're down quite a bit. But it's a market of stocks, not just a stock market. We're able to find things that are very, very interesting. If you believe, as we do, that interest rates could be higher for longer given what seems to be a more persistent than expected inflation, it means that valuation matters again. When interest rates were at zero, investors to a great degree were forced into higher priced risk assets to try to earn a reasonable return.

It's very easy to see why, in many instances, valuations became untethered from fundamentals over the last 5 to 10 years. In a rising interest rate environment, particularly one where rates might normalize higher, fixed-income instruments become competitive again. Discount rates, which are used in valuation analysis, are up, and that tends to favor nearer term risk assets as opposed to longer duration risk assets. That tends to favor the types of stocks we look at over time. We're quite positive and optimistic today and one of the reasons for our optimism is that price once again matters.

Tom Shrager: It's very important to look not at indices necessarily, but on a stock-by-stock basis. The broad indexes are telling a story: The S&P 500 is trading at around 20-times earnings with a 1.5% dividend yield. The MSCI EAFE index is trading at 12-times earnings with a 3.3% yield. The indexes are saying you should focus more of your attention on markets outside the U.S., which have compounded at the lower rate over the last 10 years and are much cheaper. If you look at European, Japanese or other developed market equities outside of the United States, you'll find they are populated mainly by global companies, along with some banks and insurance companies that are in pretty good shape. We believe financial companies in markets outside the United States should be able benefit because interest rates are going up. They should be able to earn a spread. We also believe many global companies in Europe and Japan should be able to benefit like many global American companies from global economic growth.

But to your question of whether the returns are going to be comparable to the last 40 years, probably not. That has to do with the starting point. In 1981, interest rates were in the double digits and the P/E ratio was 7; now the P/E is 20 in the U.S. In my view, that dramatic P/E expansion will be unlikely in the U.S., but it is more likely in Europe if its economies improve and if the war in the Ukraine is resolved.

But against that you have de-globalization, which is a global phenomenon. You have increasing as opposed to decreasing interest rates. You have increasing as opposed to decreasing inflation. You have governments that are more constrained with their ability to spend, because they've spent so much on COVID. You have a lot of headwinds. But those headwinds are less so outside the United States than they are in the United States, and the headwinds are less in certain sectors than in others

John Spears: Let's say somebody comes to a registered investment advisor and has a half million dollars. They're 40-years old, and they ask, "What do I do?" What are your alternatives? Do you want to stay out of the market waiting for a crash? When you're buying businesses at earnings yields of 10%, that adds up. As Tom said about European companies, their dividend yields on average are often north of 3%. We're finding some things at a much higher dividend yield than that. Insiders are buying a lot; they can be wrong – humans are subject to emotions driven by geopolitical and economic events. But businesses do their best to adapt to inflation and other forces and change their prices. I don't think there are great alternatives.

Bob Wyckoff: In our opinion, the longer you're willing to look out, the more confidence you can have in the potential of earning an attractive return over time in equities. (Of course, equity investing always involves the risk of loss).

John Spears: For younger people, if they are savers, they've got cash flow coming in and can average into things. For old guys like me, my runway is shorter. But for a person with a 30- to 40-year runway, there's a lot of opportunity.

Bob: In our interview last year, you cited several risks that worried you: rising interest rates, inflation, higher taxes and the level of speculative activity in areas such as meme stocks. There is now legislation that sets a minimum tax rate of 15% on corporations. What effect will that have on the companies you own? What other risks concern you?

Tom Shrager: It will have a negative impact on some industrial companies and more capital-intensive industries because that minimum tax nullifies the effects of accelerated depreciation that Congress has allowed in the past. You may have less investment or companies moving their investments abroad. Certain multinational industrial companies may suffer from double taxation

because the Organisation for Economic Co-operation and Development ("OECD") is also passing a 15% minimum tax. But it seems to be quite different from our 15% minimum tax, and companies may not get a credit from a tax perspective.

