Investment Manager's Letter to Shareholders (Unaudited)

> *Out of clutter, find simplicity. From discord, find harmony. In the middle of difficulty lies opportunity.*
>
> \- Albert Einstein

There is little doubt that valuation as a metric for guiding investment decision making has taken a back seat to other factors over the past several years. Explanations for this are plentiful, many of which we have mentioned in past letters. A by no means complete list would include Central Bank bond buying (remember quantitative easing) driving down interest rates to previously unheard of levels, which in turn increased the appeal of common stocks, a path both the European and Japanese central banks are continuing down to this day; over $2 trillion in stock buy backs in the U.S. alone over the past five years; Wall Street's seemingly preternaturally optimistic disposition; the massive shift of fund flows into passive index vehicles which by design are nearly 100% invested, creating significant incremental demand for equities; and the explosion in data and the algorithms designed to exploit it, which, in our opinion, reduce the element of uncertainty perhaps contributing to some of the "fast paced" investment decision making prevalent in markets today.

We are coming to the view that the availability and immediacy of data may have reached the threshold of diminishing returns. It is not a given that more data necessarily results in better judgment, and it just might play to peoples' biases, which muddies decision making and leads to distortions in valuations. For example, the largest exchange-traded fund today, the SPDR S&P 500 ETF with assets of approximately $240 billion, has had daily turnover in its shares that routinely approximates 5-10% of total shares outstanding. That translates into 100% plus turnover in its shares every month. Perhaps this is the result of better availability of data and everyone is winning, but we are not yet convinced. People, including investors (who are rumored to be grounded in numbers by their nature), have cognitive biases, particularly when it comes to the prospect of making or losing money; and the bias towards chasing short-term results may well be at work in the turnover data of this ETF (which we have chosen only as a proxy for the point we are trying to make). The history in markets has been for biases and sentiment to change, often in dramatic and unpredictable ways. Currently, it would appear that the bias of the average investor is towards being in the market despite a host of growing risks, not the least of which is high valuations. Again, only as a proxy for the point we hope to make, the Vanguard 500 Index Fund with $310 billion in assets has an average price/earnings ratio as of March 31, 2017 of 24x according to Bloomberg, which equates to roughly a 4% earnings yield. We have much more to say on the active/passive topic later in our letter.

As you know by now, we are in the business of owning businesses through the stock market when we believe the valuations are supported by some fairly simple math and where we can feel reasonably confident (but never certain) about future business prospects. In an industry such as ours where two to three years is a lifetime, life can sometimes feel very short; and in an environment like the one we are currently in, characterized by investor confidence, we are often among the performance laggards. But we have seen this before, and the younger generation here at Tweedy will no doubt see it again. The intellectual and emotional discipline built into this framework, coupled with the better probability of being right more often than wrong, remains, in our mind, persuasive.

Turning our attention to the most recent past, 2016 proved to be a year of shock and awe in global politics and to a more limited degree in public equity markets. Who would have guessed that the surprise decision by Great Britain to withdraw from the European Union would spark a rally in global equities that would gain considerable momentum after the unexpected election of Donald J. Trump, and continue unabated into the new year? Perhaps lightning really does have a tendency to strike twice. Once again, the pundits, pollsters and "bookies" got it completely wrong. Conventional wisdom would have suggested that equity markets hate surprises, but then again there is nothing conventional about what has been happening of late.

So how have we gotten to where we are today? Global equity markets, which were off to a treacherous start at the beginning of 2016, began to recover leading up to the period just before Brexit (June) when things got bumpy again. There was a good bit of volatility just before Brexit, and for a few days after, and then it was off to the races again as the markets recovered and pushed forward. Leading up to the election in November, markets seemed to be encouraged by the prospect of a Clinton victory and challenged by the prospect of a Trump victory. As with Brexit, the markets surprisingly surged forward after Trump's election, buoyed it seems by the promise of fiscal stimulus to supplant the monetary largesse of central bankers, which appeared to have run its course, at least in the U.S. Some have suggested of late that the market is merely climbing "a wall of worry," or perhaps, as Jim Grant recently suggested, "a wall of loathing."

Whatever may be the case, in terms of investment performance, a relatively dismal first half of the 2016 calendar year was followed by an aggressive move forward that has continued through March 31, 2017. As you would probably suspect, given our value-based approach, all of our Sub-Funds outperformed during the bumpier first half of the 2016 calendar year, and underperformed during the second half, despite producing solid absolute returns. The International Value (CHF) and International Value (Euro) Sub-Funds outperformed their benchmark in the first quarter of 2017, while the Value (USD) and Global High Dividend Value Sub-Funds underperformed. All in all, even with the markets' fits and starts, our Sub-Funds made better than satisfactory financial progress during the first six months of the fiscal year while carrying cash reserves of between 7% and 14%.

