For over a thousand years, Roman conquerors returning from the wars enjoyed the honor of triumph, a tumultuous parade. In the procession came trumpeters, musicians and strange animals from conquered territories, together with carts laden with treasure and captured armaments. The conqueror rode in a triumphal chariot, the dazed prisoners walking in chains before him. Sometimes his children robed in white stood with him in the chariot or rode the trace horses. A slave stood behind the conqueror holding a golden crown and whispering in his ear a warning: that all glory is fleeting.

George S. Patton, Jr.
"Patton" (1970)

To Our Shareholders:

The bull market in U.S. equities is now in its 10th consecutive year, making this the longest uninterrupted expansion in the post-war era. To a great degree, the heroes of this triumph have been a handful of highly innovative entrepreneurs who have created large dominant companies that today have almost monopoly power in their respective markets. This group includes Mark Zuckerberg of Facebook, Jeff Bezos of Amazon, Tim Cook and the late Steve Jobs of Apple, Reed Hastings of Netflix, and Sergey Brin and Larry Page of Google. Together they constitute the ubiquitous FAANG (Facebook, Amazon, Apple, Netflix, Google) stocks. According to Scott Galloway, author of *The Four: The Hidden DNA of Amazon, Apple, Facebook, and Google*, these four companies have generated unprecedented wealth—by our calculation, approximately $3 trillion through September 30, 2018, for their shareholders. If you add in Netflix, the number approaches $3.5 trillion.

The great bulk of this wealth was produced over the last five years, as these companies helped to power the U.S. and global stock indexes forward. Amazon, for example, year to date through September 30, was up 71%, growing its market capitalization this year alone by over $413 billion. To put that growth in perspective, there are only five other companies in the world today that have a total market capitalization of $400 billion or more: Microsoft, Apple, Google, Berkshire Hathaway, and Facebook. Amazon was able to essentially grow a company the size of Facebook ($407.10B as of 11/12/2018) in just nine months.

To quote Galloway:

> *Our governments grant them special treatment regarding antitrust regulation, taxes, even labor laws. And investors bid their stocks up, providing near-infinite capital and firepower to attract the most talented people on the planet or crush adversaries.*

As of September 30, 2018, the FAANGs accounted for 13% of the valuation of the S&P 500, and over the last two years their stock prices are up cumulatively approximately 88%. With this meteoric rise, none of the FAANGs today trade, in our view, at a reasonable discount to a conservative estimate of intrinsic value. During 2012, we did have an unusual opportunity to purchase Google at a price that fit our value framework. While we believe the business is fully valued today, we still own Google because we believe the value will continue to compound at an above-average rate. From a quantitative standpoint, Apple certainly fit our framework for a better part of the last five years. Qualitative concerns regarding the history of technology hardware businesses led to our inaction. While Facebook's valuation today is not terribly excessive, we do not believe that it is trading at a discount to underlying value. Conversely, Amazon and Netflix are both currently trading at price earnings ratios above 100 times earnings and have never remotely appeared cheap to us. In fact, Amazon and Netflix are emblematic of the venture capital mentality in public markets that we have observed more frequently in the last several years. This Silicon Valley inspired ethos seemingly prioritizes customer and revenue growth over all other goals, including profitability. To quote Elizabeth Winkler of The Wall Street Journal in a recent article (August 26, 2018) entitled *Why No One Can Catch Netflix*, "Netflix's great advantage over its

rivals is it doesn't need to show profits, as long as the subscriber numbers keep climbing." While this approach is common in the early years of a company's life, it is increasingly being applied to many large, more mature public companies. We remember a time 18 years ago when numerous innovative technology companies achieved similar nosebleed valuations based on something other than underlying profitability. It did not end well for investors in those businesses.

Thanks in large part to the extraordinary performance of these technology companies, the S&P 500 Index in the month of September hit an all-time high valuation. Also, thanks to the FAANGs, the growth style of investing has far outstripped the results produced by value investors over the last many years, causing some market prognosticators to conclude that value investing is once again dead. Having been at this investment game for a long time here at Tweedy, Browne, we know that this goes on until it doesn't. Eventually these disparities are almost invariably corrected by the sheer weight of the companies' valuations.

Value investors should not despair. Numerous academic and empirical studies suggest that over the longer term, value investing generally outperforms growth investing ... that the proverbial tortoise more often than not beats the hare[1]. There are many theories that seek to explain the reason for value investing's empirical return advantage over time. In our view, one of the most notable reasons is behavioral. Growth investing feels better. It's easier, more comfortable and often lulls the investor into a sense of complacency. Lakonishok, Shleifer and Vishny, in their classic study, "Contrarian Investment, Extrapolation, and Risk" (1993), found that investors appear to consistently overestimate the future growth rates of glamour stocks relative to value stocks, putting excessive weight on recent past history despite the fact that future growth rates are highly mean reverting. In addition, they found that investors often confuse well run companies with good investments. This often translates into buying glamour securities with widely recognized competitive advantages and lofty expectations for future growth, regardless of price. In addition, recent favorable stock price action often reinforces the growth investor's conviction. As Warren Buffett has observed, investors tend to gravitate toward a cheery consensus.

Conversely, value investing often feels uncomfortable and challenging. Buying out-of-favor stocks with low expectations and well publicized issues, however temporary, requires fortitude and a contradictory mix of conviction and humility that is often in short supply in the investor community. It almost always requires the ability to look wrong for a while, and a willingness to embrace uncertainty, price volatility, and the recognition that a fair number of individual ideas will lose money for one reason or another. Behaviorally, value investing is simply harder; however, the Lakonishok et al. study confirmed that this hardship has historically been rewarded with returns that over time exceeded those produced by growth (glamour) stocks.

With considerably less exposure to technology stocks, the returns of non-U.S. equity markets of late, while quite solid, have paled in comparison to the returns of the U.S. equity market. Non-U.S. equities in the near term have been weighed down in part by projections of slowing economic growth, political upheavals, trade war concerns, and highly volatile currencies, while U.S. stocks have had the benefit of increased fiscal stimulus in the form of corporate and personal tax cuts, increased defense spending, and capital investment, which gave a significant boost to economic growth, reported corporate earnings, and in turn U.S. stock prices. Beset by these headwinds, non-U.S. equities have emotionally been harder to own. Over the last ten years, the S&P 500 has compounded at over twice the rate of the MSCI EAFE Index. Year to date through September 30, 2018, that spread widened. The S&P 500 is up 10.56% year to date through September 30, versus 1.38% for the MSCI EAFE Index in local currency and -1.43% when translated back into U.S. dollars. These robust U.S. equity returns have, in our view, caused U.S. equity valuations to become stretched compared to their non-U.S. counterparts. According to

[1] *See, for example:* What Has Worked In Investing, *Tweedy, Browne (Revised 2009);* Value and Growth Investing: Review and Update *by Louis K.C. Chan and Josef Lakonishok,* Financial Analysts Journal, *(January/February 2004),* What Works On Wall Street *by James P. O'Shaughnessy, McGraw-Hill Education, (Fourth Edition, November 2012)*

