Tweedy, Browne

INSIGHTS

CURRENCY HEDGING

Reducing perceived foreign currency risk

“At Tweedy, Browne, we pick stocks —we do not pretend to understand currency valuations. We can read a company’s balance sheet, but we cannot read a country’s balance sheet. The International Value Fund values its assets in US dollars and seeks to reduce currency risk from non-US currencies. To that end, the Fund uses forward currency contracts, where practicable, to hedge its perceived foreign currency exposure back into the US dollar.

WHAT IS A FORWARD CURRENCY EXCHANGE CONTRACT?

A forward currency exchange contract is a binding agreement between two parties (the Fund and a counterparty, usually a bank) that locks in the exchange rate, or forward rate, for the purchase or sale of a particular currency on a future date.

WHAT IS THE PRICE OR COST OF A FORWARD CURRENCY EXCHANGE CONTRACT?

The cost (or gain) on a forward currency contract is based on the exchange rate locked in when the contract is entered into, offset (or enhanced) by fluctuations in currency rates through the contract’s closing date. The cost (or gain) on a forward currency contract is calculated daily based on fluctuations in currency rates but is only realized once the contract is closed out.

ARE THERE OTHER COSTS INVOLVED IN CURRENCY HEDGING?

Yes. For example, if an investor determined to exit the contract before the value date, the investor would generally enter into an offsetting contract for the same value date at a newly agreed-upon forward exchange rate. In certain markets (generally, markets where currencies are restricted), investors may be required to post collateral with respect to contracts in a loss position. There can be expenses associated with setting up and maintaining collateral accounts, posting collateral, and paying interest to counterparties. An investor may also bear operational, legal, administrative, transactional, or other expenses in connection with currency hedging.

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EXAMPLE OF INTEREST RATE DIFFERENTIALS

If one-year interest rates are 0.5% in Country A and 1.5% in the US, the interest rate differential when entering into a one-year currency hedging contract would be approximately the difference between the two interest rates: 1.0%. Conversely, if one-year interest rates are 4.5% in Country B and 1.5% in the US, the interest rate differential entering into the contract would be approximately 3%.

CURRENCY HEDGED	INTEREST RATE	US INTEREST RATE	INTEREST RATE DIFFERENTIAL AT CONTRACT OPENING DATE*
COUNTRY A	0.5%	1.5%	1%
COUNTRY B	4.5%	1.5%	3%

**Rates shown are for illustrative purposes only*

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CURRENCY HEDGING

A simplified example of how hedging works

INVESTOR PREPARES TO BUY £500,000 OF BRITISH STOCK (EXCHANGE RATE: £1 = $1.50)

Exchange $750,000 for £500,000 and then purchase the stock using pounds.

TO HELP PROTECT AGAINST CURRENCY FLUCTUATIONS, INVESTOR ENTERS INTO A FORWARD CURRENCY EXCHANGE CONTRACT

Assuming interest rates at 4.5% in Britain and 1.5% in the US, investor enters into forward currency exchange contract and agrees to sell £500,000 one year later for $1.455/pound or $727,500. (Reflects the assumed 3% interest rate differential between interest rates in Britain vs. the US, or $22,500 loss).



- $250,000

Pound declines in value.

During the year, the value of the pound declines from $1.50 to $1, resulting in a 33% decline in the US dollar value of the British stock, from $750,000 to $500,000.



+ $227,500

Gain on forward contract.

Meanwhile, the forward sale of £500,000 at the fixed price of $727,500 produces a gain of $227,500 on the forward contract, after the £500,000 needed for delivery are repurchased at the new £1 = $1 rate.

Overall Outcome: - $22,500

$227,500 hedge gain largely offsets the $250,000 currency loss on the British stock. The result is the interest rate differential of 3%, or $22,500 loss.



+ $250,000

Pound increases in value.

During the year, the pound increases from $1.50 to $2, resulting in a 25% increase in the US dollar value of British stock, from $750,000 to $1,000,000.



- $272,500

Loss on forward contract.

Meanwhile, the forward sale of £500,000 at the fixed price of $727,500 produces a loss of $272,500 on the forward contract, after the £500,000 needed for delivery are repurchased at the new £1 = $2 rate.

Overall Outcome: - $22,500

$272,500 hedge loss largely offsets the $250,000 currency gain on the British stock. The result is the interest rate differential of 3%, or $22,500.