What lies ahead for investors is anyone's guess, and despite the recent low levels of volatility as measured by the VIX (the Chicago Board Options Exchange Volatility Index), we have been heartened by the occasional bouts of volatility we've experienced in equity markets over the last 18 months, and the improvement, albeit marginal, in the opportunity set afforded to investors such as ourselves. That said, with the surprising run-up in equity markets post the election, valuations, which were already high prior to the advance, for the most part are now higher around the globe and, despite the enthusiasm, one would have to concoct a set of "alternative facts" to conclude that there are a lot of bargains to be found in public equity markets. Nevertheless, correlations have begun to break down, and when reality confronts perception in the weeks and months ahead, we suspect that the ride could once again get a bit bumpier, which has generally played into the hands of investors like us. In the interim, we intend to keep our noses to the grindstone, trying to ferret out under-valuation in what has been, in the very near term, an increasingly difficult environment for bargain hunting – but an easier environment for selling stocks that are trading at prices around or in excess of our estimates of underlying business value.

Investment Performance

Presented below are the results of the Sub-Funds for various periods through March 31, 2017, with comparisons to their respective benchmark indexes. In this report, we have presented the Investment Manager's Report for the four Sub-Funds, including 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 March 31, 2017

	Tweedy, Browne Value Fund (USD)	***MSCI World (in USD)***	***S&P 500 Index***
6 Months	8.50%	8.35%	10.12%
1 Year	13.73	14.77	17.17
3 Years	0.10	5.52	10.37
5 Years	5.50	9.37	13.30
10 Years	3.43	4.21	7.51
Since Inception *(10/31/96)*	5.62	6.12	8.11

** 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 March 31, 2017

	Tweedy, Browne International Value Fund (Euro)†	***MSCI EAFE (Hedged to USD/EUR)***	***MSCI EAFE (in USD/EUR)***
6 Months	8.77%	11.77%	11.88%
1 Year	14.65	17.14	18.98
3 Years	5.46	6.82	9.36
5 Years	8.15	10.09	10.57
10 Years	4.97	1.91	3.29
Since Inception *(10/31/96)*	8.53	5.02	5.16

** 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 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 to May 17, 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 (hedged to USD/EUR) are shown, and represent index performance for the applicable performance periods. For comparative performance purposes, for the period prior to May 17, 2004,the MSCI EAFE Index (hedged to USD) and the MSCI EAFE Index (in USD) were used; for the period thereafter, the MSCI EAFE Index (hedged to EUR) and the MSCI EAFE Index (in EUR) are used.

Tweedy, Browne International Value Fund (CHF)

Annualized Results* ending March 31, 2017

	Tweedy, Browne International Value Fund (CHF)	*MSCI EAFE (Hedged to CHF)*	*MSCI EAFE (in CHF)*
6 Months	8.16%	11.43%	9.95%
1 Year	15.85	16.54	16.72
3 Years	3.34	5.97	4.77
5 Years	6.87	9.49	8.01
10 Years	2.89	1.35	-0.74
Since Inception *(10/31/96)*	6.92	3.78	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 March 31, 2017

	Tweedy, Browne Global High Dividend Value	*MSCI World (Hedged to Euro)*	*MSCI World (in Euro)*
6 Months	10.38%	9.87%	13.85%
1 Year	18.43	15.97	22.28
3 Years	6.13	7.76	14.82
5 Years	7.61	10.80	14.27
Since Inception *(6/1/07)*	3.59	3.28	5.98

** 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 Global High Dividend Value Fund 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 May 16, 2008.* ***Performance calculations are presented for Investor Shares.***

Our Sub-Fund Portfolios

Please note that individual companies discussed herein were held in one or more of our Sub-Funds during the six months ended March 31, 2017, but were not necessarily held in all four of our Sub-Funds.

Generally, when the ride gets a bit bumpy for equities as it did last year, particularly in the first half of the calendar year, the steadier components of our Sub-Fund portfolios, i.e., consumer staples and pharmaceuticals, have tended to produce the best returns; and such was briefly the case. But as the markets regained their footing post-Brexit and gathered momentum after the U.S. election, it was the more economically sensitive, cyclical components of the Fund portfolios, i.e., financials, industrials, and energy related holdings, that drove returns. Diversification does have its strengths.