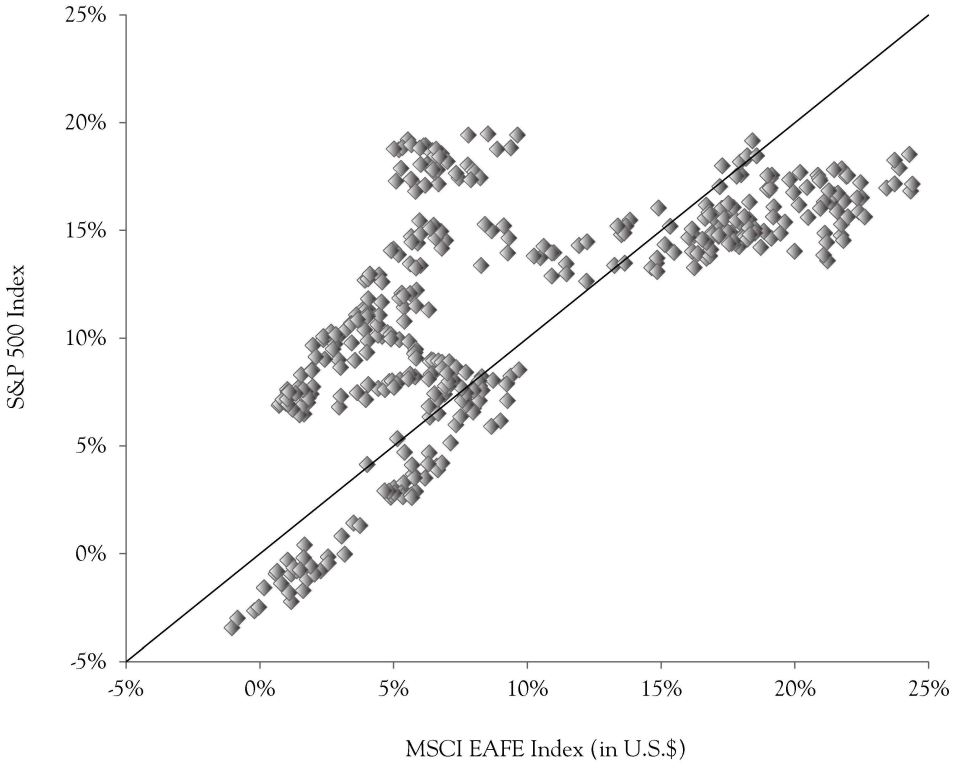
Bloomberg, on a simple price-to-earnings ratio basis, the S&P 500, at the end of October, traded at approximately a 33% premium to the MSCI EAFE Index. Jason Zweig, the writer of *The Intelligent Investor* column in The Wall Street Journal, commented on this contrast in valuations between U.S. and non-U.S. equities in a recent article entitled "The 'Dumb' Money Is Bailing on U.S. Stocks. That's Smart." He cautioned:

> *If U.S. growth merely slows relative to other economies, stock markets elsewhere in the world are likely to catch up to or surpass the S&P 500.*
>
> *Stocks in the U.S. may be more vulnerable than usual to such a reversal, given how expensive they are. Compared with the rest of the world, U.S. stocks are at their highest valuations on record, according to Bank of America Merrill Lynch—trading for twice as much, as measured by price to net worth, as international shares.*

This dichotomy between U.S. and non-U.S. returns has not always been in favor of the United States. In fact, in his article, Jason Zweig pointed out that there have been numerous multi-year periods where non-U.S. returns have significantly outpaced those of their U.S. counterparts. Moreover, as you can see in the chart below, between 1974 and 2018, the S&P 500, on a rolling ten-year return basis, outperformed the MSCI EAFE Index only 52% of the time. The Zweig article also indicated that, for the ten years ending December 1986, non-U.S. equities on average surpassed the performance of stocks in the U.S. by over 6.2% per year. This also held true for the ten-year period ending December 2007, when non-U.S. equities outperformed U.S. equities by 3.1% per year. He also noted that retail investors had redeemed $34 billion out of U.S.-based funds while adding over $1 trillion to non-U.S. funds over the last 10 years, leading him to comment that, "*sooner or later, that's going to make the so-called dumb money look smart."* We would agree.

S&P 500 Index & MSCI EAFE Index (in U.S.$)
10-Year Rolling Returns | December 31, 1974 through September 30, 2018

U.S. equity markets (S&P 500 Index) outperformed international markets (MSCI EAFE Index (in U.S.$)) in just over half of the 10-year rolling periods (52% of observed periods).



Source: Bloomberg. Past performance is no guarantee of future results.

The vertical axis represents the annualized returns for the S&P 500 while the horizontal axis represents the annualized returns for the MSCI EAFE Index (in U.S.$). The diagonal axis is a line of demarcation separating periods of outperformance from periods of underperformance. Plot points above the diagonal axis are indicative of the S&P's relative outperformance, while points below the diagonal axis are indicative of its relative underperformance.

As with life, there is an ebb and a flow to investing. As value investors, we seek to take advantage of the fact that, empirically, "Mr. Market" has a proven behavioral tendency to overreact on the upside as well as the downside. And we can have faith that equity valuations should mean revert over time. But we can never know when the mean reversion will occur, and value investing can remain out of favor for periods of time that are disconcerting at best and sometimes downright uncomfortable. That said, redemption has generally come for patient, disciplined, price conscious value investors who stay the course. As we write, volatility has returned to public equity markets. Technology stocks have begun to falter; fears of a trade war and projections of slowing economic growth have driven the Chinese stock market down more than 26% through October 31, 2018, from its late January highs; Europe is bracing for the possibility of a hard Brexit; and numerous emerging markets are in turmoil due to high levels of U.S. and euro-denominated debt. On top of all this, inflation, interest rates and oil prices are on the rise. On an optimistic note, these concerns are also producing near term pricing opportunities in an increasing number of non-U.S. equities. Idea flow has picked up considerably for us of late and, as you will see later in this report, we have been busy planting the seeds for potential future returns.

Investment Performance

Year to date through September 30, 2018, the Sub-Funds continued to make financial progress in this dichotomous environment. However, on a relative basis, the Sub-Funds' results were mixed. Our international value Sub-Funds bested their hedged and unhedged benchmark indexes, while our two global-oriented Sub-Funds trailed their benchmarks.

The Tweedy, Browne International Value Fund (Euro) bested the MSCI EAFE Index (Hedged to USD/EUR) by 239 basis points, and the unhedged index by 137 basis points. The Tweedy, Browne International Value Fund (CHF) outpaced the MSCI EAFE Index (Hedged to CHF) by 145 basis points, and the unhedged Index by 328 basis points. The Tweedy, Browne Value Fund (USD), however, trailed its global benchmark by a considerable margin, while the Tweedy, Browne Global High Dividend Value Fund trailed the MSCI World Index (Hedged to EUR) by just 13 basis points. The Value Fund (USD) and the Global High Dividend Value Fund have had relatively modest exposure to U.S. equities and, as a result, have not compared favorably in the short run to the MSCI World Index, where U.S. equities represent as much as 60% to 65% of assets.

Presented below are the performance results of the Sub-Funds for various periods with comparisons to their respective benchmark indexes.

