Investment Manager's Report

If you can keep your wits about you while all others are losing theirs …

- Rudyard Kipling

If you were to use marriage as a metaphor when writing about the financial markets over the past year, you would have to say the relationship is going through a difficult time. While permanent damage has been limited, there have been a lot of difficult days. Volatility in the indices has been extraordinary, baffling and hard on the emotions. If your spouse was Bank of America (BAC) (a stock we do not own) you might be at wit's end trying to understand his or her behavior, despite knowing a great deal about the company's personal (financial) background. On a number of days over the past several months, the intra day spread between the high and low price has been in excess of 10%. Nor is this an isolated example, if you look at equity markets around the world as we do. There are similar examples of volatility in individual company stock prices that have far fewer questions surrounding their financial prospects than is the case with Bank of America. As an aside, if this leaves your appetite for volatility unmet, you could go to the credit default markets for BAC's senior debt where the lack of liquidity creates a pogo stick-like phenomenon. Needless to say, the credit default swap market is not a market where we invest any of your or our hard-earned money. What we do know is this is an extremely illiquid market place with all the caveats that suggests, yet it is frequently cited in the financial press as a barometer for a company's health. To us, it seems more like a place where the weekend Vegas crowd hangs out during the week.

Now value investors are frequently described as being blessedly indifferent or vaccinated against the world beyond the annual report they are reading. As a group, they go quietly to their offices, close the door and come out at a later date with their next investment. Some also subscribe to the view that in addition to being isolated from the world, value investors are, to use Warren Buffett's phrase, the "buyers of corporate cigar butts," sweeping up the corporate butts that have a puff or two left in them. Both perceptions are in large part inadequate if not inaccurate. Of course, fundamental to what we do is Graham's simple insight that a share of stock is a fractional interest in a business. We constantly remind ourselves that behind every stock is a company, and if the company does well, the stock should in time do well if we are disciplined enough to wait for an attractive entry price in the public market. As our partner, John Spears, often says, "If you own a stock in a good business, it will do most of the work for you." In other words, if you own an interest in a good business, time is on your side. On the other hand, when we believe the variables affecting a business are too hard to evaluate and the consequences of being wrong too difficult to quantify, we take a pass, which in a simplistic way, explains why we have not invested in European banks. On the numbers, they are cheap, and if things break for the better you will have a "three or four bagger" in the words of Peter Lynch. For us, it is simply a game we choose not to play and illustrates, we think, the fact that the world at large does factor into our decisions about which companies we choose to invest in or not.

The question, of course, is how and why any of the foregoing is relevant today. There seems to be a pervasive sense of gloom, relentless media coverage of the problems, and suggestions of new problems to come. In a disheartening way, it is somewhat reminiscent of the famous 1979 ***Business Week*** article on the "death of equities." Markets, in our opinion, are dealing with a confluence of factors that create enormous uncertainty and are clearly unnerving investors who, like everyone else in the world, are not hardwired to be rational and objective. The bigger problems are the macroeconomic issues, particularly in the U.S. and Western Europe, and the uncertainty surrounding them. Making matters worse are the probable side effects of some of the "technological" innovations in the markets, including high frequency trading ("HFT"), which currently accounts for over half of the trading volume in U.S. markets, and ETFs which may well be another example of Wall Street taking a good idea to not such a good place. At the very least, these innovations have redefined the concept of "short-term trading" enabling trading to occur in fractions of a second and often on a leveraged basis. Our simple take on these developments is that they can't help but ratchet up volatility as people try to guess the direction of the market or a stock in ever decreasing slices of time. Couple this with economic uncertainty and the outcome seems less confounding. From our perspective, it is valuable to keep in mind that you only have to swing when the price makes sense and that ultimately the market will be a weighing machine. We are also of the opinion that when uncertainty begins to lift, these innovations will no longer be the propellants for volatility that they are today.