Some of our best returns in our Sub-Funds over the period were produced by our bank and insurance holdings, driven in part by prospects for less regulation by the new Trump administration, and for higher interest rates associated with further tightening by the Federal Reserve (the Fed). Higher interest rates can lead to larger net interest margins for banks and generally better investment returns for our insurance holdings, which in turn can lead to greater profitability. This, coupled with the possible

relaxing of some of the Dodd-Frank regulations, was of particular benefit to the stock prices of our U.S.-based banks, including Bank of New York Mellon and even Wells Fargo, which rebounded in the face of its near term phantom account scandal. We also got a very nice recovery in the prices of our two U.K.-based banks, Standard Chartered and HSBC, which from a business mix perspective are overwhelmingly Asian banks. From its recent low on February 11, 2016, Standard Chartered was up approximately 97% through March 31, 2017. From all appearances, Bill Winters and his new team at Standard Chartered have made real strides toward returning the bank to a more profitable footing. We also had strong returns in our two Singapore-based banks, DBS Group and United Overseas Bank. Despite these terrific returns, our bank holdings for the most part remain reasonably valued, are well positioned in faster growing parts of the world, and, with the exception of Standard Chartered, currently pay us attractive dividend yields.

Much of the same held for our insurance holdings, which advanced very nicely during the period. Three of our long time insurance holdings, CNP Assurances, SCOR, and Zurich Insurance Group, delivered strong double-digit returns. Berkshire Hathaway, another long time holding led by the "Oracle of Omaha," continues to deliver excellent results. Despite the uncertainty associated with Warren Buffett's and Charlie Munger's succession, we believe the fundamental value in Berkshire remains very strong and solidly supports its current valuation without factoring in much of a "Buffett premium."

We were often asked over the past year why we had not chosen to invest in a number of eurozone banks, which on a statistical basis appeared to be quite cheap. Deutsche Bank, BNP Paribas, Societé Generale, Banco Santander and many others traded at times during the year at large discounts to book value. No doubt this was partly due to uncertainty surrounding Brexit, capital adequacy concerns, and pressure on profitability caused in part by the prospect for continued low to negative interest rates in Europe. While we took a hard look at them, we simply felt we were not being adequately compensated for their associated risks, and relegated them to our "too hard" file. When investing in banks, which are inherently leveraged businesses, we tend to take a conservative approach. We like banks with financial strength, i.e., high equity-to-asset ratios, conservative loan growth, reliance on deposit-based financing, and multiple sources of income, including fee based income, that are trading at low prices in relation to earnings and/or book value. While the stock prices of many of these banks appeared statistically cheap when compared to book value, they did not meet a number of the other tests. Some were undercapitalized, and/or had aggressive loan growth; others relied on overnight wholesale loans for a good bit of their financing, and/or had lower quality assets. While these statistically cheap banks may turn out to be good performing investments, and they have certainly rebounded of late, we just could not get comfortable with them.

Our oil & gas related holdings also enjoyed strong price performance as they rebounded aggressively with the increase in oil prices; however, as we write, their share prices have pulled back a bit with recent news regarding rising oil inventories and the resulting decline in oil prices. OPEC announced in late September that it would consider production cuts, which it, along with non-OPEC countries like Russia, ultimately agreed to in early December. This helped to fuel an increase in oil prices, which led to a continuing rally in all of our oil & gas holdings including Halliburton, MRC, Devon Energy, Royal Dutch and Total, among others. While there will no doubt be ongoing price volatility in our holdings as sentiment swings back and forth in the near term between concerns about high inventory levels and growth in demand of over one million barrels a day against a backdrop of

relatively low excess capacity, we believe the future for our oil & gas holdings continues to be positive. This should particularly hold true should OPEC continue to limit its production in an effort to balance oil markets. We are encouraged on this front by our supposition that the Saudis desire a constructive oil price environment when they take their national oil company, Saudi Aramco, public in 2018.

There is also interesting evidence to suggest that through technological advances, shale producers have been able to significantly bring down their costs, allowing them to increase drilling activity and well completions in what has been an extraordinarily challenging pricing environment. This could mean that, even if oil prices continue to pull back a bit as the year progresses, shale producers could still be able to be active in the oil patch. Both MRC and Halliburton feel their U.S. onshore businesses have bottomed, and are anticipating significant increases in drilling activity in the year ahead. MRC gained considerable market share during the period of declining oil prices as a number of its competitors went out of business, and also significantly reduced its net debt. There is no doubt that some, if not a good bit, of this positive outlook is already reflected in MRC's and Halliburton's current stock prices.

We also had nice returns in several of our consumer (Embotelladora Andina, Henkel, Unilever, Philip Morris International), industrial (G4S, Ebara, BAE, Safran, Teleperformance) and health care (GlaxoSmithKline, Johnson & Johnson, Novartis, Roche) holdings, and in our sole mining company investment, copper miner Antofagasta, which rebounded nicely as copper prices rose late in the year. It is also interesting and perhaps surprising to note that the most significant contribution to "local return" from a country in our portfolios came from the U.K. Political and economic cross currents once again led to volatility in a number of major currencies, including the British pound and the Japanese yen, among others. The currency hedging of the Value (USD) Sub-Fund and the International Value (CHF) Sub-Fund protected their shareholders somewhat from some of the return reduction occasioned by weakening foreign currencies in the period. The euro-based Sub-Funds did not benefit from the hedges as the euro weakened against most major currencies in the period.

