Investment Manager's Report

"Everything is in a state of flux, including the status quo."

– *Robert Byrne*

In our shareholder letter of one year ago, we used the same quote. We are using it again not because we're lazy or incapable of coming up with something new to say, but rather because it underlines some of our thoughts about equity markets, the challenges which seem to be part of the DNA of markets, and for what it is worth, our perspective on how to think about the business of investing. A year ago, much of the conventional market wisdom was that Japan was "working out," and Europe was probably a better bet than the U.S., and for sure a better bet than the emerging markets. There was an undercurrent of concern about the level of economic growth around the world, but it did not stand in the way of a further rise in equity prices. The double-barreled worry of secular stagnation and deflation was certainly not on the front pages of the business sections. In fact, you would have to go back to 2011 for a meaningful interruption in the rise of equity prices over the past five years. For those who simply enjoy the ride on a rising equity market, the past couple of years have been a pleasant experience. For those who think about individual business valuations as an important underpinning of equities, rising stock prices bring with them valuation considerations which we have talked about in previous letters.

Then, in the latter part of September, something happened that has certainly rattled the relative calm in equity markets. We say "something" for several reasons. First, speaking for ourselves, while we have a view, it is obviously subjective. Therefore, we don't really know. Moreover, copious amounts of ink have been used to explain the renewed volatility in markets without any real consensus emerging. The debate over the relative importance of changed facts versus changed sentiment defies an answer but hasn't squelched the debate. Perhaps they're joined at the hip. We have found interesting the perspective of some strategists who have attributed the recent volatility to various human qualities of the market, suggesting the market is "purging its excesses" or going through a "healthy and cathartic pause." Others have simply said they are waiting for the market to "capitulate" but haven't seen it yet. For our part, we don't find the discussion of much use in answering the question: "What do we do now?"

Leaving aside the litany of new factors, such as the recent outbreak of Ebola (remember SARS and Bird Flu), renewed but certainly not new chaos in the Middle East, and the conflict in Ukraine, some of the broader economics questions have been with us for some time. What is new is the renewed attention being paid to them. Moreover, it seems there has always been some unsettling new problem waiting around the corner and our suspicion is that will continue to be the case for at least as long as we're in the business, and we hope to be in it for quite some time still.

When you are in the middle of the investment ring waiting for the first punch to be thrown, the tension can be enormous and it can be hard to hear yourself think over the roar of the crowd. As Mike Tyson said when talking about how he approached a fight, "Everyone has a plan 'til you get punched in the mouth." Making matters worse, there is an accumulating body of knowledge in the fields of behavioral economics and behavioral finance indicating that we are not well wired to be rational and objective when it comes to decisions in economics and investing. In our estimation, these factors elevate the chances of getting caught up in what we term the "buy high, sell low syndrome." Fear is a powerful motivator, and managing it is a stress-inducing challenge, even for the "pros." Contributing to this daunting challenge is the enormous emphasis on short-term results. Without commenting on any other dimension of the hedge fund world, we find the enormous emphasis in the media on the hedge fund world's October results odd, if not bizarre. What does any one month's return mean? What is the predictive value of one month's results? At Tweedy, Browne, most of our energy is concentrated around

a three- to five-year time horizon, asking ourselves where a company is likely to be over that time frame. We know all of our clients don't think that way, and some operate with shorter time horizons, but we believe we have a better opportunity of earning higher rates of return by "arbitraging" a longer time horizon even though it may mean forgoing some short-term returns. We believe it is a more sensible way to manage your money and our money, and improves our odds in doing so. As we write this letter in late October, if you were a fruit fly which has an expected adult life of two weeks, you just went through a financial "hell" for your entire adult life in the past several weeks. Fortunately, we are all blessed with the ability to take a longer perspective. What is needed is a plan or, better said, some tools to help us keep that perspective.