Jay Hill:: To follow up on the second part of your question, the risk that I keep thinking about is if Russia turns off the natural gas to Germany and/or to the rest of Europe. A lot of companies are talking about that on their conference calls and about contingency plans. Many of the companies that have reported recently that I follow aren't necessarily concerned with their own production. They think they'll have plenty of energy sources for electricity. But even if you're not reliant on Russian gas for power for your own production, you certainly are selling to customers that do rely on Russian gas. There are knock-on, second-order effects. Russia may turn off the gas and Germany will have to ration who gets gas and who doesn't. My understanding is that there's going to be a preference for hospitals, schools and households, which makes sense. But a lot of industrial companies may have to ration gas usage. The consequences of that could be dire.

Our other big concerns are more zero-COVID policies or more lockdowns in China, as well as the possibility of China invading Taiwan.

Bob: What makes you most optimistic about the prospects for your funds and for value investing in general?

Bob Wyckoff: We've been through a 10-year period, going back to 2012, that's been a very tough stretch for value investing. That directly relates to the environment of zero to negative interest rates and the untethering of investor perception from fundamentals. We would appear to be on the flip side of that now. We have increasing inflation and rising interest rates. As I mentioned previously, price matters again in investing. That serves the interests of value investors. It gives me and my colleagues great optimism. When I think about our funds in particular, their focus to a great degree is outside the United States. The returns over the last decade for non-U.S. equities have been way below the returns for U.S. equities, which was driven in large part by big tech in the United States.

The areas where our funds are shopping today — places like China, Japan, and Europe — are, in our view, home to some of the cheapest stocks in the world. If valuation indeed matters again, which we are confident is the case in a rising interest rate environment, we have great hope for the future returns of our funds, both relative and absolute.

Tom Shrager: Going back to the 1970s, the S&P outperformed the MSCI EAFE Index in approximately 54% of the rolling 10-year periods. In other words, it was almost a coin toss in terms of whether international or the U.S. would outperform over a 10-year period. We've just been through a period for the 10 years ending July 31 when the MSCI EAFE Index was up on an average annual basis 5.8% and the S&P 500 was up 13.8%. If the past is prologue, that could flip, and if it does that will serve the interests of our funds.

We are also starting from much lower valuation levels in international markets.

Jay Hill: We've also got greater exposure to small- and mid-cap stocks today and that's going to be an important driver of returns over the next decade.

The information presented in this interview is designed to be illustrative of the general investment philosophy and broad investment style overview of Tweedy, Browne Company LLC ("Tweedy, Browne"). Tweedy, Browne is the investment adviser to Tweedy, Browne International Value Fund (the "International Value Fund" or the "Fund").

Investment performance and portfolio data for the International Value Fund in the attached article is as of June 30, 2022 (unless otherwise indicated) and is subject to change.

The average annual total returns of the International Value Fund for the 1-, 5-, and 10-year periods ending December 31, 2024, were 2.52%, 4.06%, and 4.60%, respectively. The Fund's total annual operating expense ratios, as disclosed in its most recent prospectus, were 1.39% (gross) and 1.39% (net).

The performance data shown 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. The returns shown do not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares. 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, or to obtain after-tax performance information.

Tweedy, Browne has voluntarily agreed, effective May 22, 2020 through at least July 31, 2025, to waive the International Value Fund's fees whenever the Fund's average daily net assets ("ADNA") exceed $6 billion. Under the arrangement, the advisory fee payable by the Fund is as follows: 1.25% on the first $6 billion of the Fund's ADNA; 0.80% on the next $1 billion of the Fund's ADNA (ADNA over $6 billion up to $7 billion); 0.70% on the next $1 billion of the Fund's ADNA (ADNA over $7 billion up to $8 billion); and 0.60% on the remaining amount, if any, of the Fund's ADNA (ADNA over $8 billion). The performance data shown above would have been lower had fees not been waived during certain periods.

The Fund does not impose any front-end or deferred sales charges. The expense ratios shown above reflect 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 those shown in the Fund's financial statements.