While most of the holdings in our Sub-Fund portfolios were up nicely for the period, there were a few that disappointed in terms of their price performance, including Verizon, the premier U.S. wireless company. Despite having the highest quality wireless network in the U.S., Verizon is facing near-term pricing pressure from two of its main competitors, Sprint and T-Mobile, and this has impacted their ability to meet expectations in terms of earnings growth. That said, the company is trading a little over 12x 2017 estimated earnings per share, and currently paying us approximately a 5% dividend yield while we wait for value recognition in its shares.

As you may have noticed over the last year or so, we have been building positions in several companies in South Korea, more specifically in the Korean car companies, Hyundai Motor and Kia, together with a position in Hyundai Mobis, an auto parts distributor that supplies both companies. In the near term, the price performance of these companies has been mixed, as growth has slowed in key markets, in part because their product line has been somewhat out of fashion in that they have not had enough SUV choices during a period of low oil prices. Kia's stock price also appeared to be "trumped" by the company's plans to expand production in Mexico for export to the U.S. Korean equities over the last year also paid a price in terms of increased volatility for the recent scandal surrounding alleged payoffs made by "chaebol" leaders to a friend of the (now impeached and removed) South Korean president, creating fears of political instability. As a result, we have been able to get unusually attractive

entry point prices in these companies, paying less than six to seven times earnings and approximately 60% of tangible book value for shares with dividend yields currently approaching 3%. Valuations like these cause us to "tremble with greed," particularly since both companies are currently in the process of revamping their product line-up to include more SUVs. Furthermore, over the longer term, these companies have gained global market share as their quality and customer satisfaction ratings have soared, and they have the scale to develop technology to compete if and when various autonomous driving and electric applications take hold. Again, you never know, but these companies seem to us like reasonable bets in a diversified global or international portfolio.

More recently, we established a position in another South Korean company, LG Corp., which is a holding company that owns interests in a group of chemical, cosmetics, telecom and electronics businesses. There have been difficulties of late at several of its key affiliates. LG Electronics has had troubles with its smart phone offerings; LG Chem is facing headwinds in the petrochemical cycle; and LG Household has issues to resolve with its cosmetics business in China. This, together with retaliatory action by the Chinese government in response to South Korea's agreement to work with the U.S. to establish an anti-ballistic missile defense program, provided us with a trading opportunity and what we feel is an attractive entry price in LG Corp. Despite the near term uncertainty, we believe the commercial issues are fixable and the political issues resolvable. At purchase, the shares were trading at nine times earnings, roughly 76% of book value and approximately 60% of a conservative estimate of the company's intrinsic value.

We also built positions in several other companies including Williams-Sonoma, a U.S.-based specialty retailer with a significant on-line business; and Berendsen, a U.K.-based textile rental company. We purchased Williams-Sonoma (WSM) and Berendsen primarily for our high dividend yield strategy. WSM is a leading omni-channel specialty retailer for home furnishings operating across eight different brands, with the largest being Pottery Barn, Williams-Sonoma, and West Elm. WSM has one of the highest e-commerce penetrations among retailers, and has had solid margins in its direct-to-consumer business. Its strong brands and huge customer database, which enables it to cross-market at a low cost, represent what we believe to be sustainable competitive advantages, which have allowed it to compound its intrinsic value, in our estimation, at over 8% for the last decade. At purchase it was trading at roughly a 20% discount from our conservative estimate of its intrinsic value, had a dividend yield of approximately 3%, and an additional 4% upside from prospective share repurchases, for a total estimated shareholder yield of 7%.

Berendsen is a U.K.-based, but pan-European, textile rental business. The textile rental business is a business model we know well, having had a successful long-term investment in UniFirst in the United States. Similar to many U.S.-based uniform rental companies, Berendsen has high recurring revenue, multi-year contracts, high customer renewal rates, no material customer concentration, and a good long-term record of compounding intrinsic value. It has maintained or increased its dividend every year since 1990 and currently yields approximately 4% while maintaining a payout ratio of roughly 50%. Moreover, insiders have recently been buying the stock. At purchase, Berendsen was trading at approximately 13x current earnings and 11x enterprise value ("EV") to earnings before interest, taxes and amortization ("EBITA"). Our purchase represented a discount of roughly 15% from our conservative estimate of instrinsic value, based upon observable real world acquisition multiples paid for similar businesses in Europe.

