Back in our March 2015 letter we said "we live in hard-to-figure-out times." In many respects, not a lot has changed. The efforts of central banks to kick start economies via quantitative easing (flooding the markets with cheap money) had resulted in negative yields on some government bonds and unsatisfactory rates of economic growth. In our semi-annual report back in March, we mentioned a Bloomberg article pointing out that $7.8 trillion of government debt around the world had negative yields widely attributed to more of the same government/central bank policies. Economic growth in most developed economies remained disappointing, raising doubts about the wisdom or efficacy of this strategy. Recently, the *Financial Times* reported that the value of negative yielding debt had risen to $13.4 trillion, which included some shorter term corporate debt for the first time. While bond managers enjoyed a bonanza, since falling yields mean rising prices (and rising yields mean falling prices), the idea of paying someone to hold your money feels peculiar to many of us since the benefits are hard to discern and the ultimate consequence or reward is not obvious, except to the few who regularly appear on the financial news networks.

Filling in the canvas on this subject, the government of Austria recently sold €2 billion of a seventy-year bond at a yield of 1.53%. If you were to think about this similar to the price/earnings ratio on a stock, the buyers of these bonds were paying 65 times the annual interest they would earn on the bond. When the bonds mature in 2086, we will not be here to collect, but perhaps our grandchildren will. (What the purchasing power of those euros will be in 2086 is an entirely different question.) The issue was oversubscribed by €5.8 billion, meaning there was more demand than there was supply.

For some interesting historical perspective, compliments of *Grant's Interest Rate Observer*, the publication mentioned a *Wall Street Journal* article from October 1981 describing the difficulty Merrill Lynch had in finding buyers for Bell Telephone bonds, yielding a bit over 17%. So while not a lot has changed in the last couple of years, the world still does have a way of changing dramatically from time to time in an unpredictable and unexpected fashion. This should not be interpreted as a prediction on our part but rather an observation. The status quo will continue to be the status quo until the status quo changes or the expectation for the status quo changes.

So you might ask why are we using so much ink on this topic when our business is stocks. The response is, we think most financial markets are to some extent joined at the hip and what happens in one market can spill over into other markets. The spillover effect is sometimes complimentary, sometimes contradictory. However, markets don't exist in a vacuum. Surely it is reasonable to assume that some amount of capital in the hunt for better returns has exhausted the search in fixed income markets and moved into equity markets, and increased demand does help underpin prices. Also, the net effect of movement of money into index funds likely has some positive impact on equity prices, since the bogey for index funds is the index, which means the funds are fully invested at all times. The goal for an index fund has to be to produce a return no better and no worse than the index, no matter what the result is.

One interesting variant on this is the actions of the Japanese government in the Japanese stock market, the third largest stock market in the world. The Japanese government is now the largest holder of its own bonds and has recently turned to buying stocks in hopes of stimulating the economy. The government is currently among the top five holders in 81 companies in the Nikkei Index, and it was recently reported in the financial press that the Bank of Japan holds 55% of all domestic Exchange-Traded Funds ("ETFs"). So far, the desired result has not happened, but hope springs eternal. In our mind, this certainly cannot improve the prospects for rational price discovery, nor is it likely to have a dampening effect on prices. In our case, these actions are simply not enough of a reason to increase our "exposure" to Japanese equities.

Returning to index funds, their job is to match the index as they define it, day in and day out; otherwise, they are not an index fund. Valuation on a specific company basis is extraneous to the strategy. In all fairness, the index alternative is a low cost way of buying exposure to the asset class, but in a simple cap-weighted index, the largest amount of money goes to the largest capitalization companies. Common sense/judgment is removed from the process, and in a happily rising market the contribution of common sense/judgment is likely less important than is the case in markets characterized by subdued optimism or even pessimism. We understand that some of our investors invest with us because they want exposure, and we are content with the exposure we have in our Sub-Fund portfolios — it's just that we don't want to expose investor dollars, euros, or Swiss francs simply for the sake of gaining more exposure.

We have, as you know, added another metric — valuation, which from time to time translates into greater or lesser degrees of exposure. The result is that inevitably we will underperform the benchmark from time to time — sometimes, for an uncomfortable period of time, since we are in a "what have you done for me lately" kind of business. Further on in this letter, we will discuss our Sub-Funds' performance returns and also address the question of how you slice the return "sausage" in a way that is hopefully helpful in your investment decision-making process.