CURRENCY HEDGING

A simplified example of how hedging works

RESULT

The investor's overall outcome in these scenarios approximates the local market return of the stock (which was assumed to be zero), minus the interest rate differential built into the forward contract ($22,500). Of course, these scenarios assumed that the investor fully hedged the value of the British stock. In addition, this example assumed that the value of the British stock remained the same. Had the investor hedged less than the full value of the British stock, or if the British stock price had changed, the results in these scenarios would have been different.

For a description of the Fund's hedging policy, see slide 6.

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CURRENCY HEDGING
May help deliver less volatile returns

USING ANNUALIZED STANDARD DEVIATION AS A MEASURE OF VOLATILITY, HEDGING CURRENCY EXPOSURE APPEARS TO HAVE HELPED DELIVER LESS VOLATILE RETURNS OVER TIME.

When comparing the MSCI EAFE Index (Hedged to USD) (which fully nominally hedges all foreign currency exposure on a monthly basis) to the MSCI EAFE Index (in USD), which is unhedged and exposed to foreign currency fluctuations, a lower annualized standard deviation has been observed in the hedged index:

STANDARD DEVIATION (for periods ending September 30, 2026)	MSCI EAFE INDEX (HEDGED TO USD)	MSCI EAFE INDEX (IN USD)
1 YEAR	11.78%	15.05%
5 YEAR	10.85%	15.43%
10 YEAR	11.80%	14.98%
33 YEARS (Since 06/30/1993)	13.81%	15.96%

Past performance is no guarantee of future results.

Standard deviation: A statistical measure of how much an investment's returns vary around their average over time. A higher standard deviation indicates greater volatility, while a lower standard deviation suggests more stable returns.

DISCLOSURE

Where practicable, in light of operational and regulatory considerations, the Tweedy, Browne International Value Fund seeks to reduce currency risk by hedging its perceived foreign currency exposure back into the U.S. dollar (generally through the use of forward currency contracts) based on the Adviser's judgment of such exposure after taking into account various factors, such as the sources of the portfolio companies' earnings and the currencies in which their securities trade. Although hedging against currency exchange rate fluctuations reduces the risk of loss from exchange rate movements, it also reduces the ability of the Fund to gain from favorable exchange rate movements when the U.S. dollar declines against the currencies in which the Fund's investments are denominated and may impose costs on the Fund. The Fund is also subject to the risk of possible default by the other party to its forward foreign currency transactions. The Adviser may be incorrect in its assessment of the Fund's exposure to one or more foreign currencies. As a result of practical considerations, fluctuations in a security's prices, and fluctuations in currencies, the Fund's hedges are generally expected to approximate, but will generally not equal, the Fund's perceived foreign currency exposure.

Current and future portfolio holdings are subject to risk. Investing in foreign securities involves additional risks beyond the risks of investing in US securities markets. These risks, which more are more pronounced in emerging markets, include currency fluctuations; political uncertainty; different accounting and financial standards; different regulatory environments; and different market and economic factors in various non-US countries. In addition, the securities of small, less well-known companies may be more volatile than those of larger companies. Force majeure events such as pandemics, political upheaval 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.

Past performance is not indicative of future results.

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 US$) reflects the return of the MSCI EAFE Index for a US dollar investor. The MSCI EAFE Index (Hedged to US$) consists of the results of the MSCI EAFE Index 100% hedged back into U.S. dollars and accounts for interest rate differentials in forward currency exchange rates. Index figures do not reflect any deduction for fees, expenses or taxes.

Index performance results are over many years and reflect multiple market cycles and varying geopolitical, market and economic conditions. Performance results vary dramatically over shorter time periods. Investing involves the risk of loss, including the loss of principal.

This piece contains forthright opinions and statements on investment techniques. There is no guarantee that these opinions and statements will prove to be correct, and some of them are inherently speculative. None of them should be relied upon as statements of fact.
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This material must be preceded or accompanied by a prospectus for Tweedy, Browne Fund Inc. You should consider the Fund's investment objectives, risks, charges and expenses carefully before investing. The prospectus contains this and other information about the Funds. The prospectus should be read carefully before investing. Please click here, call 800.835.3879, or visit www.tweedy.com to download a free prospectus.