Now our intention is certainly not to trivialize these problems. Several of them are years, if not decades, in the making and not susceptible to simple quick fixes. At the risk of oversimplifying, in a way, the problem boils down to too much debt at the government and personal level, and how it will be addressed while meeting the promises made to large segments of the population in the developed economies, be it jobs, pensions or healthcare. In the U.S., the need to reduce debt at the personal level is shifting behavior towards less consumption and increased savings. While necessary, it will inevitably have an impact on the rate of economic growth for some time. In contrast, the corporate sector is in good financial health across the world. It has spent a number of years strengthening its financial condition. One proposed solution to our problems is to get the corporate sector to begin investing part of the enormous liquidity that has built up on their balance sheets. As to the cause of the problems, we have no interest in getting into the business of apportioning blame for the current situation and in fact have some disagreements among ourselves on this question. Suffice it to say that there appear to be so many different strands of DNA in this problem that it would be fruitless to try to apportion the blame to any one source.

The glimmer of hope in all this is the prospect that the markets will begin to perceive a glimmer of hope. Markets do in fact, in our view, respond to change at the margin and policies that generate some confidence about the road ahead could have a salutary impact on markets. Uncertainty and confidence create their own cycles. Behaviorally, there is a tendency for those in the markets to overemphasize the current circumstances and to extrapolate. We recall an article a number of years ago in ***The Economist***, which took the murder rate on a particularly bad day in Los Angeles (not to pick on L.A.), and extrapolated it out to the point where some time in the next decade the last two people in L.A. duke it out. This would be mathematically correct if the trend continued unabated, but logically only an amusing exercise at best. However, in our view, it does contain a grain of truth about the current circumstances. There are times when problems seem insolvable and other times when problems seem almost non-existent. Yet, in either instance, the impact of a perceived change in the consensus outlook can be telescoped into a fairly short timeframe.

There is no disagreement as to the principal macroeconomic problems.

1. The U.S. budget problem, combined with an overextended consumer, a slow growth economy, and the apparent inability of political leaders to reach any accommodation on how to address the issue. We don't subscribe to the view, however, that nothing will ever be resolved. We do believe that while the can is becoming so heavy it can't be ignored, it is possible and likely it will be kicked down the road to the next election before meaningful progress on the problem begins.

2. European sovereign debt problems and the future of the euro. We believe that a solution resulting in a closer knit Europe, whether it includes Greece or not, is compelling, and is driving leaders in Europe to find a solution. Comprised of the major European economies, Europe as a single economic entity will continue to occupy an important and influential seat in a rapidly changing economic world. For better or worse, the world has changed. The world economic forum for discussion is no longer the G-7, but now the G-20. Europe returning to separate national economies would no longer have much ability to influence economic events, and this fact alone may well drive a resolution. Moreover, the parties involved in finding a solution seem able to speak with one another and look for compromises to get the problems on the road to a better day. In the meantime, traders hang on and trade on every comment, of which there is no shortage.

3. A third intensely debated issue centers on China, but it seems the debate is not so much whether China will grow but rather how fast it will continue to grow and whether there will be a real estate bust at some point. Most of this debate turns on your time horizon, in our judgment. There seems little doubt that over time China will grow, and relatively rapidly. We have read estimates that China's middle class could be twice the population of the U.S. in 20 years, which in our mind translates into significant economic opportunities for the global businesses we own as the Chinese continue to acquire the everyday goods and services that we take for granted. Moreover, the leadership in China doesn't seem to have to consult with every constituency in the country before moving forward.