We briefly want to address some of the other nagging topics in the world of investing, as they are part of the investment landscape for many, and some factor into why we find ourselves where we are currently. As a general observation, here at Tweedy, Browne, we think — and maybe even know — that after a 7-plus year rise in financial markets, the world holds few bargains, which should not come as a surprise to anybody. Moreover, given the enormous amount of liquidity looking for investment homes, it is not surprising that the prices of many securities have very little room for disappointment built into them. For starters, we are not inclined to discuss politics in the US and the likely impact of elections on financial markets. Suffice it to say there are very few "wishy-washy" views about domestic US politics. More interesting to us is the fact that corporate profit margins are at multi-decade highs and corporate profits as a percentage of gross domestic product (GDP) are also at multi-decade highs. Coupling these factors with low-to-no population growth in most of the developed world including China, aging populations, and smaller productivity growth in general, the case for economic demand starts to look less promising. This does not mean that prices have to collapse, but it does raise the question as to how much more corporate profits can expand without improving demand. Demand ultimately translates into corporate profits, and corporate profits, in a more rational world, generally underpin business valuations. Now we don't want to be unduly pessimistic about all of this, but surely the starter flag in this cycle has long ago dropped, and some yellow flags are out.

From time to time people ask us what they should do (we are flattered they should ask) and our general response is not unique. First, you are in a 10,000-meter race; don't measure your progress by each 100-meter lap. Second, remember what you are investing for — it should extend your time horizon, which is a good thing to do. Third, don't carry too much debt — if you don't owe anybody anything, they can't tell you what to do. Fourth, keep several years of living expenses in the bank. While it won't earn much today, it will help keep you calm if there is a financial storm. Fifth, as Stuart Alsop once said in so many words, when you open the paper, turn to the sports page first; then, go to the news — it will help you emotionally, and controlling your emotions is an important part of this game. And finally, and perhaps somewhat self-serving, try to understand how the person you have entrusted some of your money to makes decisions. It should help you make sense of the world when it is seemingly making no sense and help you make an informed decision.

We will now shift from the general to the specific and talk more about what we are doing for you and why we think it makes sense and will come back into vogue.

Investment Performance

A look back over the last year and a few months reveals that our public equity markets haven't made a lot of financial progress in terms of the advance in stock prices. The US equity market, as measured by the S&P 500 Index, is today about where it was in mid-August of last year. Non-US equity markets, as measured by the MSCI EAFE Index, are off somewhat from their levels of last August, but in general, developed market equity prices have been flat to marginally down over the last year. While the results have been rather ho-hum, the ride in between has been nothing of the kind — with three sudden, and at times unsettling moves down, followed by robust recoveries in prices. As we write, markets are once again running in place after a pretty aggressive run up from their Brexit lows in late June.

The bumpiness of the ride over the last year does not come as a surprise to us in light of the increasing tension between growing macroeconomic uncertainty, anemic levels of economic growth, high equity valuations, and the sense that the efficacy of monetary largesse may have run its course. In fact, when price volatility has been on the rise as it was over the last year and a few months, our investment results at Tweedy, Browne have generally perked up, and that is exactly what happened. All four of our Sub-Funds produced solid returns over the twelve months ending September 30, despite continuing to carry meaningful cash reserves. After a couple of difficult calendar years, both of our international Sub-Funds, the Tweedy, Browne International Value Fund (Euro) and the Tweedy, Browne International Value Fund (CHF), are once again outperforming their respective benchmarks, the MSCI EAFE Index (Hedged to EUR) and MSCI EAFE Index (Hedged to CHF), respectively, for the one-year period ending September 30.

Longer term performance comparisons also continue to be quite good for our Sub-Funds. Despite chest bumping by index tracking mutual funds and ETFs of late, three of the four Tweedy, Browne Sub-Funds have added value when compared to their benchmark indices since their respective inceptions. The Value Fund (USD) has modestly underperformed its benchmark index (the S&P 500/MSCI World Index (in USD)) since its inception in 1996. Since their inception nearly 20 years ago, our International Value Fund (Euro) and International Value Fund (CHF) have produced an average annual compound return that is 374 basis points (3.74%) and 337 basis points (3.37%), respectively, ahead of that provided by their benchmark indexes, the MSCI EAFE Index (Hedged to USD/EUR) and the MSCI EAFE Index (Hedged to CHF), or 8.30% versus 4.56% and 6.68% versus 3.31%. An investment made in the International Value Fund (Euro) at its inception almost 20 years ago (assuming reinvestment of dividends) would have achieved a cumulative return of 389.3% through September 30 of this year, versus 143.2% for the same investment made for the same period in the MSCI EAFE Index (Hedged to USD/EUR). Likewise, an investment in the International Value Fund (CHF) would have gained a cumulative return of 262.1%, while the same investment made for the same period in the MSCI EAFE Index (Hedged to CHF) would have gained just 91.3%. (Of course, an investor cannot invest directly in an index.) The investment in the International Value Fund (Euro) produced more than twice the amount of wealth that was produced by its benchmark and the investment in the International Value (CHF) produced nearly three times more than the index.