We don't know the particular facts and considerations for each and every one of our shareholders, so there is no "one size fits all" recommendation we could offer. However, we do believe there are some tools that can be helpful in making broad investment decisions and trying to look beyond the headlines to the trendlines.

1. Extend the time horizon of your thinking – investing is a marathon, not a sprint.
2. Don't put money in the financial markets that you are going to need to meet a financial obligation in the next 12-18 months. Returns over a short period of time, in our judgment, carry with them a high degree of randomness.
3. Be clear on your goals and reasons for investing.
4. If you have retained someone to make investment decisions for you, make the effort to understand their investment process. "It shouldn't be that hard."
5. Remember that behind every stock price there is a business. At Tweedy, Browne, we own fractional interests in businesses and our focus is on the valuation of the business and how the business is doing. If the business does well and we are able to buy it right, the investment on average will do well.
6. Don't rely on an investment process dependent on "intuition." The process should have a timeless and universal logic to it.

We are taking the liberty of quoting from the recent Berkshire Hathaway annual report, with full credit to Warren Buffett and Charlie Munger, because it encapsulates and illustrates the bulk of the investment common sense needed for good financial health, and probably says far more clearly and concisely what we have just spent several pages trying to say:

During the extraordinary financial panic that occurred late in 2008, I never gave a thought to selling my farm or New York real estate, even though a severe recession was clearly brewing. And, if I had owned 100% of a solid business with good long-term prospects, it would have been foolish for me to even consider dumping it. So why would I have sold my stocks that were small participations in wonderful businesses? True, any one of them might eventually disappoint, but as a group they were certain to do well. Could anyone really believe the earth was going to swallow up the incredible productive assets and unlimited human ingenuity existing in America?

When Charlie Munger and I buy stocks – which we think of as small portions of businesses – our analysis is very similar to that which we use in buying entire businesses. We first have to decide whether we can sensibly estimate an earnings range for five years out, or more. If the answer is yes, we will buy the stock (or business) if it sells at a reasonable price in relation to the bottom boundary of our estimate. If, however, we lack the ability to estimate future earnings

– which is usually the case – we simply move on to other prospects. In the 54 years we have worked together, we have never foregone an attractive purchase because of the macro or political environment, or the views of other people. In fact, these subjects never come up when we make decisions.

Performance Results

Presented below are the investment results of Tweedy, Browne Value Funds SICAV (the "Fund") for the year ended September 30, 2014 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, 2014	***Tweedy, Browne Value Fund (USD)***	***MSCI World (in USD)***	***S&P 500 Index***
6 Months	0.07%	2.59%	6.42%
1 Year	7.58	12.20	19.73
3 Years	15.44	17.93	22.99
5 Years	10.30	10.86	15.70
10 Years	5.68	7.12	8.11
Since Inception *(10/31/96)*	6.41	6.19	7.88

** 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, 2014	***Tweedy, Browne International Value Fund (Euro)†***	***MSCI EAFE (Hedged to US$/Euro)***	***MSCI EAFE (in US$/Euro)***
6 Months	6.56%	4.26%	6.89%
1 Year	11.32	10.32	11.72
3 Years	15.50	16.54	15.95
5 Years	11.70	7.48	9.72
10 Years	8.12	5.51	6.14
Since Inception *(10/31/96)*	9.20	4.82	4.71

** 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 linked 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, 2014*

	Tweedy, Browne International Value Fund (CHF)	*MSCI EAFE (Hedged to CHF)*	*MSCI EAFE (in CHF)*
6 Months	3.93%	4.12%	5.97%
1 Year	8.08	10.02	10.16
3 Years	13.74	16.22	15.58
5 Years	9.91	7.12	4.82
10 Years	6.25	4.80	3.75
Since Inception *(10/31/96)*	7.56	3.54	3.33

** 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, 2014*

	Tweedy, Browne Global High Dividend Value	*MSCI World (Hedged to Euro)*	*MSCI World (in Euro)*
6 Months	6.09%	5.20%	11.93%
1 Year	10.48	14.97	20.23
3 Years	12.77	18.83	20.32
5 Years	9.78	10.74	14.15
Since Inception *(6/1/07)*	3.15	1.98	3.74

** 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****.*

As you can see from the performance summary, our Tweedy, Browne Sub-Funds produced returns for the one year period ending September 30 of between 7.58% to 11.32%. Longer term returns for our Sub-Funds remain favorable, and since their inceptions, all four of our Sub-Funds have bested their respective benchmarks net of fees and expenses.