			Performance through September 30, 2018 Annualized for periods greater than 1 year			
	6 months ending 9/30/18	YTD thru 09/30/18	1 year	5 years	10 years	Since Inception
Tweedy, Browne Value Fund (USD)* *(inception 10/31/96)*	3.97%	1.92%	6.77%	4.35%	6.59%	5.89%
MSCI World Index (in USD)	6.80	5.43	11.24	9.28	8.56	6.62
S&P 500 Index	11.41	10.56	17.91	13.95	11.97	8.71
Tweedy, Browne International Value Fund (Euro)*† *(inception 10/31/96)*	6.43%	3.27%	6.82%	6.44%	8.55%	8.47%
MSCI EAFE Index (Hedged to USD/EUR)	5.57	0.88	4.43	7.36	6.13	5.15
MSCI EAFE Index (in USD/EUR)	5.99	1.90	4.57	7.66	7.40	5.07
Tweedy, Browne International Value Fund (CHF)* *(inception 10/31/96)*	5.04%	2.08%	5.33%	4.72%	6.66%	6.88%
MSCI EAFE Index (Hedged to CHF)	5.51	0.63	4.08	6.69	5.65	3.96
MSCI EAFE Index (in CHF)	2.11	-1.20	3.71	6.04	3.94	3.64
Tweedy, Browne Global High Dividend Value Fund* *(inception 6/1/07)*	7.36%	4.91%	8.56%	6.55%	6.72%	4.00%
MSCI World Index (Hedged to Euro)	8.04	5.04	10.16	9.80	7.99	4.25
MSCI World Index (in Euro)	13.09	9.00	13.22	12.68	10.64	6.20

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 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 USD and its investments were hedged to USD. Effective May 17, 2004, the base currency of the Sub-Fund was changed to EUR and its investments were hedged to EUR. Calendar year 2004 performance and annualized 15-year and since inception performance figures are based on percentage increase in USD value of shares through May 16, 2004, and percentage increase in EUR value of shares thereafter. Accordingly, such performance figures do not represent the percentage increase in the USD or EUR value of shares in the Sub-Fund over the whole of the indicated periods. For comparative performance purposes, the linked MSCI EAFE Index (hedged to USD/EUR) and linked MSCI EAFE Index (in USD/EUR) are shown, and represent MSCI EAFE Index performance hedged to USD or in USD for the period through May 16, 2004, and hedged to EUR or in EUR from May 17, 2004 forward.

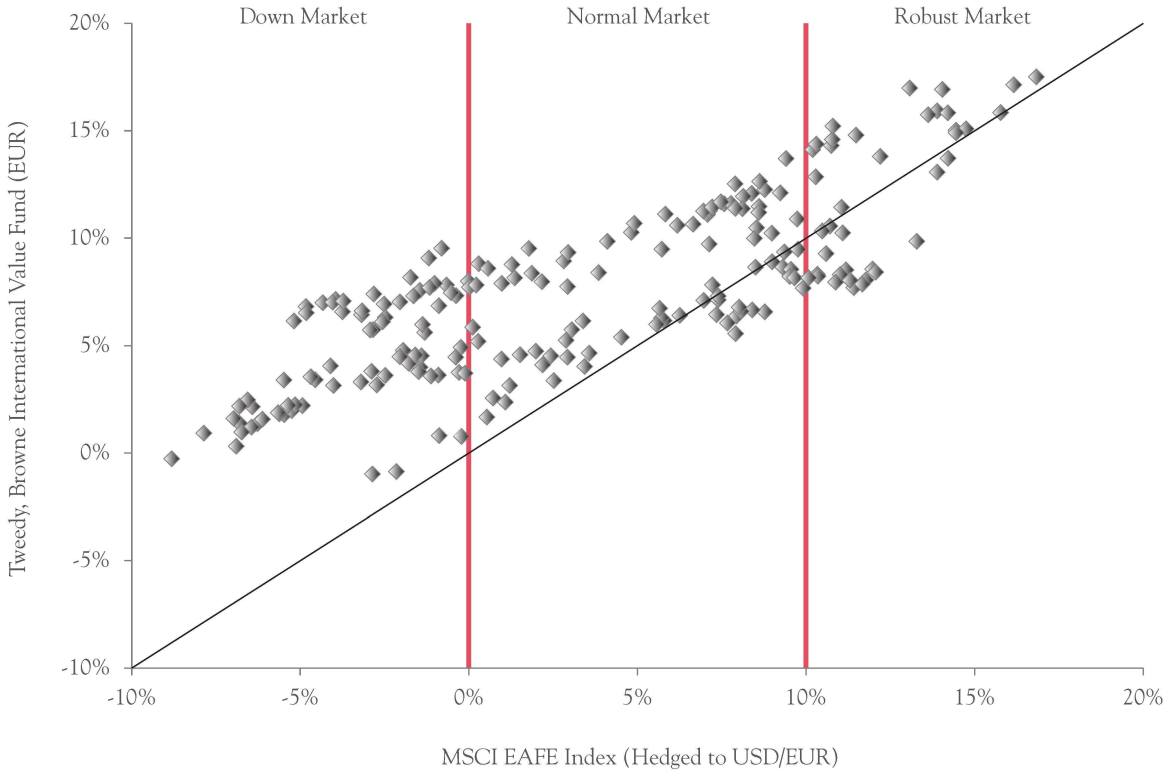
Rolling 5-Year Returns for the Tweedy, Browne International Value Fund (Euro)

As we have written in past reports, equity return streams are lumpy by their nature, and perhaps nothing illustrates that better than an examination of rolling five-year average annual returns. The following scatter plot chart tracks the rolling five-year average annual returns for our International Value Fund (Euro) on a monthly basis since its inception in October 1996, and compares those returns to the rolling five year average annual results for its benchmark, the MSCI EAFE Index (Hedged to USD/EUR). If you take the time to examine it carefully, the chart reveals a recurring pattern in what has been a 22-year index beating cumulative return stream —the Sub-Fund has consistently bested its benchmark in difficult and challenging stock market environments (i.e., in 100% of rolling five-year down-market periods). In our view, it is the Sub-Fund's resiliency in the face of adversity that has allowed the bulk of our investors to remain committed during those times when equity markets are uncooperative. The ability to "stay on the bus" during those bumpy periods is perhaps the most important factor in long-term wealth-building.

Tweedy, Browne International Value Fund (Euro)
Rolling 5-Year Average Annual Returns (Net of fees) | October 31, 1996 through September 30, 2018

Out of 204 five-year measurement periods, the International Value Fund (Euro) has outperformed the MSCI EAFE Index (Hedged to USD/EUR) 167 times, or 82% of measured periods.