Following are the results of the Sub-Funds for various periods through September 30, 2016, 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 September 30, 2016

	Tweedy, Browne Value Fund (USD)	***MSCI World (in USD)***	***S&P 500 Index***
6 Months	4.82%	5.92%	6.40%
1 Year	5.40	11.36	15.43
3 Years	-0.20	5.85	11.15
5 Years	7.29	11.63	16.35
10 Years	3.15	4.47	7.23
Since Inception (10/31/96)	5.33	5.85	7.79

** 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, 2016

	Tweedy, Browne International Value Fund (Euro)†	***MSCI EAFE (Hedged to USD/EUR)***	***MSCI EAFE (in USD/EUR)***
6 Months	5.41%	4.81%	6.35%
1 Year	4.96	4.13	5.80
3 Years	4.05	4.89	6.91
5 Years	9.29	10.61	11.26
10 Years	5.26	1.82	3.05
Since Inception *(10/31/96)*	8.30	4.56	4.70

** 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. 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 September 30, 2016

	Tweedy, Browne International Value Fund (CHF)	***MSCI EAFE (Hedged to CHF)***	***MSCI EAFE (in CHF)***
6 Months	7.10%	4.59%	6.16%
1 Year	6.51	3.33	5.68
3 Years	2.00	4.10	2.83
5 Years	7.64	9.99	8.80
10 Years	3.09	1.22	-0.58
Since Inception *(10/31/96)*	6.68	3.31	2.92

** 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, 2016

	Tweedy, Browne Global High Dividend Value Fund	***MSCI World (Hedged to Euro)***	***MSCI World (in Euro)***
6 Months	7.29%	5.55%	7.41%
1 Year	6.04	9.60	10.61
3 Years	4.09	7.57	12.62
5 Years	7.92	12.68	15.66
Since Inception *(6/1/07)*	2.69	2.42	4.85

** 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 Fund Portfolios

Please note that individual companies discussed herein were held in one or more of our Sub-Funds during the twelve-month period ended September 30, 2016, but were not necessarily held in all four of our Sub-Funds.

While the Brexit decision sent shockwaves temporarily through markets in late June, the downside volatility turned out to be short-lived (at least so far) as investors appeared to re-focus on what the breakup might mean for interest rates and future central bank behavior. Much of the ground that was lost in equity markets in the couple of days after the vote was recovered quickly, and the markets have moved forward aggressively ever since, particularly in the United States.

And a good bit of this move forward surprisingly occurred in UK stocks. While the British pound has taken a beating, UK equities have surged over the last twelve months. All of our Sub-Funds have a meaningful percentage of their assets in UK-based companies, and have been beneficiaries of this uptick in British equities. Among our best performing British companies of late was HSBC, whose success in large part depends on its business in Asia. After some regulatory stumbles, HSBC appears to be righting the ship. While the bank continues to face near-term fundamental challenges, including net interest margin compression caused by low interest rates and potential increases in loan losses, in part due to low oil prices and exposure to the slowdown in Asian markets, it is up approximately 37% for the six months ending September 30, 25% over the last 12 months, and has been a top contributor to our recent returns.

What Brexit means longer term for the UK, the European Union (EU), and our markets, only time will tell. As investors, we should not lose sight of the fact that businesses are a mix of human, physical, and intellectual capital, and have a remarkable ability to adapt to changes in the economic and regulatory environment. Many, if not most, of the businesses in our Sub-Funds portfolios are large, multi-product businesses that operate on a global basis in a host of markets and currencies. Their success is not overly dependent on the outlook for the European economy. That said, the near term volatility could remain high in the weeks and months ahead while markets wrestle with whether the Brits will opt for a "hard" or "soft" Brexit. In our view this is certainly not an "end of days" scenario for the UK or other European markets, but rather something that should lead to opportunities for price-disciplined value investors.

When it comes to market leadership, the screw does indeed appear to be turning in our direction, albeit in fits and starts. Many of the factors that negatively impacted our absolute and relative results last year are now working in our favor. In some respects, as you will see below, a good bit of our relative success this year is attributable to what we didn't own– pricing risks we were simply unwilling to take in our portfolios.