Finally, we recently made our first investment in a domestic Chinese company, Baidu, the dominant search engine in China with an 80% market share, and nearly a 50% operating margin in search. Baidu's highly profitable search business is currently being masked by several money-losing subsidiaries. That, combined with concerns about recent slowing revenue growth (partly due to a medical scandal in 2016, which impacted its search business) and some market share loss in online advertising to Tencent and Alibaba, has given us an attractive pricing opportunity in its shares. That said, the company's core search business has historically reported nearly 50% margins, relatively high barriers to entry, and should continue to benefit from the expanding Chinese online advertising market, which is expected to grow at a 20% rate annually. Based on conservative estimates of value for Baidu's non-core businesses, we believe we are paying 9x 2017 EBITA for their remaining core search engine businesses. We believe this leaves significant upside optionality from the non-search businesses, several of which are market leaders in important sectors such as online travel and online video.

With low interest rates around the world, and the perception that economic growth is on the rise, companies are becoming more acquisitive. We are seeing this in our Sub-Fund portfolios. This is not surprising, as companies with firm foundations of value often attract suitors or become buyers in their own right. Unilever, Safran, and Akzo Nobel, three long-term holdings, have become the subject of merger & acquisition activity over the last several months. Unilever and Akzo were both the recipients of buyout bids during the first quarter of 2017; however, both rebuffed their suitors, Kraft Heinz in the case of Unilever and PPG in the case of Akzo. We have spoken with the managements of both PPG and Akzo, encouraging them to continue to explore the possibilities of a union, which we believe might lead to better growth opportunities for the combined entity. To date, Akzo has refused to negotiate with PPG and, while the stock is up, it is trading well below the price offered by PPG. Both targets, Akzo and Unilever, have put forth new value enhancement strategies in an effort to assuage their respective shareholders.

Safran, the French jet engine manufacturer and another of our core holdings, announced its intention to acquire Zodiac, a French aerospace company that manufactures and sells safety systems and interior equipment such as seats, toilets, and galleys for aircraft. We feel this is an ill-advised acquisition and have communicated our opinion directly to senior management at the company. We believe the high price that Safran is paying for this business, which has recently stumbled, would be better put to use in increasing its dividend and opportunistically buying back its stock. We feel that Safran should remain focused on its after-market parts business, which we believe is an extraordinarily good business.

From time to time in these letters, we have brought to your attention aspects of our value approach and process which we thought might be of interest. Below we examine the impact of declining corporate tax rates and rising buy-out multiples on calculations of intrinsic values and the discounts we apply thereto.

Lower Corporate Tax Rates and Implications for Valuation

One of the primary ways we generate new investment ideas for further study is through the use of quantitative screens that help us identify businesses which are statistically cheap. We use a variety of different valuation screens, including price divided by book value per share ("P/B"), price divided by after-tax earnings per share ("P/E"), and EV divided by earnings before interest and taxes ("EBIT"). There are advantages and disadvantages to every valuation ratio we use to filter potential investment candidates. For instance, a major disadvantage of the P/E ratio is that it does not allow for a comparison

of firms with significant differences in capital structure (i.e., debt leverage and cash on the balance sheet). Alternatively, while EV to EBIT does allow for comparison of firms with different capital structures, the ratio does not take into consideration differences in corporate tax rates. All things being equal, a lower tax rate results in higher after-tax net income (and free cash flow) for each dollar of EBIT. Thus, if given a choice between two identical companies in all respects except for tax rate, we would choose the business with the lower tax rate.

Over the last decade, there has been a gradual global trend towards lower corporate tax rates, particularly in Europe. Political commentary in several countries suggests this trend will continue as governments seek to provide stimuli for their local economies. For example, following the U.S. election, it appears that the federal U.S. corporate income tax rate could be materially reduced from the current rate of 35% to perhaps 15% or 20%. The U.K. has decided to lower corporate tax rates from 20% to 19%, beginning on April 1, 2017. Italy has announced plans to cut the corporate tax rate from 27.5% to 24.0% in 2017. Thus, for the foreseeable future, corporate tax rates appear to be heading lower.

As corporate tax rates decline globally, we are putting more emphasis on screening for companies using a valuation metric we call "owner earnings yield." The owner earnings yield is calculated by dividing net operating profit after tax by enterprise value (NOPAT/EV). NOPAT is defined as EBIT × (1 – effective tax rate). While no valuation metric is perfect, we believe that owner earnings yield allows us the ability to compare companies with different capital structures (unlike P/E) and different tax rates (unlike EV to EBIT).

Several years ago, one of our Managing Directors would routinely calculate the owner earnings yield of each new idea as a way to compare new idea candidates versus previous buy decisions. The "Happy Zone" in terms of an acceptable purchase price was an owner earnings yield roughly between 8% to 10%, which translates inversely into a debt free P/E of between 12.5x and 10x per share. This after-tax yield compares very favorably to that available today in risk free instruments.