5-Year Rolling Average Annual Returns (calculated monthly)| International Value Fund (Euro) vs. MSCI EAFE Index (Hedged to USD/EUR)



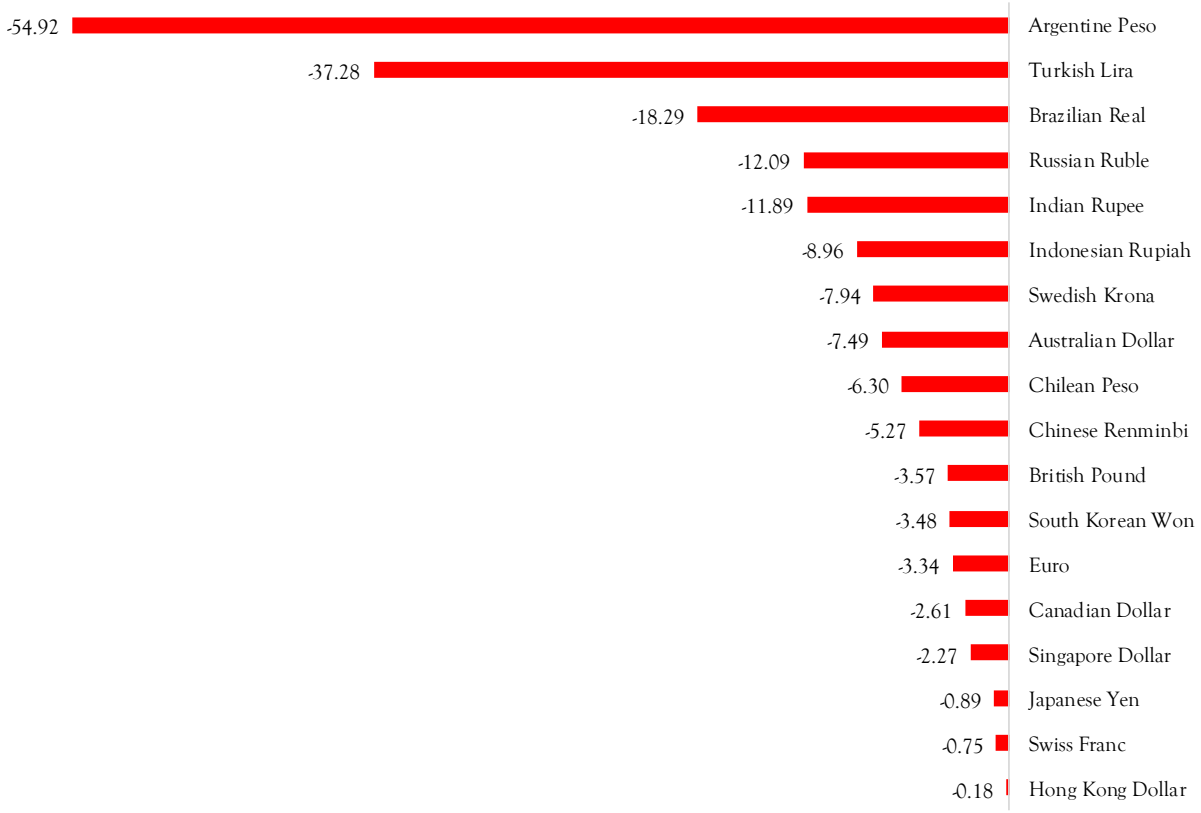
	Int'l Value Fund (Euro)	MSCI EAFE Index *(Hedged to USD/EUR)*
Down Market (Below 0%) 5-Year Average Returns – 76 periods **Sub-Fund beats Index in 100% of periods**	4.40%	-3.26%
Normal Market (0-10%) 5-Year Average Returns – 89 periods **Sub-Fund beats Index in 80% of periods**	8.16%	5.57%
Robust Market (Above 10%) 5-Year Average Returns – 39 periods **Sub-Fund beats Index in 51% of periods**	12.25%	12.24%

The above chart illustrates the five-year rolling average annual returns (calculated monthly) for the Tweedy, Browne International Value Fund (Euro), net of fees, since 31 October 1996 compared to the five-year average annual rolling returns for its benchmark index (the "Index"). The horizontal axis represents the returns for the Index while the vertical axis represents the returns for the Sub-Fund. The diagonal axis is a line of demarcation separating periods of outperformance from periods of underperformance. Plot points above the diagonal axis are indicative of the Sub-Fund's relative outperformance, while points below the diagonal axis are indicative of relative Sub-Fund underperformance. Returns were plotted for three distinct equity market environments: a "down market" (Index return was less than 0%); a "normal market" (Index return was between 0% and 10%); and a "robust market" (Index return was greater than 10%). There were 204 rolling return periods between 31 October 1996 and 30 September 2018. Past performance is no guarantee of future returns.

"Bonfire of the Currencies"

Jim Grant, in the September 7th issue of his eponymous newsletter, Grant's Interest Rate Observer, referenced the "bonfire of the currencies" currently raging in Argentina, Turkey and Brazil. Investor confidence in these markets has been shattered by slowing economic growth, political turmoil, and high euro and U.S. dollar-based debts. In fact, as you can see from the chart below, through September 30, all major currencies and nearly all emerging market currencies have lost value this year relative to the U.S. dollar. This rather abrupt turn-around in sentiment from last year's forecasts of continued U.S. dollar weakness has been quite extraordinary, and caught many investors by surprise. It just reinforces what we have always known: that predicting the future direction of foreign currencies is a fruitless exercise.

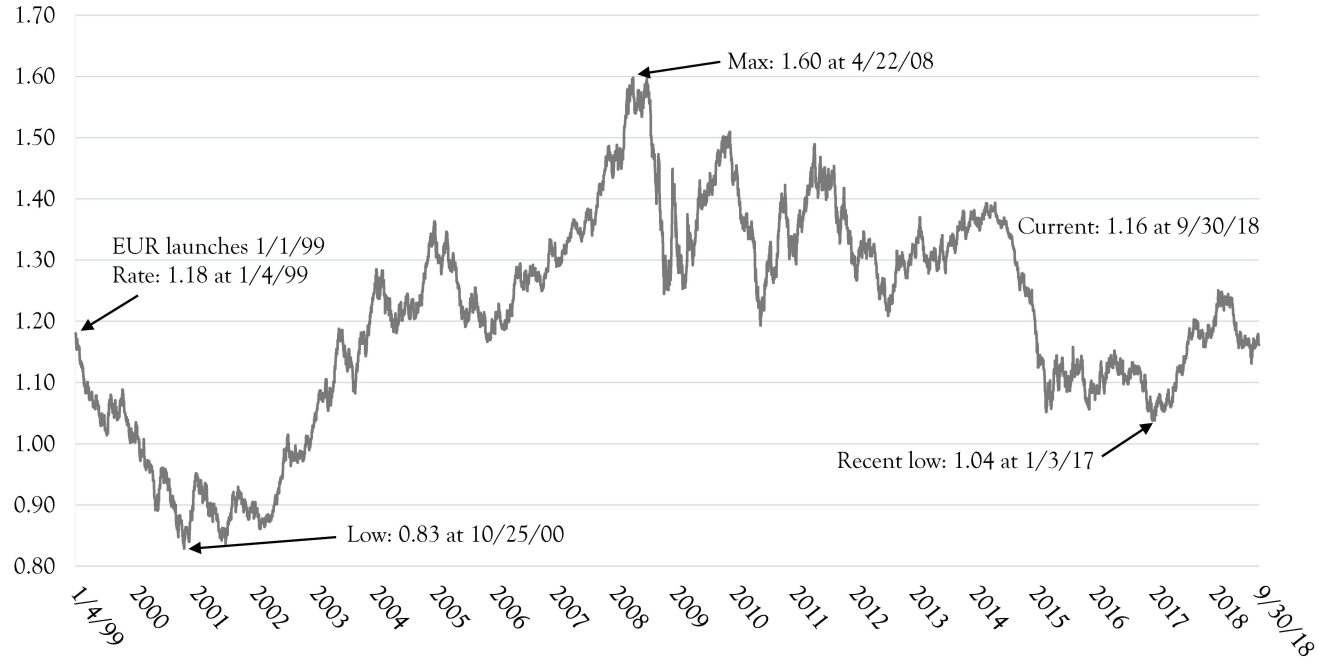
Selected Global Currencies versus the U.S. dollar (01/01/2018 - 09/30/2018)



Source: Bloomberg. Past performance is no guarantee of future results.