- For example, value stocks this year, for the most part, are outperforming their more growth-oriented brethren. The so-called FANG stocks (Facebook, Amazon, Netflix, and Google) have not been driving global equity markets quite as much as they did in 2015. With the exception of Google, the Sub-Funds don't own these stocks, and if they did, given their gravity defying valuations, you would no doubt be wondering if we had lost our way.
- Japanese stocks, which constitute a substantial portion of both the MSCI World and MSCI EAFE indices (the Funds' benchmarks), have gone from market leaders to significant laggards over the last year in terms of their local currency returns, and are now negatively impacting hedged index returns. Our exposure today to Japanese equities is quite low, having sold many of our Japanese stocks into their market's strength over the last several years.
- In addition, eurozone bank stocks have on the whole faced significant declines this year, particularly after the Brexit vote. Deutsche Bank, for one, has been in the news of late regarding its weakening equity position, particularly in light of a significant fine it may have to pay relating to its activities in the US mortgage market. We do not have investments in any eurozone banks in our Sub-Fund portfolios.
- Oil prices have also rebounded positively this year, partially reversing the near term fortunes of our energy related holdings. In fact, in late September, OPEC announced that it would consider production cuts at its next meeting, which suggested a significant change in thinking on OPEC's part and helped to move energy related stocks higher around quarter end.
- And finally, our cash reserves, which were a drag on our results last year, are this year helping to provide a buffer against modestly declining non-US equity prices. While we were able to put some of your money to work as pricing opportunities presented themselves, particularly during those bouts of volatility that we previously described, those "tempests in a teapot" were simply not deep enough nor did they last long enough to meaningfully reduce our cash. As of September 30, 2016, cash reserves varied between 8% and 14% across all four of our Sub-Funds.

We have also had significant contributions year-to-date from a number of our consumer staples holdings, including beverage companies such as Diageo, food companies such as Unilever, and household products manufacturer, Henkel. Pharmaceutical holdings such as GlaxoSmithKline and Johnson & Johnson also delivered impressive performances despite rising political pressure against the industry regarding what many perceive to be unreasonably high drug prices. We also had nice returns in several of our industrials including the large Swiss power company, ABB and Teleperformance, the French outsourcing company. The only significant weak spot in our portfolios was in the automobile sector, including Kia Motors and Hyundai Motor in Korea and Honda in Japan.

Portfolio activity over the last twelve months and year-to-date has been modest. However, we took advantage of the market volatility to pare back and opportunistically add to a number of pre-existing holdings. We did establish a few new positions including ACGO, a US-based global farm equipment manufacturer, and Linde. Linde, the German industrial gas company, we have owned in the past, and we felt we were once again getting a pricing opportunity in its shares. In the 3rd quarter, the company confirmed that it was in discussions to combine with Praxair, a merger that would create the world's largest supplier of industrial gas. As we write, the prospective merger appears to be off, and it remains to be seen if the two companies will re-engage.

We believe that most of the securities in our Sub-Funds' portfolios are trading at fair to full valuations. As of September 30, 2016, the weighted average price/earnings ratios on the top 25 holdings in each Sub-Fund varied between 16.5X and a little under 18X 2016 earnings, and the dividend yields on those holdings ranged between 3.0% and 4.2%. (Please note that these dividend yields do not represent the Sub-Funds' yields, nor do they represent the Sub-Funds' performance. The figures solely represent the average weighted dividend yields of the top 25 stocks held in each of the Sub-Funds' portfolios.) With a healthy dollop of cash reserves in each Sub-Fund, we feel we are well positioned to take advantage of the volatility that we believe lies ahead.

The Active Versus Passive Debate

Given the number of articles of late all but announcing the pending death of active investment management, the question is begged: should investors give up on the idea of trying to outperform the market and settle for market returns?

That is certainly what proponents of passive index investing would suggest you do. It is not a completely irrational question in that, over time, fewer and fewer investors, professional or amateur, have been able to add value net of their fees when compared to lower-fee index funds. The last several years of underperformance by

active managers have helped to reinforce this perception. As the bull market gained momentum, and interest rates collapsed, more and more money has poured into global equity markets, helping to drive broad equity indices higher. This has caused equity valuations, in turn, to skyrocket, creating self-reinforcing momentum for capitalization weighted index funds.

According to Morningstar, over the last three years, nearly $1.3 trillion has flowed into passive index oriented vehicles including ETFs, while approximately $250 billion left actively managed funds. Vanguard now has the four largest funds in the world, according to Bloomberg ETF analyst Eric Balchunas, and actively managed funds such as the PIMCO Total Return Fund and Fidelity Magellan, which used to be in the top five funds, are now no longer even in the top ten.

Hedge funds, perhaps the most active of managers, have suffered significant outflows over the last year or so and are now being dumped by many institutional investors in favor of lower-fee passive strategies. One can't help but wonder whether they are once again throwing in the towel on active management and doubling down on fully invested index funds in the very late innings of what has been a very robust bull market.