Of course, the efficacy of this technique will remain reliant on the sustainability of low corporate tax rates. Moreover, the owner earnings yield is just one of many tools we use to help uncover potentially undervalued securities.

The Active versus Passive Debate Revisited

A number of additional voices have joined this debate in recent months including Warren Buffett, perhaps the greatest "active" investor of all time. In his recent Berkshire Hathaway annual report, he postulated that getting an average return net of a very low fee is probably the best that the average investor can expect, and a result that most active managers would be unable to match or exceed net of their higher fees. He did acknowledge that he had met perhaps ten professional investors over the years who were able to outperform the S&P 500 net of their fees over the longer term, and no doubt hundreds if not thousands of others he had not met that may have also added value, relative to the S&P 500. However, he also made the point that because outperformance breeds growth in assets under management, which can act as an anchor on future investment returns, the average investor's best bet was probably a low cost index fund.

While Warren Buffett's point of view is shared by many, particularly in light of the underperformance of active managers in recent years, a number of other well known investors have suggested a bubble might be brewing in passive investment strategies, including so called "smart beta" (or "factor based") strategies. After all, there is very little in the way of price discovery in passive index vehicles and new contributions are allocated simply on the basis of the respective market capitalizations of their constituent members. And yet the money continues to pour in. For example, according to Morningstar, in 2016 approximately $340 billion flowed out of U.S.-based actively managed funds, while nearly $505 billion flowed into U.S.-based passively managed vehicles. Many, if not most, of the underlying equity constituents of U.S.-based passively managed funds are now trading at high valuations. Seth Klarman, the highly respected hedge fund investor, in his recent annual investment letter pointed out that recent massive flows into passive "market efficient" strategies has ironically resulted in price distortions and greater market inefficiency that can be exploited by active investors. Even Rob Arnott, credited by many to be one of the founders of smart beta investing, has recently warned of the inflated valuations of smart beta index and ETF vehicles, and has even launched a new dynamic multi-factor strategy that will "de-emphasize" more expensive factors.

In thinking more about the increasing popularity of statistical, factor based investing (smart beta), we are reminded of the reference Charlie Munger (Warren Buffett's partner at Berkshire) has made in the past to the "man with the hammer syndrome." He referenced this syndrome in a speech at the University of California in 2003 in support of what he called the "fatal unconnectedness of academic disciplines in economics." The reference was apparently taken from a folk saying which suggested that a man with only a hammer views every problem as a nail. To quote Munger directly from that speech:

> *Another version of this man with a hammer syndrome—this is terrible not only in economics, but practically everywhere else, including business; it's really terrible in business—and 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 to 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.*

Security analysis is a complex system if there ever was one. In our view, it is not something that can be reduced to a handful of numbers — rather it entails a multitude of inputs, both soft (qualitative) and hard (quantitative). As Munger further cautioned in his speech, a craving for physics-like false precision does nothing but get you into trouble. As more and more money flows into these factor based strategies, distorting valuations, the efficacy of the factors can be compromised, reducing the approach to something similar to a game of "whack-a-mole." While we have great respect for some of the purveyors of smart beta investing, we do not believe factor based investing is the most comprehensive approach to confronting the daunting complexity associated with investment decision-making. As Einstein said, "Everything should be made as simple as possible, but not simpler."

For those of you interested in drilling down on this topic, we would refer you not only to Munger's speech, but also to a recent CFA Institute study entitled "Facts about Formulaic Value Investing" in which U-Wen Kok, Jason Ribando and Richard Sloan found there was "little compelling

evidence that a strategy of buying US equities that seem underpriced in light of simple fundamental-to-price ratios provides superior investment performance." Furthermore, they concluded that "quantitative investment strategies based on such ratios are not good substitutes for value-investing strategies that use a comprehensive approach in identifying underpriced securities."

We came across another interesting study in February produced by DALBAR, the well known financial services market research firm. DALBAR has found over the years that investor behavior, reflected in decisions of "when and how much to invest or how much to withdraw from investments," has a material long-term effect on the returns investors actually earn. For example, investors have a different return experience depending on when they purchase and when they sell their interest in a fund. DALBAR's calculation of "investor return" measures the average return experience of all investors in a fund over a given period of time taking into consideration their comings and goings. Think of it as a dollar-weighted return as opposed to a time-weighted return. Since emotion can drive many investors in and out of funds at inopportune times, these so called "investor returns" differ greatly among individuals and are, on average, invariably lower than the published real returns of U.S. mutual funds, be they actively managed or passively managed.

Since there has been a significant shift toward passive investing over the last 15 years, DALBAR decided to study the "investor returns" of U.S. index funds as compared to the "investor returns" of actively managed funds over this period. What they found was interesting. While the "real returns" of index funds on average were found to exceed those of actively managed funds, the "investor returns" of actively managed funds exceeded those of index funds over the 15 year period ending December 31, 2016. This led DALBAR to conclude that over longer time periods the historical performance advantage of passive investments is eroded by behavioral influences. For periods greater than 5 years, actively managed funds produced investor returns that were superior to those of index funds. For periods shorter than 5 years, index funds had the advantage.