As we have explained in past letters, possible losses from changes in currency exchange rates are a risk of investing unhedged in foreign stocks. While a stock may perform well on the London Stock Exchange, if the British pound declines against the euro, your gain can disappear or even become a loss when translated back into euro. In addition, currency fluctuations can be more extreme than stock market fluctuations. The following chart illustrates the extraordinary interim exchange rate volatility faced by euro-based investors in U.S. dollar denominated securities since the euro's introduction in 1999.

U.S. dollar/Euro Historical Exchange Rate



Source: Bloomberg, as of 9/30/18. Past performance is no guarantee of future results.

As we have said before, we pick stocks, but do not pretend to understand the vagaries of foreign currencies. Many of our investors count their wealth in euro or Swiss francs and we try to avoid the dilution of our investment returns caused by losses in non-euro or non-Swiss franc currencies. To that end, the International Value Fund (Euro) and the Global High Dividend Value Fund (which is also denominated in euro) have chosen to hedge perceived foreign currency exposure back into euro, while the International Value Fund (CHF) hedges back into Swiss francs. The process of hedging allows those Sub-Funds to largely eliminate perceived currency risk and thus reduce potential currency losses when they invest internationally. Furthermore, based upon a number of empirical studies and our own observance of the performance of hedged versus unhedged indices (since the inception of our international Sub-Funds in 1996), we believe that over very long measurement periods there may indeed be a "free lunch" in currency hedging, i.e. a reduction of currency risk (including reductions in interim volatility and tracking error) at what would appear to be very little to no cost in terms of foregone return. Of course, over shorter time periods, there can be significant unpredictable fluctuations in foreign currencies, which can cause hedged and unhedged returns to vary markedly.

At the end of the day, we have no axe to grind when it comes to being hedged or unhedged. What we would caution against, however, are attempts to time the currency markets by moving money between hedged and unhedged vehicles. Our advice to investors is to simply take a hedged or unhedged posture and stick with it over the long term. Either path is likely to lead to a similar destination, but with potentially different levels of intraperiod volatility.

For shareholders who have an interest in learning more about how we hedge foreign currency exposure, please read our internal whitepaper entitled "How Hedging Can Substantially Reduce Foreign Stock Currency Risk," which can be obtained free of charge by email request to sicavinfo@tweedy.com.

Please note that the individual companies discussed herein were held in one or more of our Sub-Funds during the year ended September 30, 2018, but were not necessarily held in all four of our Sub-Funds.

The Evolution of Tweedy, Browne's Investment Approach

Tweedy, Browne will celebrate its 100th birthday in 2020. The firm's long and colorful history has been intertwined with the legends of value investing including Benjamin Graham, Warren Buffett, Charlie Munger, and Walter Schloss, among others. Over the years, Tweedy, Browne has witnessed the post-World War II bull market, the rise and fall of the "Nifty Fifty," the punishing stagflation of the late 1970s, the Michael Milken fed LBO (leveraged buyout) and takeover boom of the 1980s, the birth and eventual collapse of the technology bubble in March of 2000, and the debt and real estate fueled financial crisis of 2008-2009. In part because of our long tenure and experience, we are often asked to reflect on our past in an effort to uncover lessons for the future. More recently, we were asked by a prospective investor just how the firm's investment approach may have evolved or changed over the years. We thought you would be interested in our response, which began by highlighting what has *not* changed.

What Has Not Changed

Our adherence to a value approach to investing has remained the same since the firm began managing its first investment account in the late 1950s. We often say that we had our first and only investment policy meeting back in 1958, when Tom Knapp came over to Tweedy from Benjamin Graham's firm, Graham-Newman Corporation, and brought with him Graham's framework for evaluating common stocks. We, like Graham, think of stocks as representing fractional ownership interests in businesses. At the heart of our investment operation, we seek to determine the intrinsic value of businesses and then invest in those companies selling in the stock market at a substantial discount to that value. Our hope is that the value gap, or the differential between price and our estimate of the underlying value, closes, and we earn a satisfactory return during the interim. We believe that requiring a large discount, which Graham called an investor's "margin of safety," as a precondition to investing, protects us against permanent capital losses on a fund or portfolio basis. As Graham postulated, such a margin is "available for absorbing the effect of miscalculations or worse than average luck," and he placed "particular emphasis on the ability of the investment to withstand adverse developments."

The intrinsic value of a business can be thought of as the price a knowledgeable buyer and seller would agree to in an arm's length negotiated transaction involving the sale of the business. We tend to be conservative appraisers of businesses and have an aversion to investing in highly leveraged businesses, in part, because we do not want to compromise our staying power. We agree with the notion that "to finish first, you first must finish." Moreover, since small changes to valuation metrics can cause large changes in intrinsic value in highly leveraged businesses, we remain very humble about our ability to predict future events or get the timing right.

Another important and underappreciated aspect of our approach is our respect for the behavioral dimension of investing. The awareness and understanding that a stock investment is an interest in a business can provide an objective anchor, and help to comfort investors during inevitable periods of stress. With few exceptions, the temperament of investors is often at cross-purposes with good decision-making, and swamps the ability to think logically and unemotionally during difficult markets. Remembering that you own an interest in a business focuses the mind on more knowable and objective factors, and it helps to avoid being swept up in the emotional optimism or pessimism of the day.

Although there are many approaches to investing in the stock market, we believe our approach is theoretically sound; the Firm is both culturally and temperamentally suited to adhering to it; it works worldwide; and the approach has historically produced a very long, albeit lumpy, record of investment success.

What Has Changed

Business Valuation Multiples Have Increased The key drivers of business valuations over time - interest rates and growth in earnings per share – have not changed. However, the sharp decline in interest rates over the last 38 years has caused us to incrementally increase our valuation multiples, although reluctantly and with a lag. Readily observable increases in merger and acquisition deal multiples provide real life proof of the power that significant changes in interest rates can have on business values. That said, Graham's requirement of a significant "margin of safety" when evaluating businesses and determining purchase prices remains paramount in our investment process.

Emphasis on the Qualitative Aspects of a Business Advances in technology have dramatically increased the speed, quantity and type of information available to investors. However, more data does not always mean better judgment. There is a natural human tendency to focus on the most recent data or news, regardless of long-term impact. With the push of a button, a company's financial record is instantly available, and anyone with financial acumen can readily assess a company's business and financial position. This instant and ubiquitous flow of information, in our view, has contributed to a narrowing of valuation discrepancies in our markets, and the opportunities to buy statistically cheap "cigar butt" type stocks are fewer and fewer today.

We have adapted to the realities of the opportunity set available to us by placing greater emphasis on the qualitative aspects of businesses. This has often drawn us to businesses that have what we perceive to be durable and sustainable competitive advantages, which can act as a moat to help fend off Schumpeterian[2] attacks from competitors. Such advantages would include high switching costs, valuable intangible assets, lower costs of production, and network effects, among a host of others. These companies are often able to earn outsized returns on capital, which would have a tendency to mean revert without the protection of the moat. We often refer to these higher quality businesses as "compounders," because they can sustain these high returns on capital over long periods of time. Assuming a reasonable price to value relationship is maintained, we may own these types of companies for many years, and in some instances, decades.