Some noted investment managers and commentators have suggested that a bubble is building in passive funds, as many if not most of their underlying equity constituents are now trading at dangerously high valuations. Nearly half of the companies in the S&P 500 Index are today priced at more than 20X after tax earnings (equivalent to a 5% earnings yield), which is certainly not cheap. When the tipping point comes, as we believe it will (although when is anyone's guess), and if the past is prologue, there will likely be a rapid unwinding, with valuations plummeting and investors fleeing. We believe that, in that environment, broad based index funds will once again underperform their actively managed brethren, particularly more value oriented funds. This is what happened when the technology bubble burst in March of 2000, and when the housing related credit bubble burst in 2008.

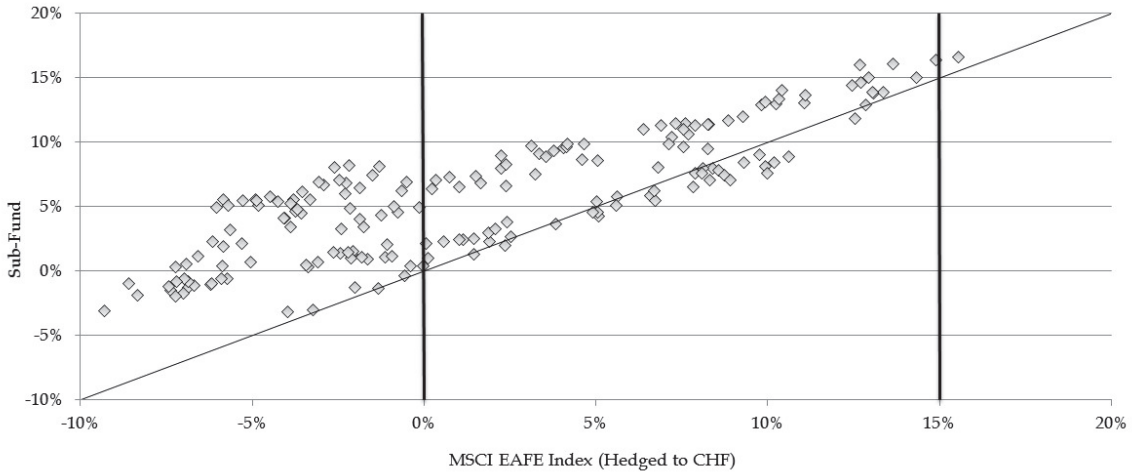
As we have written in previous letters, equity return streams are lumpy by their nature. We can identify companies that we believe are undervalued at purchase, but have no control as to when (or if) that value gets recognized in public markets. That recognition often occurs with a great deal of randomness. Therefore, in all investment records, there is an element of both luck and skill. As we mentioned in last year's annual report, since a multitude of variables move stock prices around, particularly in the short run, it is virtually impossible to distinguish skill from luck without a large sample size, i.e., a long record.

One thing we have in abundance at Tweedy, Browne, given our long history and pedigree, are long investment records. For example, the long-term investment records of our Sub-Funds, most of which date back nearly 20 years, have been lumpy, with multiple interim periods of underperformance, like the period we have been through over the last few years. However, these periods of underperformance have been part and parcel of successful long-term performance records.

We think this is best illustrated in a scatter plot chart. The chart below, like the ones we shared with you two letters ago, shows the performance of the Tweedy, Browne International Value Fund (CHF) (the "Swiss Sub-Fund") in rolling five-year increments measured at the beginning of each month since the Sub-Fund's inception nearly 20 years ago as compared to the rolling five-year returns for its benchmark index. The plot points that appear above the diagonal line represent a five-year period when the Swiss Sub-Fund delivered an index besting result, while the plot points below the line indicate a period of underperformance. As you can see, the Swiss Sub-Fund outperformed its benchmark index in 85% of the 180 rolling five-year periods, and underperformed in 15% of the periods. Perhaps more importantly, the Swiss Sub-Fund outperformed in nearly every period where the broad equity index produced a negative return. This resilience in the face of adversity is what we believe has encouraged investors to "stay on the bus" during those bumpy periods, which is critically important to an index beating experience and to wealth building over the long term.

Five-Year Rolling Returns

Out of 180 five-year measurement periods, the Swiss Sub-Fund outperformed the MSCI EAFE Index (Hedged to CHF) 153 times, or in 85% of measured periods.



Down Market - 5 yr Avg. Return (Below 0%)	*Normal Market - 5 yr Avg. Return (0-15%)*	*Robust Market - 5 yr Avg. Return (Above 15%)*
Swiss Sub-Fund: 2.54%	Swiss Sub-Fund: 8.65%	Swiss Sub-Fund: 16.66%
MSCI EAFE *(Hedged to CHF)*: -3.87%	MSCI EAFE *(Hedged to CHF)*: 6.61%	MSCI EAFE *(Hedged to CHF)*: 15.56%
Swiss Sub-Fund beats Index in 99% of periods	**Swiss Sub-Fund beats Index in 72% of periods**	**Swiss Sub-Fund beats Index in 100% of periods**

The above chart illustrates the monthly five-year rolling average returns for the Swiss Sub-Fund, net of fees, since November 1, 1996, compared to the five-year rolling average returns for its benchmark index. There were 180 possible five-year rolling average monthly return observances between November 1, 1996 and September 30, 2016.