We don't think a prolonged discussion on the market innovations such as high frequency trading ("HFT") and the latest iteration of ETFs has a lot of utility for purposes of this letter. These developments have not had much impact on how we function on a day-to-day basis beyond acclimating us to a new level of volatility. Some have argued that HFT has increased liquidity and narrowed spreads (that's good). Others maintain that HFT has reduced depth in markets (that's bad), and on a worst case basis, drives up the cost of acquiring stock for people with a short-term time horizon. The liquidity argument is a bit puzzling because if, as reported, high frequency traders account for over half the volume, are they doing this just for themselves? For perspective, we bought over 23,000 shares of 3M for the Value Fund USD in October 2008 at an average cost of $52.30 per share. We can't quantify what the impact of HFT might have been on our cost basis. We always try to buy as shrewdly and carefully as possible, but our perspective was that 3M was worth a whole lot more money as a business than $52 per share. A price at a penny higher or lower would not have changed our thinking at all. We are happy holding our stock at the current price of $78. European regulators are now proposing a series of curbs on this type of trading, and from what we read in the press, it is also under the regulatory microscope in the U.S. markets. This discussion is "to be continued." As for ETFs, we'd like to bring your attention to a recent article by Andrew Ross Sorkin from the October 10, 2011 business section of ***The New York***

Times entitled, *Volatility, Thy Name is E.T.F.*, which relates to the possible impact of ETFs on volatility. To read it, follow this link (*user name and password may be required*): http://nyti.ms/vhQ8Dr

Volatility, in our view, does have the potential for being a serious financial problem if you have to sell your investment by a certain date in order to make a college tuition payment or pay for a wedding. Our view has been that if you know you will need some money in the next 12 to 24 months or so for an important financial obligation, put it aside. If your horizon is longer term, we engage in a different type of investment arithmetic. First, we accept that we will not be able to predict with any consistency when markets will change direction. Moreover, even if we thought we could do it, we wonder if we would have the conviction to take the next step.

Our perspective is to ask ourselves where we are likely to be over the next three to five years. That nothing gets addressed at the macro level and corporation profits and cash flows will not matter as underpinnings to the market is not an outcome we are inclined to subscribe to. While we are not starry-eyed optimists, we don't see the world in some state of terminal economic decline. Moreover, we own businesses; they are adaptive, competitive organizations with enormous financial and human resources that are able to constantly adjust to changing circumstances and markets. So, through all this we stay very focused on the progress of the businesses we own while constantly looking for better opportunities.

To shed some light on our thinking about how the investment return math could ultimately work in our favor, we use the example of Johnson & Johnson, a security we own in three of our four Sub-Funds. Our confidence about earning good returns in companies like J&J is high. Our confidence in predicting the timing of when this might happen is low.

Favorable Return Mathematics Working in the Investors Favor Today

Johnson & Johnson (JNJ)

	1999	**2011**
Earnings per share	$1.45	$4.96
P/E ratio	32x	13x
Dividend yield	1.2%	3.5%

1999-2011 EPS Growth rate	=	10.8%
P/E contraction 1999-2011	=	59%
Dividend growth rate 1999-2011	=	12.7%

Total return for JNJ stock 1999-2011	=	5.1%
Total return for S&P 500 1999-2011	=	- 0.4%

Back in 1999, some 12 years ago, J&J was trading at $46 per share, produced earnings per share of $1.45, had a price earnings ratio of 32X EPS, with a dividend yield of 1.2%. Today, nearly 12 years later, J&J is on schedule to earn $4.96 per share, or nearly three and a half times what it earned in 1999. So, during the lost decade for equities, and during a period that saw the bursting of the technology bubble, the Y2K crisis, the 9/11 tragedy, the Iraq and Afghanistan wars, the bursting of the credit and housing bubble of 2008, and perhaps the worst economic crisis since the Great Depression, this company was able to compound its earnings per share at a 10.8% annual rate. The business performed beautifully during this period, but what about its stock price?

In 1999, J&J had a price earnings ratio of 32 times earnings. Today, it trades at roughly 13 times earnings. Its price earnings ratio (P/E) has fallen off a cliff since 1999. Despite this collapse in its P/E ratio, J&J produced a compound return for its shareholders of a little over 5% per year over the last 12 years. This, by the way, compared to a compound return for the S&P 500 for the same period of approximately -0.4%. It was certainly not a lost decade for J&J investors. The stock price compounded at roughly half the rate of the company's earnings compound, and as a result J&J, today, appears to be pretty attractively valued.