The softer, qualitative side of security analysis involves, as Charlie Munger has said, "the hard to measure stuff" that is often more important in investment decision-making, and is often critical in giving us the confidence to take a longer-term point of view. In this part of our research, we read the source documents, speak directly to management, query competitors and industry experts in an effort to examine in detail the efficacy of their business models, all the while paying heed to the presence of characteristics that may indicate the existence of a durable competitive advantage. Our experienced team is able to separate the key factors impacting an investment from the deluge of information that comes at us as quickly (it seems) as water from a fire hose. Although we are by no means perfect, our institutional memory helps us avoid repeating mistakes made in the past. Examining insider buying activity often tips us to either accept or reject an investment idea. We think long term, and try to block out the day-to-day noise and temptation to trade that comes from a flood of brokerage house recommendations hitting our email in-boxes and the continuous news flow from financial service providers and market commentators.

The key take away is that we still operate with a strong valuation discipline, but we have increasingly incorporated the qualitative aspects of a business into our analysis. While "compounders" have played an increasing role in our Sub-Fund portfolios over time, we are still quite happy to buy statistically cheap "cigar butt" value stocks when available.

[2] References Joseph Schumpeter, the Austrian economist (1883-1950), and his theory of the "creative destruction" of capitalism that results from competitive innovation.

Owner Earnings Yield – Metric that Considers Corporate Tax Rates In an effort to better incorporate disparities in corporate tax rates around the world, we have added what we call an "owner earnings yield" to our valuation analysis. A metric (multiple) such as Enterprise Value to Earnings Before Interest and Taxes (EV to EBIT) is designed to adjust for different capital structures among corporations, but it falls short in capturing the impact of different corporate tax rates. The owner earnings yield helps solve this problem and is calculated by dividing Net Operating Profit After Tax by Enterprise Value (NOPAT to EV). As we have written in past reports, we believe the "Happy Zone" in terms of an acceptable purchase price for an investment is an owner earnings yield of 8% to 10%, which translates inversely into a debt free price/earnings ratio of between 12.5x and 10x.

Increasing Exposure to Technology Stocks Investing in technology businesses has generally been difficult for many, if not most, value investors, largely due to high potential rates of technological obsolescence and high entry point pricing, often predicated on rapid rates of future revenue and/or earnings growth. While this continues to be the case in most instances, there have been opportunities of late where our confidence in the prospective business dynamics of a technology company and its price have come together to provide what we believe to be an attractive investment opportunity. What is noteworthy about our more recent technology investments is that, in our view, the businesses generally are financially strong, have a favorable outlook supported by a strong competitive position, and have had rapidly growing earnings. By contrast, the few investments we had made in technology stocks decades ago often involved companies whose growth had begun to slow. While cheap by any statistical measure at the time, in retrospect we think of them as "melting icebergs." Our thinking has evolved with respect to investing in the technology sector. What hasn't changed when it comes to investing in technology is our insistence on a reasonable price. Our more recent investments in higher quality technology companies have all traded at entry point prices that were at discounts to reasonably conservative estimates of intrinsic value. It is this latter price discount component that is often missing in most prospective technology investments.

The technology component of the equity markets has expanded over the decades from semiconductors, computing hardware and communications equipment businesses to include more asset-light businesses such as software, internet, e-commerce, social media and payment companies. They all rely heavily on some form of technology to operate, but their business models are diverse, and dividing them into subsectors may be a better way to think about them. For example, are Google and Facebook really tech companies, or more in the nature of media and advertising companies? Is Apple really a tech company, or a luxury branded consumer products company? Is Amazon really a tech company, or a retailing and distribution business?

Today, we own a number of technology holdings across some or all of our four Sub-Funds, including companies such as Cisco, Google, Baidu and Sina. In our International Value Fund (Euro), as of September 30, 2018, we had a roughly market index weighting in technology stocks (including Information Technology and the Communication Services subgroup, Interactive Media & Services), a far cry from where we were just six years ago. All but Cisco have advertising-based business models with high returns on capital, dominant market shares and have disruptive business models. It is much easier for us to understand these business models than, say, a computer hardware maker where research and development (R&D) spending is large, there is a high risk of product obsolescence, and the rate of change is high. The trick, of course, is to buy these businesses at sensible prices, which is what we believe we have been able to do.

We have largely avoided the FAANG stocks, as we have been unable to get comfortable with their respective valuations. We did have a pricing opportunity in Google many years back when the stock traded at around 10 times one-year forward earnings before interest, taxes and amortization (EBITA), and had a forward cash adjusted price/earnings ratio of 12x. In addition, we felt that it could continue to grow revenue at 20% or more annually. Today, it trades at over $1,000 per share or at roughly 16 times estimated 2019 EBITA; however, Google is a compounder and we believe that it can continue to grow its revenues at a well above average rate for many years to come. More recent

investments, Baidu and Sina, qualified for purchase using a similar valuation framework to that used in our Google analysis.

New Investments in China We have been investing in China indirectly for many years through our holdings in multinational businesses and have become reasonably knowledgeable about the economic landscape in that country. Until recently, we have limited our investments in China to Hong Kong-based businesses. Lately, however, perhaps in part because familiarity may be breeding grudging respect, we have made investments in two mainland Chinese companies (Baidu and Sina) through U.S. listed securities. China is unique in that, while it is still very much led by a communist government, it has implemented a highly effective form of controlled capitalism, which has produced the economic growth engine for much of the world over the last 20 years. It is no longer a market that we can simply ignore. That said, we have a healthy skepticism around Chinese corporate governance issues and accept that its stock market is relatively immature, and thus at times prone to wild fluctuations in prices. The government still owns or controls many of the listed and traded companies both on the Shanghai and Hong Kong exchanges, and investors remain somewhat silent partners with limited recourse should the government decide to intercede in these businesses. Our approach in managing this risk is to be highly selective with respect to the companies in which we invest, and disciplined, price sensitive buyers of the stocks we pick. Our first Chinese investment, Baidu, met all of our qualifying criteria. It is by all appearances one of the crown jewels of Chinese internet commerce, along with two other dominant Chinese technology companies, Alibaba and Tencent. To date, China has been highly protective of these enterprises and, in our view, wants them to succeed.

In response to a question posed at the Berkshire Hathaway annual meeting back in May, Charlie Munger remarked, "American investors are missing China, and they're missing it because it is a long way away, it looks different, they're not used to it, it's complicated, the headlines confuse them. In other words, it just looks too hard, sitting in Omaha to outsmart the Chinese market. But I think you are absolutely right, it's where they should be looking." We would agree.

Market Anxiety Equals Opportunity: New Ideas

As the bull market gained momentum over the last ten years, it often presented a difficult environment for price conscious investors. Bargains were simply hard to come by. More recently, however, the screw appears to be turning, particularly in equity markets outside the United States. Slowing economic growth, the beginnings of monetary restraint, political upheavals, and increasing fear of trade disputes has fueled greater volatility in equity markets and currencies that has in turn spawned a richer opportunity set than we have seen in some time.