Chart description. The horizontal axis represents the five-year rolling average returns for the benchmark index, while the vertical axis represents the five-year rolling average returns of the Sub-Fund. The diagonal axis is included to illustrate the outperformance or underperformance of the Sub-Fund versus the benchmark. Plot points marked above the diagonal axis are indicative of the Sub-Fund's relative outperformance, while plot points below the diagonal axis are indicative of relative Sub-Fund underperformance. Returns were plotted for three distinct equity market environments: a "down market," which is defined as any period where the five-year rolling average return of the benchmark was less than 0%; a "normal market," which is defined as any period where the five-year rolling average return of the benchmark was 0% to 15%; and a "robust market," which is defined as any period where the five-year rolling average return of the benchmark was greater than 15%.

*The MSCI EAFE Index is an unmanaged capitalization-weighted index of companies representing the stockmarkets of Europe, Australasia and the Far East. 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 hedged 100% hedged back into CHF, and accounts for interest rate differentials in forward currency exchange rates. Index results are inclusive of dividends and net of foreign withholding taxes.

The Swiss Sub‑Fund's average annual total returns for the 1-, 5-, and 10-year periods ended September 30, 2016 were 6.51%, 7.64%, and 3.09%, respectively. The performance shown represents past performance and is not a guarantee of future results. Investment return and the value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than the performance quoted.

An index beating record, particularly if it is a long record, can lead to increases in wealth well beyond that produced by the indexes due to the power of compound arithmetic. For example, as noted above, the Swiss Sub-Fund, which is the largest of the Sub-Funds (approximately CHF305 million as of September 30), has produced an average annual return that is 337 basis points (3.37%) greater than the returns of its benchmark index net of its fees and expenses since its inception in 1996. An investor investing CHF100,000 in the Swiss Sub-Fund at the time of its inception through September 30 of this year would have an investment worth approximately CHF362,000, or a gain of CHF262,000 over the investor's initial investment. This compares to a portfolio with a value of CHF191,000, or a gain of CHF91,000, resulting from an investment in the MSCI EAFE Index (Hedged to CHF) for the same period. An investor in the Sub-Fund, therefore, would have experienced a gain that was nearly three times that of an investment in the index. (Of course, an investor cannot invest directly in an index.)

We have great admiration for people such as Jack Bogle, the founder of Vanguard, and the work he has done over decades to enlighten market participants to the many advantages of index investing. While we would agree with Charlie Ellis that active management is a loser's game for most, it is not a loser's game for all. And while we also would agree that the odds of individuals selecting the active managers that will win may well be low, for those that do, the added wealth created can be significant. When all is said and done, a small group of managers have added value over time, and we believe that the evidence suggests we are one of them. While there are no guarantees in the investment business, we are optimistic and are "tied to the mast," with almost a billion dollars of our own money—that of our current and retired managing directors, employees and their families—invested in the same securities that our clients own.

FAQs

In between shareholder letters, we often receive a number of questions from investors, financial advisors, consultants and the like. We thought we would share with you a few of the more frequently asked questions we received over the last six months and how we answered them.

1. Has the decline in interest rates over the last many years led us to increase the multiples we use to calculate intrinsic values on the businesses in which we invest?

The answer is for the most part "no." If we were certain that interest rates would remain permanently low, then our answer would likely be different; however, we are not subscribers to the notion that zero to negative interest rates are here to stay. We tend to believe that interest rates are being artificially depressed by central banks and will likely increase to a higher more normalized level over time.