We would caution our investors as we have on many occasions to try to avoid becoming consumed by near term index comparisons. This would appear to be somewhat self serving since over the last year or so, we have begun to underperform our benchmarks (in 3 of the 4 Sub-Funds) weighed down in part by increasing levels of cash reserves. While we believe index comparisons to be useful over the long term, the historical results of our benchmark indices in large measure represent the investment results of securities we do not own. It goes without saying that any portfolio that does not own exactly the same stocks in exactly the same proportions as that of the index to which it is being compared is not likely to have the same results as the index, i.e., different stocks equal different results. Furthermore, we believe that near term comparisons with indices are not necessarily predictive of what the future will hold.

In the notes following the performance charts contained herein for each of our Sub-Funds, we have always gone to great pains to point out the inherent inconsistency of equity returns, particularly in comparison to benchmark indices over shorter term measurement periods. We beg your indulgence while we once again address this. In a 1986 study entitled *Are Short-Term Performance and Value Investing Mutually Exclusive?*, Eugene Shahan, a Columbia University Business School alumnus and

then portfolio manager at U.S. Trust, analyzed the performance of seven money managers, about whom Warren Buffett had written in his well known article, *The Superinvestors of Graham-and-Doddsville*. Over long measurement periods ranging between 13 and 28 years, all of these value managers significantly outperformed the market as measured by the Dow Jones Industrial Average and the S&P 500; however, all, with the exception of Warren Buffett, went through periods of underperformance relative to these benchmarks, sometimes consecutive years of underperformance, ranging from one to six years. In today's environment, many of these managers would face losing clients for such results, but in each instance their firing would have been the wrong decision. In each of the records, unfavorable relative results over a given period did not predict the future favorable results that occurred, and favorable near term relative results were not always followed by future favorable comparative results. As Shahan concluded:

> *Unfortunately, there is no way to distinguish between a poor three-year stretch for a manager who will do well over 15 years, from a poor three-year stretch for a manager who will continue to do poorly. Nor is there any reason to believe that a manager who does well from the outset cannot continue to do well, and consistently.*

In all investment records there is an element of both luck and skill. Since a multitude of variables move stock prices around particularly in the short run, it is virtually impossible to divine skill from luck without a large sample size, i.e., a very long record. As Michael Mauboussin, the noted investment strategist and behavioralist, pointed out in his book entitled *The Success Equation*:

> *In a game of poker, a lucky amateur may beat a pro in a few hands but the pros edge would become clear as they played more hands…only a small percentage of investors possess enough skill to offset fees. As a result, investing, especially over relatively short periods of time, is more a matter of luck than of skill.*

Finally, if one measure of skill is, as we believe, whether the manager delivered returns that were greater than the risks assumed to produce those returns, then it would be paramount to examine the risks of the manager's portfolio as compared to the risks inherent in the index. If you believe as we do that risk cannot be adequately explained by a single number such as standard deviation of return, but is rather the potential for the respective portfolios to face future capital impairment, it becomes important to compare the fundamental character of the manager's portfolio to that of the benchmark. We do not spend much, if any, time studying the variability of our Sub-Fund returns as measured by statistical calculations such as standard deviation. But we can wax very intelligently about the fundamental risks our shareholders face in our Sub-Funds. In this regard, we believe our portfolios are hands down intrinsically less risky than the benchmark portfolios to which they are constantly being compared. Examined in that light, it would not only be possible but probably quite common for a good manager to deliver nominal returns which were less than those produced by the index but much better when evaluated against the risks assumed by the respective portfolios. In our industry, we all too often simply compare return streams to measures of respective return variance. We do it because it is easy, not necessarily because it is an adequate measure of skill. As we have mentioned before, Charlie Munger once said:

> *…that is you've got a complex system and it spews out a lot of wonderful numbers that enable you to measure some factors. But there are other factors that are terribly important. There's no precise numbering where you can put these factors. You know they're important, you don't have the numbers. Well practically everybody just overweights the stuff that can be numbered, because it yields to the statistical techniques they're taught in places like this, and doesn't mix*

in the hard-to-measure stuff that may be more important. That is a mistake I've tried all my life to avoid, and I have no regrets for having done that.

We would encourage all of you to do as Charlie has done over the years, to fight the tendency to find meaning and/or skill in "magic numbers," particularly in the short run.

Our Sub-Fund Portfolios

Please note that individual companies discussed herein represent holdings in our Sub-Funds, but are not necessarily held in all four of our Sub-Funds.

As we mentioned in the beginning of our letter, volatility returned to global equity markets towards the end of September. What had been modest concerns about the will of the European monetary authorities to do what was necessary to stimulate their economies turned into real unease as evidence increased that economies outside of the United States were indeed slowing. Just after quarter end, this unease became reflected in equity markets both abroad and in the United States, as rapidly declining oil prices and a rising U.S. dollar drove both U.S. and international market indices off their previous highs. Largely due to declines in energy related shares and an underweighting in U.S.-based companies, some of the gain that our Sub-Funds had achieved over the last year was given back in the weeks just after the end of the third quarter. That said, all four of our Sub-Funds finished the one year period ended September 30, 2014 with solid absolute returns ranging from 7.58% to 11.32%.

The price of oil as measured by Brent Crude declined approximately 19% from mid-June through September 30, 2014 ($115 to $93). While the bulk of our portfolio continued to make financial progress, and we had some very nice returns in several of our pharmaceutical, financial and defense holdings, we faced significant headwinds in our energy related holdings at the end of the third quarter. With declining oil prices driving oil shares lower, it is easy to lose sight of the longer term fundamental case for oil and gas. While we have no clue as to what will happen to oil prices in the short run, we believe over the longer term, the supply/demand equation for oil and gas should remain relatively tight, due to declining production curves, increasing demand, and higher finding and development costs. At the margin, experts suggest that the marginal cost today of finding and developing a barrel of oil is approximately $80 to as much as $100 per barrel. To a great extent, lower cost oil discovered and developed years ago is today being replaced by higher cost oil, i.e., oil from unconventional sources such as deep-water offshore and shale deposits. While Saudi Arabia remains a significant unknown factor in the near term pricing of oil because of its ability to substantially increase or decrease production, longer term factors, in our judgment, remain very favorable. Furthermore, we believe the oil and gas companies in our Sub-Fund portfolios have significant financial resources and attractive production growth profiles. Many of these companies also generate cash flow that is currently being used to pay increasing dividends as we wait for longer term value recognition in our shares.

Portfolio activity over the last year was somewhat modest. We added to our positions in Bangkok Bank, DBS Group, TNT Express, Safran, SCOR, and Vallourec, among others, and sold or reduced our positions in Union Pacific, Canon, Daily Mail & General Trust, Henkel KGaA, among others, as well as in several Japanese holdings. We also established positions in Standard Chartered, Cenovus Energy, and Antofagasta, among others, and began building positions in a few new companies including a Canadian listed South American oil and gas company, a South American beverage bottler, and a leading U.S.-based wireless communications company.