So what should the next five years or so hold for J&J's stock performance? That is very hard to know. What we do know is that the stock currently trades at 13 times earnings, which equates to an after tax earnings yield of 7.7% and compares quite favorably to fixed income alternatives. The 10-year treasury currently trades with a pre-tax yield of approximately 2%. While you cannot put J&J's earnings yield in your pocket each year, it still presents a compelling fundamental advantage over the yield of risk free treasuries, and one that Ben Graham would have likely taken advantage of. The current cash dividend yield today is 3.5%, up from 1.2% in 1999 for an annual dividend growth rate during the period of approximately 12.7%. J&J's P/E ratio during this almost twelve-year period averaged around 20X, but is at 13 today. If the current P/E ratio is simply maintained going forward, the return for shareholders would be the earnings growth of the company coupled with its dividend yield. Over the next five years, that translates into a 13% to 14% annual total return if the company is able to continue to grow its earnings annually at a 10% rate, and maintain its dividend yield at 3.5%. If we lower our expectations of the company's future earnings to a more conservative growth rate of 5%, and simply maintain the dividend yield, the investor would still receive an annual return of roughly 8.5% in the stock over the next five years. But let's assume that the P/E ratio for J&J continues to decline, to say, 10 times earnings over the next five years coupled with more modest 5% earnings growth and a 3.5% dividend yield, the investor would still receive a 3.4% average annual return. Again, your downside is limited by the strength of the company's earnings power and its dividend. If, as we feel, the more likely scenario is modest P/E expansion coupled with solid growth in its earnings and dividends, we could earn a very attractive double-digit return in the stock. That said, this analysis relies on a number of assumptions that might not come to fruition, and J&J might just be the stock that doesn't work for one reason or another. That is why we diversify.

This kind of math is working for us in any number of companies in which we are invested today. We cannot stress enough that the robustness of this potential return math is largely a function of attractive entry point pricing in larger, steadier, higher quality and globally diversified businesses like J&J. As we have said in previous letters, these are businesses that are attractively valued, underleveraged, pay an attractive dividend yield and sell a multitude of products to a growing middle class that aspires to the

kind of life style that we in the West sometimes take for granted. More importantly, these are the types of companies that have the financial strength to weather severe market turbulence, and come out the other side bigger and stronger.

Performance Results

Presented below are the investment results of Tweedy, Browne Value Funds SICAV (the "Fund") for the year ended September 30, 2011 with comparisons to the indices we consider relevant. In this report, we have presented the Investment Manager's Report for the four Sub-Funds in one letter, which reflects the performance details and our views on the performance, as well as the financial statements for each Sub-Fund.

Tweedy, Browne Value Fund (USD)

Annualized Results* ending September 30, 2011

	Tweedy, Browne Value Fund (USD)	***MSCI World (in USD)***	***S&P 500 Index***
1 Year	-3.90	-4.35	1.14
3 Years	2.26	-0.07	1.23
5 Years	-0.83	-2.23	-1.18
10 Years	2.20	3.71	2.82
Since Inception *(10/31/96)*	4.69	3.98	5.07

Performance returns are annualized and time weighted. The value of the shares and the return they generate can go down, as well as up. They are affected by market volatility and by fluctuations in exchange rates. Past performance is no indication of future results. The calculation of the Tweedy, Browne Value Fund (USD) performance complies with the "Guidelines on the Calculation and publication of Fund performance data," which were published for the Swiss Funds Association (SFA) on May 16, 2008.* ***Performance calculations are presented for Investor Shares.*

Tweedy, Browne International Value Fund (Euro)