We also take a rather conservative approach to business appraisal. In calculating intrinsic values for the businesses we consider for investment, we are informed by the prices being paid in real life acquisitions of comparable companies by acquirers — often expressed in terms of a "multiple." We calculate this multiple by dividing enterprise value (EV) (which is the sum of market value and interest bearing net debt) by EBIT (earnings before the deduction of interest and taxes); EBITA (earnings before the deduction of interest, taxes, and non-cash intangible amortization); or EBITDA (earnings before the deduction of interest, taxes, depreciation and non-cash intangible amortization). Other multiples we use are price divided by after-tax earnings per share (P/E) and price divided by book value per share (P/B). While studying real life comparable acquisition multiples helps inform our view of a company's intrinsic value, we do not blindly extrapolate observed deal multiples. Sometimes we believe buyers overpay, particularly when acquisitions can be financed with low cost debt. To that end, in addition to requiring that a company be inexpensive relative to where comparable companies have been acquired in real life acquisitions, we also require that the company be cheap on an absolute basis. This additional test is more of an absolute approach to valuation using tried and true multiples that are linked to real return math. For example, we would not pay 15X EBITA for a company even if deal comparables indicated that buyers had been willing to pay 23X EBITA for similar businesses. Rather, we tend to value most businesses using an enterprise value multiple of between 10 and 12 times annual pre-tax operating income (EBIT or EBITA) when calculating intrinsic values, which equates to a pre-tax earnings yield of between 10% and approximately 8% on the debt free value of the business. This compares more than favorably to low, risk-free interest rates, and we believe is reasonable compensation for the equity investor. In making a new investment, we generally seek a discount of at least one third (we seek a lesser discount in the Global High Dividend Value Fund) off of this more conservative estimate of intrinsic value, which implies a purchase multiple between 6X and 8X enterprise value to EBIT or EBITA. This translates into earnings yields of approximately 17% and 13%, which we find attractive enough on an absolute basis to take equity market risk. Some might argue these yields are overly aggressive in an environment where 10-year US government bonds yield approximately 1.8%.

Here is an example of a Tweedy, Browne valuation:

Valuation of "Company A" at an 11X multiple of EBIT

EBIT per share	$12
× 11 multiple	× 11
Enterprise value of Company A	$132
Plus: cash per share	+ 6
Less: debt per share	- 10
Estimated per share value of Company A, assuming an 11X EBIT multiple	$128

Note: a one-third discount from $128 intrinsic value = $84.50 buy price, which equates to a purchase multiple of approximately 7X EBIT

One of the metrics Ben Graham often used in valuing businesses was to compare the after-tax earnings yield on a prospective equity investment to the risk free bond yield. If that yield was more than 150% to 200% of the risk free bond yield, the equity was deemed to be attractively priced. Using that kind of metric in today's interest rate environment where the 10-year US government bond yields 1.8%, one could justify theoretically paying as much as 28 times a dollar of after-tax earnings for an equity security, which equates to an earnings yield of 3.6%. And the Graham earnings yield metric makes absolutely no sense when applied to the Swiss 10-year government bond, which carries a negative interest rate. We have great respect for Graham's metric, but we seriously doubt he would have applied it strictly in today's anomalistic interest rate environment.

2. Why haven't we found pricing opportunities in eurozone banks, particularly after Brexit?

There is no question that on a number of valuation metrics, particularly book value, many eurozone banks look cheap today. This is no doubt due in part to uncertainty around Brexit and the prospect for continued low to negative interest rates in Europe. To date, we have not invested in any eurozone banks. We have 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 - conservative capital ratios and loan growth, reliance on deposit-based financing, multiple sources of income including fee based income - that are trading at low prices in relation to earnings and/or book value. Many eurozone banks simply do not meet this test today. They are often undercapitalized, have had aggressive loan growth, rely on overnight wholesale loans for a good bit of their financing, and/or have had increasing non-performing loans. While these banks may turn out to be good performing investments, we are just not comfortable with what we perceive to be their associated risks.

As previously discussed, we do have investments in HSBC, a UK-based bank which we consider to be a largely Asian related bank. We also have invested in Bangkok Bank in Thailand, DBS Group and United Overseas Bank in Singapore, and Wells Fargo and Bank of New York Mellon in the US. All of these banks, in our view, have strong capital positions, rely to a great extent on deposit-based financing, have multiple sources of income and attractive loan/value ratios, trade at attractive multiples of earnings, and currently pay above average dividend yields.

3. Aren't European equities trading at attractive valuations today, particularly post Brexit? In light of this, why do we continue to carry so much cash in our Sub-Fund portfolios?

Over the last year or so, we have had three bouts of market volatility—late August/September of 2015, January and February of this year, and the time around Brexit in late June. Each of these periods produced some pricing opportunities for us in new and pre-existing holdings, but none of these corrections went deep enough or lasted long enough for us to markedly reduce our cash reserve positions.

After each of these downdrafts, equity markets recovered aggressively, admittedly more so in the US than in Europe. However, valuations today remain high across both US and European equity markets with respect to the kinds of securities in which we like to invest. Higher quality industrials, branded consumer products companies, pharmaceutical companies, and higher quality financials, in our view, trade for the most part today at full to premium valuations whether they be US- or European-based. Some industry groups such as eurozone banks and automobile manufacturers have traded lower, but we have not been able to get comfortable with their associated risks and valuations.

While the overall multiple for European equities may be a few multiple points lower than for US equities, they are both high. For example, the US component of the MSCI World Index for the 12 months ending September 30 of this year traded at a price/earnings multiple of 24X trailing earnings per share (EPS), while the European component traded at 23X. On those rare occasions over the last year when we have seen lower price/earnings multiples on businesses we like in Europe, their associated enterprise value multiples are often full, due largely to lower corporate tax rates in Europe.