This should be somewhat reassuring to "active" financial advisors who for one reason or another may have failed to outperform index funds over long measurement periods. If you have been able to keep your investors invested over time — we like to call it 'keeping them on the bus' — the DALBAR data would suggest you may very well have provided your shareholders with a return advantage that is significant when compared to the return they would have received independently coming and going from an index fund.

As we said in our annual letter to shareholders back in the Fall of last year, an index beating record, particularly if it is a long record, can lead to increases in wealth well beyond that produced by indexes, due to the power of compound arithmetic. The International Value (CHF) Sub-Fund, which is the largest Sub-Fund at Tweedy, Browne (approximately $322 million), has produced an average annual return since its inception over 20 years ago that is 314 basis points (3.14%) greater than the returns of the MSCI EAFE Index (Hedged to CHF) and 359 basis points (3.59%) better than the same index unhedged. An investor investing CHF10,000 in the International Value (CHF) Sub-Fund at the time of its inception through March 31, 2017 would have accumulated approximately CHF39,171, which nearly double the CHF21,314 that would have been accumulated from an investment in the hedged MSCI EAFE Index (Hedged to CHF). Of course, past performance does not guarantee future results and an investor cannot invest directly in an index.

While we have great admiration for people such as Jack Bogle and Warren Buffett, and perhaps would agree that, in terms of "real" returns, active management is a loser's game for most, it is not a loser's game for all. In a recent interview with Bloomberg, Larry Fink, the founder and chairman of BlackRock, expressed a similar sentiment:

> *I do subscribe to the belief that investing is no different from baseball. Let's say you have a thousand baseball players. The majority hit .250. We'll have 45 who hit .300 and we'll have 10 to 15 who can hit consistently over .300. I don't believe investing is much different…*

The records of many pure adherents to Benjamin Graham's value based approach over the years are proof of this. At the end of the day, we are comfortable with what we own, the risks we are taking, and the long-term returns we have produced for our shareholders, and this has allowed us to stay the course — which is perhaps the most important thing when it comes to building wealth. While there are no guarantees in the investment business, we remain optimistic and are "tied to the mast," with over a billion dollars of our own money — that of our current and retired managing directors, employees and their families — invested in portfolios combined with or similar to those that our shareholders own, including over $120 million in our Sub-Funds.

Environment, Social, and Governance Considerations (ESG)

Many institutional clients, shareholders, and consultants are increasingly inquiring about the extent to which ESG factors play a role in our investment decision-making process. We suspect this is driven in large part by well intentioned desires to incentivize ethical and responsible corporate behavior and the good faith belief that these factors could positively impact performance over time.

While we applaud the spirit of ESG principles, as an investment adviser to a wide variety of clients, we feel that we must remain primarily focused on producing attractive risk adjusted returns for our clients. Given the all encompassing nature of our research process, corporate behavior, good or bad, is one of a plethora of factors examined when trying to assess the intrinsic value and future prospects of a potential investment. To the extent that our research reveals that the lack of adherence to one or more ESG factors is likely to impair the corporate business model and in turn future valuation prospects, that could become determinative in our decision to own or continue to hold the security.

While environmental and social concerns have played less of a role in our process, our investment decision-making has from time to time over the years been significantly impacted by corporate governance concerns. While we have no desire to become a so-called "activist manager," we have not hesitated to defend our shareholders' interests when necessary. This has involved issues such as responsible and intelligent capital allocation, management compensation, board composition, merger and acquisition activity and voting restrictions, among others.

Looking Forward

> *It may be said, with some approximation to the truth, that investment is grounded on the past whereas speculation looks primarily to the future, but this statement is far from complete. Both investment and speculation must meet the test of the future; they are subject to its vicissitudes and are judged by its verdict. But what we have said about the analyst and the future applies equally well to the concept of investment. For investment, the future is*

essentially something to be guarded against rather than be profited from. If the future brings improvement, so much the better; but investment as such cannot be founded in any important degree upon the expectation of improvement. Speculation, on the other hand, may always properly-and often soundly-derive its basis and its justification from prospective developments that differ from past performance.