Annualized Results* ending September 30, 2011

	Tweedy, Browne International Value Fund (Euro)†	***MSCI EAFE (Hedged to US$/Euro)***	***MSCI EAFE (in US$/Euro)***
1 Year	-1.87	-10.83	-7.77
3 Years	6.28	-3.97	0.39
5 Years	1.37	-6.27	-4.56
10 Years	6.60	0.80	3.85
Since Inception *(10/31/96)*	7.97	2.61	2.59

Performance returns are annualized and time weighted. The value of the shares and the return they generate can go down, as well as up. They are affected by market volatility and by fluctuations in exchange rates. Past performance is no indication of future results. The calculation of the Tweedy, Browne International Value Fund (Euro) performance complies with the "Guidelines on the Calculation and publication of Fund performance data," which were published for the Swiss Funds Association (SFA) on May 16, 2008.* ***Performance calculations are presented for Investor Shares.*

† Prior to May 17, 2004 the sub-fund was denominated in US$ and its investments were hedged to US$. Effective May 17, 2004, the base currency of the sub-fund was changed to Euros and its investments were hedged to Euros. Performance results through June 30, 2004 are based on the percentage increase in US$ value of shares to May 17, 2004, and percentage increase in Euro value of shares thereafter. Accordingly, such performance figures do not represent the percentage increase in the US$ or Euro value of shares in the sub-fund over the whole of the indicated periods.

For comparative performance purposes, the blended MSCI EAFE (hedged to USD/Euro) and MSCI EAFE (in USD/Euro) indices are shown, and represent index performance for the applicable performance periods. Therefore, the most appropriate benchmark for the period prior to May 17, 2004 was the MSCI EAFE Index (hedged to USD) and MSCI EAFE (in USD); for the period thereafter, the most appropriate benchmark indexes are the MSCI EAFE Index (hedged to Euro) and MSCI EAFE Index (in Euro).

Tweedy, Browne International Value Fund (CHF)

Annualized Results* ending September 30, 2011

	Tweedy, Browne International Value Fund (CHF)	*MSCI EAFE (Hedged to CHF)*	*MSCI EAFE (in CHF)*
1 Year	-1.92	-11.75	-15.72
3 Years	3.60	-4.24	-7.84
5 Years	-1.26	-6.86	-9.14
10 Years	4.91	0.11	-0.61
Since Inception *(10/31/96)*	6.36	1.16	1.03

Performance returns are annualized and time weighted. The value of the shares and the return they generate can go down, as well as up. They are affected by market volatility and by fluctuations in exchange rates. Past performance is no indication of future results. The calculation of the Tweedy, Browne International Value Fund (CHF) performance complies with the "Guidelines on the Calculation and publication of Fund performance data," which were published for the Swiss Funds Association (SFA) on May 16, 2008.* ***Performance calculations are presented for Investor Shares.*

Tweedy, Browne Global High Dividend Value Fund

Annualized Results* ending September 30, 2011

	Tweedy, Browne Global High Dividend Value	*MSCI World (Hedged to Euro)*	*MSCI World (in Euro)*
1 Year	1.86	-5.25	-2.67
3 Years	2.44	-2.51	1.46
Since Inception *(6/1/07)*	-3.03	-8.26	-6.37

** Performance returns are annualized and time weighted. The value of the shares and the return they generate can go down, as well as up. They are affected by market volatility and by fluctuations in exchange rates. Past performance is no indication of future results. The calculation of the sub-Funds' performance results complies with the "Guidelines on the Calculation and Publication of Fund Performance Data," which were published for the Swiss Funds Association (SFA) on 27 May 16, 2008.* ***Performance calculations are presented for Investor Shares.***

Market volatility had a roller coaster impact on equity indices over the last twelve months with the MSCI World Index topping out at 125.38 on or about 17 February only to face a precipitous drop to 99.58 on 19 August. This is a peak to trough decline during the period of approximately 21%. Recovering somewhat just prior to quarter end, the MSCI World Index finished the year down 2.67% in Euros. In comparison, the MSCI EAFE Index, a gauge for non-U.S. stocks, finished the year down 7.77% in Euros. While three of our four Sub-Funds produced negative returns as well over the last 12 months, which is difficult to crow about, we take some solace in the fact that they all outdistanced their respective benchmark indices by a considerable margin. Longer term comparisons (more than one year) for all of our Funds remain quite favorable versus benchmark indices.