That said, in light of the volatility, we have found a few new opportunities, and cash reserves in our Funds are down year over year.

New Additions to Our Investment Team

On an organizational note, we welcomed two new analysts to our investment team this summer, Amelia Koh and Andrew Ewert. As you will recall, we began a search for additional analysts a little over a year ago. Both of these individuals received their MBAs from the Columbia Business School and were part of, or took courses in, the school's Ben Graham value investing program. They both are steeped in "value," bring business and investment experience to our firm, and have hit the ground running. We also bid farewell to our youngest analyst, Will Browne, in mid-May as he decided to join his brother in a new venture.

The addition of Amelia and Andrew now brings our analytical team to nine members apart from our four Managing Directors who also do analytical work. Six of the nine analysts hold equity stakes in Tweedy, Browne, and have also had tenures at our Firm averaging 19 years. Between the nine analysts, we now have language capability in ten languages including Japanese, Korean and Mandarin Chinese. Two of our analysts, Roger De Bree and Olivier Berlage, spend a considerable amount of their time in our London-based research office. Three of our analysts, including Roger de Bree, Frank Hawrylak, and Jay Hill serve on our investment committee.

Looking Forward

As we have often said in these letters, our future outlook for global equity markets and prospective returns is informed to a large degree by equity valuations, and we believe that those valuations today, for the most part, are full to high in developed markets around the globe. It has become exceedingly difficult for value investors like us to find stocks that are trading at significant discounts from conservative estimates of intrinsic value. In the United States, the S&P 500 and the Dow Jones Industrial Average are near all time highs. The MSCI World and EAFE Indexes, the Funds' benchmarks, while not at nosebleed levels, also trade at full to premium valuations in our view.

Simply observing what has been modest earnings growth in both US and non-US companies, it is clear that the advance in stock prices has primarily been driven by multiple expansion (increase in prices paid relative to earnings) due to artificially low interest rates and the absence of attractive investable alternatives. Furthermore, these rather anemic rates of earnings growth have been driven in part by corporate share repurchases, which have surged over the last three years as corporations search in vain for opportunities to invest their excess cash. Buybacks are not necessarily a bad thing; however, they are value dilutive if done when equity valuations are trading above intrinsic value.

The cyclically adjusted price/earnings ratio, otherwise known as the Shiller PE, is trading today at more than 26 times earnings compared to its long term median level of 16X. The valuation indicator that Warren Buffett often uses to gauge valuations, the market capitalization of US equities divided by GDP, is now at 125%, or two standard deviations above its 69% long-term mean. We often wonder, given the global nature of most companies today, whether limiting this comparison to US GDP is appropriate. However, in the past, this indicator has proven to be a somewhat reliable indicator of over and under valuation. Price/earnings multiples for the MSCI World and EAFE Indices as of September 30, 2016 were 21 and 19 times trailing earnings, respectively. Regardless of which valuation metric is chosen, equities appear expensive.

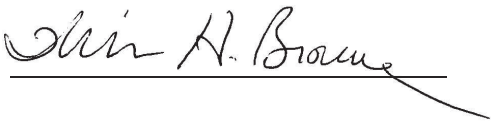
While we are absolutely comfortable with the stocks we own today, most are trading at or near our estimates of their intrinsic values. When we screen for new securities using valuation metrics that we deem to be reasonable and reliable, we find the fewest number of qualifying stocks in over a decade, and those that show up as possibly quantitatively attractive are generally in industries with secular problems and high uncertainty such as retail (Amazon risk) and publicly traded asset managers.

The arguments for equities today stress relative valuations. You hear constantly that stocks are cheap when compared to low to negative yielding bonds, and that buying stocks with some kind of dividend yield is better than owning cash reserves with little or no yield. The acronym "TINA" (there is no alternative) has begun to be 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, as we mentioned earlier in this letter, when it comes to market leadership, the screw does appear to be turning, albeit ever slowly, in our direction. Volatility has been on the rise over the last year, 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. Over the last year, every time the Federal Reserve has tried to telegraph its intentions to begin interest rate normalization, tremors have spread through the markets, causing the bank to delay its actions. While your crystal ball is no doubt as good or better than ours, this suggests to us that we may be on the verge of an inflection point in markets. With each bout of volatility over the last year, we have been able to incrementally put cash to work in existing holdings and a few new ideas. We suspect that the combination of anemic economic growth, negative interest rates, and high equity valuations will 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 will continue to keep our nose to the grindstone in our continuous pursuit of companies trading at reasonable discounts from our conservative estimates of intrinsic value.

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,



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

October 2016

Footnotes:

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 Fund.