- Benjamin Graham, Security Analysis

We are now, according to market observers, eight years into what has been reported as the second longest stock market advance in history. The S&P 500 Index has more than tripled from its lows in March of 2009. Equity valuations, which were already high prior to the post election advance, for the most part, have climbed steadily higher around the globe, and appear to be discounting an extraordinarily attractive environment for corporate earnings power going forward. With market indexes (S&P 500, EAFE and World) now trading north of 21x trailing earnings, investors are currently receiving roughly a 4.7% earnings yield on the price they are paying for the market. In comparison, a triple A bond in the form of a 10-year U.S. Treasury note today yields approximately 2.3%, but that yield may very well go higher in the near term as the Fed continues the process of "normalizing" interest rates from the anomalistic low rates of the last several years. On the corporate side, a triple A rated Johnson & Johnson 10-year bond today yields a little over 3%. The differential between today's equity earnings yield and rising risk free bond yields is not the kind of spread, or "margin of safety," that Ben Graham would have found enticing, nor does it suggest the kind of returns going forward that we have enjoyed during this bull run. If interest rates do indeed normalize in the next few years and P/Es remain at today's levels, this modest spread virtually disappears. As Graham said years ago in his tome, ***Security Analysis***, investors "are buying earnings power not much greater than the bond-interest rate, without the extra protection afforded by a prior claim."

Speculation regarding growth in future earnings power fueled by the expectation of government action to lower corporate and personal income taxes, cut regulation, and increase infrastructure spending may well turn out to be right, but it remains just that for the time being: speculation. With the increase in animal spirits unleashed since the election and the run-up in equity prices, it would appear that the cork may indeed be coming off the champagne bottle. For evidence of this, one would have to look no further than the recent public offering of Snap Inc. (SNAP), the company that owns Snapchat, the popular social media application. At its $17 offering price, SNAP was valued at $24 billion despite losing over $500 million last year. On its first day of trading, the stock closed up 44% from its initial offering price, closing at $24.48 for an end of day valuation greater than $34 billion. We, of course, had similar concerns about Facebook's valuation when it went public years ago, and those concerns have, at least to date, been proven to be unwarranted with the benefit of hindsight. It's impossible to know whether SNAP will enjoy a similar arc of financial success; however, we do know that it does not fit within our price-driven investment framework.

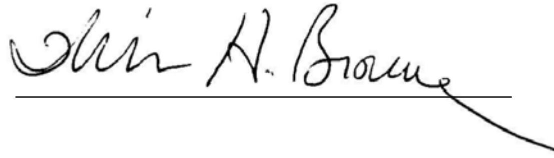
This increase in animal spirits has made bargain hunting challenging. When we screen for new securities today using valuation metrics that we deem to be reasonable and reliable, we find the fewest number of qualifying stocks in over a decade, and those that show up as quantitatively attractive are generally in industries with secular problems and high uncertainty such as retail (Amazon risk), publicly traded asset managers, auto parts, homebuilding, airlines, and precious metals.

The arguments for equities today invariably stress relative valuations, and a cheery consensus regarding future growth in corporate earnings. You constantly hear that stocks are cheap when compared to low yielding bonds, and that buying stocks with some kind of dividend yield is better than owning cash reserves with little or no yield. And this despite the fact that when considered on a P/E equivalent basis, stocks and bonds today are trading at 21x and 40x their earnings, respectively. The acronym "TINA" (there is no alternative) is sometimes used to describe the rationale for the flight into equities.

In contrast to today's relative thinking, we employ an absolute valuation framework and have avoided the temptation to stretch our valuation multiples in light of artificially low interest rates, which we deem to be temporary rather than permanent. We are perfectly happy to wait for opportunity, rather than purchase securities that, in our view, do not have an adequate "margin of safety." All of that said, when it comes to market leadership, the screw does appear to be turning, albeit ever so slowly, in our direction. We have had several bouts of volatility over the last year and a half as correlations have begun to break down, and investors appear to have developed a hair trigger mentality that can be spooked by an undesirable headline, earnings report, or change in regulatory posture. This has allowed us to take advantage of buying opportunities and incrementally put some of our cash reserves to work in existing holdings and a few new ideas. While your crystal ball is no doubt as good or better than ours, with the Federal Reserve charting a path for additional interest rate increases and with inflationary expectations on the rise, we may be nearing an inflection point in markets that could likely lead to additional volatility in the weeks and months ahead; and if that does indeed bear out, we hope to take full advantage of the pricing opportunities that fall out from that turbulence. In the interim, we remain comforted that on average the stocks in our Fund portfolios, while not cheap, appear to trade at reasonable business valuations given their growth prospects and cash yields. In addition, our Fund portfolios are for the most part well diversified by issue, industry and country, and generally carry a healthy dollop of cash reserves that should allow us to take meaningful advantage of any inevitable bumps in the road.

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,



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April 2017

Footnotes:

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.

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.

Current and future portfolio holdings are subject to risk. 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 the Sub-Funds reduces the risk of loss from exchange rate movements, it also reduces the ability of the Sub-Funds 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-Funds' investments are denominated and in some interest rate environments may impose out of-pocket costs on the Sub-Funds.

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