Over the last year and a half, we have added a number of new investments to our Sub-Fund portfolios. In all but one instance, these new investments have consisted of non-U.S. businesses, with several coming from the emerging markets, where fear of slowing growth and roiling currencies has sparked pricing opportunities. This includes companies that are either based, or have business interests in, South Korea, Hong Kong, Africa and China. Several of our new investments have been in smaller and medium capitalization companies, and in a number of instances, undervaluation has surfaced because of fear of disruption from Amazon or other technology companies such as Google and Facebook. In other cases, insider buying by officers and directors and/or by the company itself has tipped our decision.

Among others, these new buys have included Baidu, often referred to as the Chinese Google; AutoZone, the U.S.-based auto parts retailer; LG Corporation, the South Korean industrial conglomerate; Inchcape, the UK-based automobile distributor; Vertu, a local UK-based auto dealership; Tarkett, the French-based commercial flooring company; Hang Lung, a Hong Kong-based real estate developer; CNH, an Italian-based agricultural equipment manufacturer and trucking business; Sina, a Chinese holding company with a controlling interest in Weibo (popular social media company); and

Bollore, the French-based holding company with investments in African logistics businesses and a European media company. Let's take a look at two of these new positions in greater detail.

Tarkett, which is owned and controlled by the Deconinck family of France, is the world's third largest flooring company after Shaw and Mohawk. With an approximate market capitalization of €1.24 billion, it is a small to medium capitalization company. Flooring essentially consists of designing, manufacturing and then distributing things like carpet and vinyl for commercial (70% of sales) and residential use (30% of sales). While the business is economically cyclical, approximately 80% of Tarkett's end demand is driven by renovation and just 20% by new construction. Despite being somewhat cyclical and sensitive to raw material inflation, we believe flooring is a very good business. Tarkett has consistently earned a 20% return on tangible invested capital, and Mohawk, a U.S.-based player, generates a high-teens figure. Both companies appear to have "pricing power" and have earned relatively stable-to-increasing margins over time.

Flooring is very much a local business, yet it benefits greatly from economies of scale. Each region has different product preferences, and flooring products are expensive to distribute relative to their underlying cost. They are also sold to a fragmented customer base of contractors and architects. These dynamics necessitate local production, distribution and sales. However, the business also requires manufacturing and distributing a wide variety of inventory quickly, which benefits larger players with purchasing power and scale.

As a result of its high returns on capital, Tarkett is very cash generative. Given the benefits of scale and the fragmented nature of the industry, management has allocated much of the company's free cash flow to acquisitions and it appears that it will continue to do so. In fact, Tarkett has acquired 22 companies since 2007. We believe the company should be able to grow its revenues organically at a 2.5% to 3% rate, continue to make acquisitions, and generate some modest margin increases over time. As we write, the dividend yield is approximately 3%, and the company's leverage is reasonably low at ~1.6x net debt/earnings before interest, taxes, depreciation and amortization (EBITDA).

We got a pricing opportunity in Tarkett's shares in May largely due to increasing raw material prices, i.e., oil prices, which reduced Tarkett's operating income. As noted above, the company appears to enjoy pricing power, which should allow it to offset these increases in raw material costs over time. However, given its cyclicality, we used a normalized EBITA figure for valuation purposes. Management believes that the company can achieve a 12% EBITDA margin on a sustainable basis. It also estimates "ongoing" or maintenance capital expenditures (capex) to be 3.5% of sales (consistent with historical figures), which would imply an 8.5% EBITA margin. Assuming such a margin, our first share purchases were made at roughly 8.8x EV to normalized EBITA, which works out to an 8% owner earnings yield, assuming the company's current 30% tax rate.

Sina Corporation is a Chinese internet company whose main asset is its 45.7% stake in Weibo. Weibo is a leading social media platform in China, with 431 million monthly active users (MAU) and 190 million daily active users (DAU). Weibo was launched by Sina in 2009 (three years after Twitter in the U.S.), and since inception it has cultivated an ecosystem of online celebrities on its platform (known in China as Key Opinion Leaders, 'KOLs'), who generate significant content on Weibo. These KOLs produce content that attracts large numbers of 'followers', helping Weibo to grow its user base. The KOLs rely on Weibo to grow and engage with their fan base, and they are able to monetize user traffic through social commerce, for example, through brand sponsorship or promoting their own private label products on Weibo. The commercial opportunities incentivize more content creation, which in turn attracts more Weibo users and also other KOLs, thus reinforcing the network effects of Weibo's platform.

Weibo monetizes its user traffic primarily through advertising, which accounted for 87% of 2017 revenues. Weibo only started generating revenues in 2012, and revenues have grown significantly since then. Weibo grew total revenues 75.4% in 2017, driven by an 85% increase in advertising revenues from Key Accounts (large brand advertisers), and a 73% increase from SMEs (small and medium enterprises).

In 2018, Weibo is expected to grow total reported revenues (in USD) at a rate of 50% or more year over year, which includes the impact of depreciation of Chinese currency (the renminbi) this year. Overall online advertising in China grew 29% in 2017, and, in our view, has the potential to grow at a 25% compound average growth rate (CAGR) from 2017 through 2019. More specifically, social advertising in China is forecasted to grow at a higher rate (47% CAGR) over the same period. Social advertising only comprised 11% of total online advertising spend in China in 2017, much lower than the 25% in the U.S., which suggests significant room for growth.

The rest of Sina's businesses include a portal advertising business and investments in fintech services (online payments and online loan facilitation). These businesses (the "Sina stub") generated an operating loss in 2017, and are also expected to generate a loss in 2018, due to tightening of government regulation in fintech. However, assigning zero value for the Sina stub, and assuming book value for Sina's parent-level cash and investments portfolio, we acquired exposure to Weibo through Sina at a 'look through' multiple of under 10x (based on Weibo's one-year forward EBIT), which we viewed as an attractive valuation for a company with significant growth prospects.

Our purchase of Sina shares are not without considerable corporate governance and fundamental risks, which include governance concerns related to the CEO, risk of tightening government regulation in the Chinese internet sector, and risk of increasing competition from other social or newsfeed companies. However, we feel these risks are more than offset by a compelling pricing opportunity and what we perceive to be a long runway of attractive future growth. On a positive note, the latest second quarter earnings for Weibo showed solid user growth (MAU and DAU up 19% each year over year), so Weibo looks to be growing users nicely despite increasing competition.

All of that said, the Chinese equity market has been highly volatile of late and the market as a whole is off more than 26% (as of October 31, 2018) from its highs, due in part to perceptions of slowing economic growth, increasing fears of a full-out trade war, and a depreciating renminbi. While we believe this enhanced volatility is giving us an attractive pricing opportunity in a financially strong company that has grown at a very attractive rate, our investment in Sina will likely require patience and fortitude.

A Change in our Fee Schedule

We implemented a voluntary fee waiver with respect to the Fund's investment management fee that we hope will result in a reduction in the fees paid by our shareholders as Sub-Fund assets grow over time. The waiver will continue in effect through at least December 31, 2019, but may be continued from year to year thereafter. As a result of the waiver, effective November 30, 2018, the Fund will continue to pay a management fee of 1.25% on average aggregate Investor Share net asset value of up to $400 million (USD), but will pay 0.75% (which constitutes a 40% reduction in its fee rate) on average aggregate Investor Share net asset value over $400 million (USD). The blended rate thus calculated will then be applied to the average aggregate net asset value of the Investor Shares of each Sub-Fund. We hope this change in our fee schedule will help make the Sub-Funds more competitive in today's market environment.