Investment decisions for the Funds are made by Tweedy, Browne's Investment Committee, which is comprised of Roger R. de Bree, Frank H. Hawrylak, Andrew Ewert, Jay Hill, Thomas H. Shrager, John D. Spears and Robert Q. Wyckoff, Jr. Much of the information in this interview represents the opinions of the speakers and is not intended to be a forecast of future events, a guarantee of future results, or investment advice. Views expressed may differ from those of the Investment Committee or of Tweedy, Browne as a whole. In the course of the interview, Tweedy, Browne personnel mention certain securities that may have been held in one or more Funds managed by Tweedy, Browne as of or prior to the date of the interview. Discussion of any particular security, sector or Fund by Tweedy, Browne personnel does not constitute information reasonably sufficient upon which to base an investment decision, should not be considered a recommendation to purchase or sell any particular security, and should not be considered an offer to sell or a solicitation of an offer to buy any of the securities referenced. Moreover, discussions relating to portfolio consideration are for illustrative purposes only and not indicative of any specific portfolio. The information in this interview is not guaranteed as to its accuracy or completeness.

As of December 31, 2024, the International Value Fund had invested the following percentages of its net assets in the following portfolio holdings:

	International Value Fund
IBM	0.0%
Polaroid	0.0%
Texas Instruments	0.0%
FedEx	0.0%
UPS	0.0%
DHL	1.9%
TNT	0.0%
Deutsche Post	0.0%
Nabtesco	0.0%
Ionis Pharmaceuticals	1.9%
Paramount Global	0.0%
Zurich Insurance	2.3%
Exor	0.0%
CNH Industrial	2.6%
3M	0.0%
Aearo Technologies	0.0%

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

Although the practice of hedging against currency exchange rate changes utilized by the International Value 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 US dollar declines against the currencies in which the Fund's investments are denominated and may impose costs on the Fund. As a result of practical considerations, fluctuations in a security's prices, and fluctuations in currencies, a Fund's hedges are expected to approximate, but will generally not equal, the Fund's perceived foreign currency risk.

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

Price/Earnings (or P/E) ratio is a comparison of the company's closing stock price and its trailing 12-month earnings per share.

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 Depreciation and Amortization (or EBITDA) is used to gauge a company's operating profitability, adding back the non-cash expenses of depreciation and amortization to a firm's operating income (EBIT + depreciation + amortization expense).

Owner Earnings Yield is the net operating profit after tax divided by enterprise value.

Since September 30, 2003, the Foreign Stock Fund Average is calculated by Tweedy, Browne based on data provided by Morningstar and reflects average returns or portfolio turnover rates of all mutual funds in the Morningstar Foreign Large-Value, Foreign Large-Blend, Foreign Large-Growth, Foreign Small/Mid-Value, Foreign Small/Mid-Blend, and Foreign Small/Mid-Growth categories. Funds in these categories typically invest in international stocks and have less than 20% of their assets invested in U.S. stocks. These funds may or may not be hedged to the U.S. dollar, which will affect reported returns. References to "Foreign Stock Funds" or the "Foreign Stock Fund Average" that predate September 30, 2003 are references to Morningstar's Foreign Stock Funds and Foreign Stock Fund Average, respectively, while references to Foreign Stock Funds and the Foreign Stock Fund Average for the period beginning September 30, 2003 refer to Foreign Stock Funds and the Foreign Stock Fund Average as calculated by Tweedy, Browne. Information with respect to the Morningstar Foreign Stock Fund Average is available at month end only; therefore the closest month end to the inception date of the International Value Fund, May 31, 1993, was used.

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 (in USD)*** reflects the return of the MSCI EAFE Index for a US dollar investor. The ***MSCI EAFE Index (Hedged to USD)*** 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. Prior to 2004, information with respect to the MSCI EAFE Indexes used was available at month end only; therefore, the since-inception performance of the MSCI EAFE Indexes quoted for the International Value Fund reflects performance from May 31, 1993, the closest month end to the International Value Fund's inception date.

Past performance is no guarantee of future results.

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