We would remind our shareholders that as you compare the returns of your various investments to not lose sight of just how the returns were achieved. Howard Marks, a highly noted investor, in his recent book, ***The Most Important Thing***, which we highly recommend, speaks eloquently to this issue:

> *When you boil it all down, it's the investor's job to intelligently bear risk for profit. Doing it well is what separates the best from the rest … great investors are those who take risks that are less than commensurate with the returns they earn.*

We could not have said it better. From our perspective, the truly great investors have been able to generate attractive absolute and index beating returns while significantly reducing the probabilities for permanent loss of capital. Their records have been built often over decades, and the returns have

typically been more defensive, holding up better than most in difficult market environments. While most have made no overt efforts to manage return variance, their returns, more often than not, are characterized by a level of volatility less than that of market indices. Furthermore, they were not produced with lots of transaction activity exposing their clients to large tax bills. These are the kinds of factors that we believe separate the wheat from the chaff when it comes to a great investment record. We have done our absolute best over the years to take this kind of a path in managing your money, and you can rest assured that we will continue to do so.

We also believe this kind of approach to investing allows our clients the ability to hang in there during turbulent times in the market such as we have had of late, which is absolutely critical for their and our long term success. Not only is sticking with it important for the investor's success over the long term, it is also critically important to our ability to manage assets effectively. We would have a difficult time intelligently implementing our investment strategy if during difficult times in the market we faced rampant redemptions just as equities were getting cheap. While we do have redemptions from time to time, the flow of redemptions has generally been quite manageable over the years and is indicative of a more intelligent shareholder base, and for that we are very grateful.

Our Sub-Funds' Portfolios

In this section of our report, we always try to provide you with some indication of what drove our returns during the period. Quite frankly, we do not put a lot of stock in "investment archeology" or attempts to explain what moved stock prices during a particular period. In some respects, it is like trying to explain the unexplainable, particularly during volatile periods such as we have recently experienced. More often than not, in volatile periods, stock price movements can become completely divorced from what is going on fundamentally in the underlying businesses of the stocks that we own, reflecting the anxieties of investors rather than how the companies are actually doing. Such has been the case over the last 12 months. Even in more stable periods for stocks, the somewhat random short-term movements of individual stock prices often reflect near-term developments at the company that in our opinion may not weigh on the longer term prospects for the business. Attribution analysis becomes even more difficult when the portfolio under review is a diversified one, and holds 30 or more securities as our portfolios do. With that in mind, we will try to provide you with what we feel is a more rational description of what happened during the period in question, and the portfolio decisions we made on your behalf, always mindful that a more detailed analysis is probably not all that meaningful.

As market volatility spiked up over the last year, it was the more traditionally defensive stocks that held up best and produced the best returns in our Sub-Funds' portfolios; i.e., the food, beverage, tobacco, and healthcare holdings. This included companies such as Coca-Cola, Diageo, Unilever, British American Tobacco, Roche, and Johnson & Johnson. The earnings of these companies typically hold up relatively better in recessions, as consumers generally resist cutting back on these types of expenditures, and that has proven to be the case over the last few months.

As concerns about the debt crisis both in Southern Europe and the U.S. resurfaced, the financial stocks in which our Funds were invested began to contract, especially a number of our insurance stocks, such as Zurich Financial, Munich Re, and Berkshire Hathaway. One bright light in the financial group was Provident Financial, the UK consumer lender, whose business is somewhat insulated from the macro factors affecting more mainstream financials. The company also continued to post steady and growing

results during the period particularly in their credit card business. Their dividend yield of nearly 9% was another contributing factor. In the wake of new forecasts suggesting a significant slowdown in economic growth, our media holdings declined led by Axel Springer and Mediaset España. Also, our oil and gas stocks, including Devon Energy, Total, and ENI, contracted in price as the price for crude oil came down, again impacted by what appeared to the prospects for a more sluggish recovery near term.