A few words about our Global High Dividend Value Sub-Fund are in order, as it has trailed our other Sub-Funds over the last three years with respect to benchmark comparisons. It is important to note that our Sub-Fund does not own highly leveraged real estate companies and regulated utilities, but rather is focused on under-leveraged companies around the globe that are undervalued and pay a dividend

yield north of the market averages. As you can imagine, in this artificial environment where monetary authorities have kept interest rates at rock bottom levels starving investors of any yield on most fixed income investments, money has flowed aggressively into dividend paying companies where investors can find yields of 4% or more.* This has in turn caused an increase in valuations for dividend paying companies and made it inordinately difficult for value-driven investors such as ourselves to put money to work at disciplined prices. The result has been an above average level of cash reserves in our Sub-Fund which has been a drag on results since the difficult market of 2011 when our dividend fund was our best performing Sub-Fund. The volatility in early October harkens back to those days, and if it continues, this Sub-Fund should continue to provide welcome ballast in the storm.

One final note about our Sub-Fund portfolios. Increases in Sub-Fund flows and climbing equity valuations over the last several years have led to above average cash reserve levels in our Sub-Funds. As a reminder, so as not to potentially dilute our existing shareholders' returns in this difficult environment, we continue to temporarily restrict the inflow of subscriptions into the four Sub-Funds. Bi-monthly subscriptions have been limited to a net subscription amount of 5 million U.S. dollars in the Tweedy, Browne Value Fund Fund (USD) and net subscription amounts of 5 million Euros in the case of the Tweedy, Browne International Value Fund (Euro) and the Tweedy, Browne Global High Dividend Fund. The Tweedy, Browne International Value Fund (CHF), because of its larger asset base, has a 10 million Swiss Franc net subscription limit. We have always maintained that first and foremost our principal responsibility is to do what we deem to be in the best interest of our current investors.

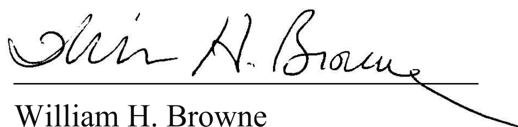
Looking Forward

The VIX (a popular index and proxy for U.S. equity market volatility) rose like a phoenix in late September and October, catching investors off guard, and once again injecting some much needed skepticism into financial markets. In a fascinating study linking risk taking to physical responses to stress, John Coates, a research fellow at the University of Cambridge, studied the impact of market volatility on 17 London based traders, and found that their cortisol (stress hormone) levels rose 68% over an eight day period as volatility increased. Subsequent studies apparently found this cortisol response to volatility to be quite common in the financial community. In a follow-up study, Coates' colleagues from the department of medicine pharmacologically raised the cortisol levels of another group of volunteers by 69% over eight days and found that their risk appetite, as gauged by means of a computerized gambling task, declined by 44%. Coates drew the inference that when market volatility "rises for a long period, the prolonged uncertainty leads us to subconsciously conclude that we no longer understand what is happening and then cortisol scales back our risk taking."

* *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.*

In contrast to the biological responses of Coates' traders are the dispassionate responses of value investors. As we mentioned in a previous shareholder letter, Jason Zweig, the noted Wall Street Journal columnist and author of *Your Money and Your Brain* (2007), credited much of the investment success of value investors such as Warren Buffett and Benjamin Graham to being "inversely emotional," i.e., sharing a quality that goes beyond calm, "a certain imperturbability or implacability." Zweig used a classical Greek term, "ataraxia," to describe the state of not being bothered by the things that bother most people. Perhaps we share the affliction. While we were somewhat chagrined to see our oil stocks take it on the chin in late September and early October, we welcomed the increase in market volatility. As Warren Buffett has said on numerous occasions, a long-term consumer of equity securities should welcome pullbacks in equity markets, which afford them the opportunity to buy interests in businesses at attractive prices. We absolutely concur. While the recent volatility has been unsettling to many, it does carry with it potential opportunities to put some of our cash reserves to work. Thank you for investing with us, and for your continued confidence.

Sincerely,



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