This voluntary fee waiver is an acknowledgement of the changing competitive landscape in the asset management business in recent years, and reflects Tweedy, Browne's sincere gratitude for the continued confidence of Sub-Fund shareholders. As Investor Share assets of the Sub-Funds grow over time, the waiver should provide a significant benefit for existing and prospective shareholders.

Great Reads

We are often asked about what we are reading and would be willing to recommend to others. Here are just a few of the books that have crossed our desks of late. Enjoy!

A Man For All Markets Edward O. Thorp's engaging autobiography of one of our industry's first hedge fund managers and quantitative investment pioneers.

The End of Theory Richard Bookstaber's engrossing examination of the dynamics of a financial crisis and the human component that is at its core.

The Four Scott Galloway's entertaining and insightful look at Amazon, Facebook, Apple, and Google and the promise and threat they present.

Misbehaving: The Making of Behavioral Economics Richard H. Thaler, the Nobel Memorial Prize winning economist, tracks the evolution of behavioral economics, its impact on the field of finance, and most importantly investment decision-making.

Mastering the Market Cycle As a follow up to his illuminating classic, **The Most Important Thing**, Howard Marks examines market cycles and how investors can structure their portfolios to take advantage of them. It is a must read for value investors.

Factfulness Hans Rosling's refreshing and optimistic new book about using factfulness to overcome misconception, hyperbole, and ignorance.

On A Humble Note

> *The humble attitude is a flexible attitude. Just as the tree and the building must sway with the wind, our agility in dealing with whatever life throws our way can become our strength. Inherent in humility resides an open and receptive mind. We don't know all the answers to life, and sometimes not even the right questions have been revealed to us. Humility can be a strength that serves well; it leaves us more open to learn from others and refrains from seeing issues and people only in blacks and whites ... The opposite of humility is arrogance — the belief that we are wiser or better than others. Arrogance promotes separation rather than community. It looms like a brick wall between us and those from whom we could learn.*
>
> - Sir John Templeton, **Worldwide Laws of Life (1997)**

Ben Graham and David Dodd's magnum opus, *Security Analysis*, offers investors an elegant framework for investing and building wealth. Of all the investment disciplines, value investing is the one most grounded in humility. It focuses on the knowable and seeks to protect against that which could cause loss. It rewards curiosity, constrains overconfidence, is fact dependent, and requires a significant margin of safety for investment. As we reflect on this aging bull market's continuing advance, and the remarkable performance to date of the FAANGs, we remind ourselves of the admonition to the Roman conqueror at the beginning of this report ... that "all glory is fleeting."

Thank you for investing with us, and for your continued confidence. We work hard to earn and keep your trust, and we believe it is critical to our mutual success.

Sincerely,

William H. Browne, Roger R. de Bree, Frank H. Hawrylak, Jay Hill,
Thomas H. Shrager, John D. Spears, Robert Q. Wyckoff, Jr.
Investment Committee
Tweedy, Browne Company LLC
October 2018

Footnotes:

1) *Indexes are unmanaged, and the figures for the indexes shown include reinvestment of dividends and capital gains distributions and do not reflect any fees or expenses. Investors cannot invest directly in an index.*
2) *The **MSCI World Index** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. The MSCI World Index (in US$) reflects the return of this index for a US dollar investor. The MSCI World Index (in EUR) reflects the return of this index for a euro investor. The MSCI World Index (Hedged to EUR) consists of the results of the MSCI World Index with its non-EUR exposure 100% hedged back into EUR, and accounts for interest rate differentials in forward currency exchange rates. Results for each index are inclusive of dividends and net of foreign withholding taxes.*
3) *The **S&P 500 Index** is a market capitalization weighted index composed of 500 widely held common stocks that assumes the reinvestment of dividends. The index is generally considered representative of US large capitalization stocks.*
4) *The **MSCI EAFE Index** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets, excluding the US and Canada. The MSCI EAFE Index (in USD/EUR) reflects the return of the MSCI EAFE Index (in US$) (from inception of the Value Sub-Fund (USD) through 16 May 2004) and the return of the MSCI EAFE Index (in EUR) from 17 May 2004 through the current date. The MSCI EAFE Index (Hedged to USD/EUR) consists of the results of the MSCI EAFE Index 100% hedged back into USD (from inception to 16 May 2004) and with its non-EUR exposure 100% hedged into EUR (from 17 May 2004 forward). The index accounts for interest rate differentials in forward currency exchange rates. The MSCI EAFE Index (in CHF) reflects the return of the MSCI EAFE Index for a Swiss franc investor. The MSCI EAFE Index (Hedged to CHF) consists of the results of the MSCI EAFE Index, with its non-CHF exposure 100% hedged back into CHF, and accounts for interest rate differentials in forward currency exchange rates. Results for each index are inclusive of dividends and net of foreign withholding taxes.*

Mention of a specific security should not be considered a recommendation to buy or sell that security. Holdings are subject to change at any time.

The views expressed represent the opinions of Tweedy, Browne Company LLC as of the date of this letter, are not intended as a forecast or guarantee of future results, and are subject to change without notice.

Current and future portfolio holdings are subject to risk. Stocks and bonds are subject to different risks. In general, stocks are subject to greater price fluctuations and volatility than bonds and can decline significantly in value in response to adverse issuer, political, regulatory, market or economic developments. Unlike stocks, if held to maturity, bonds generally offer to pay both a fixed rate of return and a fixed principal value. Bonds are subject to interest rate risk (as interest rates rise bond prices generally fall), the risk of issuer default, issuer credit risk, and inflation risk, although U.S. Treasuries are backed by the full faith and credit of the U.S. Government. Investing in foreign securities involves additional risks which include currency fluctuations; political uncertainty; different accounting and financial standards; different regulatory environments; and different market and economic factors in various countries. In addition, the securities of small, less well known companies may be more volatile than those of larger companies. Value investing involves the risk that the market will not recognize a security's intrinsic value for a long time, or that a security thought to be undervalued may actually be appropriately priced when purchased. Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time. Diversification does not guarantee a profit and does not protect against a loss in a declining market. Please refer to the Fund's prospectus for a description of risk factors associated with investments in securities which may be held by the Sub-Funds.

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

Price/earnings (or P/E) ratio is a comparison of the company's closing stock price and its trailing 12-month earnings per share. ***Enterprise Value (or EV)*** is a measure of a company's total value (market value of common stock + market value of preferred equity + market value of debt + minority interest - cash and investments). ***Earnings before interest and tax (or EBIT)*** is an indicator of a company's profitability, calculated as revenue minus expenses, excluding tax and interest. ***Earnings before interest, taxes and amortization (or EBITA)*** is used to gauge a company's operating profitability (earnings before tax + interest expense + amortization expense).

This letter contains opinions and statements on investment techniques, economics, and market conditions and other matters. 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.

This material must be preceded or accompanied by a prospectus for Tweedy, Browne Value Funds.