In terms of the actions we have been taking in the Fund portfolios of late, they have been somewhat incremental. In pessimistic, volatile environments such as this, you sometimes find pricing opportunities in great businesses. We are trying to pick our spots carefully so as to really take advantage, and enhance the overall profile of our portfolios with our remaining cash reserves. The level of investment currently ranges from roughly 82% in our International Value Fund (CHF) all the way up to 90% in the Global High Dividend Value Fund. In most instances, we only need a few new securities to reach a rather fully invested posture. That said, we have added to and trimmed a number of pre-existing positions, and also established a few new positions over the last twelve months.

For example, we recently established a position in UK-based Imperial Tobacco, the fourth largest tobacco company in the world, and have begun to build a position in a company we have owned in the past, United Overseas Bank (UOB), a large, growing and conservatively managed bank in Singapore. At purchase, Imperial was trading at roughly 11X 2011 earnings; had a long record of producing high free cash flow; paid a dividend yield north of 4% with a conservative 50% payout ratio; had increased its dividend for 14 consecutive years; had a consistent earnings record even during recessions; and had a history of intelligently buying in its shares. Of the big four tobacco companies, it is the one that is from time to time the subject of press conjecture that it may be a takeover candidate, but that is not why we own the stock.

UOB is one of the three leading commercial and consumer banks in Singapore, which is widely regarded as one of the strongest national banking systems in the world. By almost any metric, this is a conservatively managed bank with a strong financial position, and without the balance sheet issues facing Western banks. Its return on equity has been around 16%, it has grown its loan book at a conservative 7% annually over the last 10 years. It is self funding with a loan to deposit ratio of less than 80%, which is much lower than most Western banks, and has loans to tangible book value of just 6.5X, whereas at most Western banks that ratio would be greater than 10X. At initial purchase, the shares were trading at roughly 10X earnings, and it had a current dividend yield, including special dividends, of around 4%. We believe an acquirer would reasonably pay more than 14X earnings for this franchise today.

At the end of the third quarter, the price of crude oil was down over 30% from its highs back in early May, and that contributed to a considerable correction in oil stocks. We added to several of our existing holdings, including Devon Energy and Total. We also had a chance to buy some shares in Royal Dutch Shell (RDS), the global oil giant, at roughly 7.4X 2011 earnings with over a 5% dividend yield. We think that RDS is among the cheapest of the major oil and gas producers with a current and prospective production growth profile that is attractive. Downstream, Royal Dutch has begun to rationalize its refining assets, which should lead to margin improvement in the not too distant future. While the decline

in crude oil prices no doubt reflect the prospects for a slowing global economy near term, we believe the supply demand equation for oil and gas should remain tight over the long term, improving the prospects for our oil stocks.

All three of these companies have durable franchises, what we believe to be sustainable competitive advantages, are conservatively financed, trade at sizeable discounts to what an acquirer would be willing to pay in a buyout of the company, and pay an attractive current dividend while we wait for value recognition in their shares.

From our point of view, the debt problems that have consumed the attention of our policy makers over the last several months are not likely to be resolved in short order. It took a long time to get into the position we are in, and it will take a long time to get out. As we mentioned earlier in this letter, it is hard to see the problems in the U.S. being addressed prior to the election next year, and the European issue, which is far more difficult, will likely take even longer to work through. That said, we think that positive policy changes at the margin that would offer some clarity for business people would more than likely be very favorable for our equity markets. But until we get that, our markets are likely to remain somewhat more volatile than normal. It is important in this type of environment to have portfolios that are designed to weather virtually any kind of turbulence that may come our way, and that is precisely what we have tried to do. Our Sub-Funds' holdings today continue to be comprised in large part of larger, less cyclical, steadier companies with more sustainable demand characteristics that are globally diversified, have solid balance sheets, sell products to an aspiring and growing middle class, and pay an attractive dividend yield while we wait for value recognition. In general, these companies are attractively priced and discount a cautious expectation of the future. We are quite confident that they should be able to withstand significant adversity, and over time come out the other side stronger and more valuable. In times like these we take great comfort in those principles that form the bedrock of our approach: a cautious valuation methodology; a rigorous pricing discipline that demands a significant discount from our estimates of intrinsic value in each and every security at purchase; a focus on sustainable competitive advantages; diversification by issue, industry, and country; low leverage; a long-term investment horizon; and a willingness to hold residual cash reserves when bargains are less plentiful. These principles have allowed us to compound our own wealth and that of our shareholders quite reliably over long measurement periods, and we remain confident that they should continue to serve us well going forward.

Looking Forward

So, here we are some two and a half years out from perhaps the most severe financial implosion we have experienced since the Great Depression, and the global economy once again is in crisis mode. Economic indicators suggest the global recovery is slowing, inflation is on the rise in the emerging markets, China's momentum is slowing, and the debt crisis in both Southern Europe and the U.S. is once again dominating headlines.

It would appear that we are at an inflection point today with respect to the "social contract" between governments and the people that they serve. Promises have been made that will be hard to keep, and capital markets are forcing the hands of policy makers around the globe. Like a persistent bill collector, the markets are now demanding payment for the profligacy that has built up over time.

Deregulation over the years in the financial services industry and advances in technology have spawned a plethora of innovative investment strategies and vehicles designed to take advantage, often on a highly leveraged basis, of short-term market fluctuations, which further accentuates the daily pricing volatility in equity markets. The confluence of too much debt, the absence of near-term political will, and highly leveraged financial instruments has created a level of stress in public equity markets that tests the resolve of even the most resolute of investors. Until policy makers formulate a credible long term workout plan, equity markets are likely to remain volatile. As we stated earlier, the proverbial can which has been kicked down the road for some time now has suddenly become a lot heavier.

In the interim, what can investors do to try to intelligently keep their capital working for them in such a volatile macro environment? On the one hand, you could call it a day and retreat from markets and go to cash, which by the way pays you virtually nothing, and simply wait for a better time. But how will you know when to return? Think of all those investors today who were forced out by comparable volatility in 2008 and missed the last two-year run up. We are sensitive to the fact that market volatility can be devastating for those who frequently need access to their capital. However, for those with more patient capital, markets such as these can afford investors with rare pricing opportunities, which over longer measurement periods, should prove to be quite advantageous. It is our job, as stewards of your hard earned savings, to try to remain objective so as to exploit these opportunities.

We recently had the privilege to attend Walter Schloss' 95th birthday party. Walter, as many of you know, worked alongside Benjamin Graham in the 1950s and is a great friend of Warren Buffett. He became a legendary investor in his own right, running his own partnership. In an evening full of toasts and accolades for Walter, perhaps Sandy Gottesman, another great investor and Berkshire billionaire, said it best when he toasted Walter for the trait he felt he did not have, and the trait Sandy felt made Walter a great investor, his optimism. To a certain degree, value investors, while ever skeptical even in times of crisis, generally believe the world is not coming to an end. Warren Buffett tries to remind us of this frequently during times of stress. Walter, if he were still managing his partnership today, would be leaning against the wind and opportunistically buying stocks. We will be leaning as well in the weeks and months ahead.

Thank you for investing with us and for your continued confidence.

Sincerely,

William H. Browne
John D. Spears
Thomas H. Shrager
Robert Q. Wyckoff, Jr.
Managing Directors

TWEEDY, BROWNE COMPANY LLC
Investment Manager to the Fund

December 2, 2011