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Tweedy's High Performing Global Value Fund

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INTERNATIONAL INVESTING

Uncovering a World of Cheap Stocks

Skip breakneck China and Brazil, say the money men at Tweedy, Browne. Look for slow-moving companies in Europe and Japan.

By William Baldwin

Buy when there's blood in the streets.

Tweedy, Browne Global Value Fund did that this spring when Thailand was erupting in violent protests. The fund picked up \$31 million of very cheap shares in Bangkok Bank Public. William Browne, comanager of this \$4 billion mutual fund, explains the thinking: In Thailand coups come and coups go, but when the dust settles the ownership of capital is pretty well preserved.

If you want to be a value investor—one buying out-of-favor companies—you have to hold your nose and be willing to hold it for a long time. Buy enough stocks cheaply enough and the odds favor you, even if some of the stocks turn out to be disasters. The 104-stock collection at Global Value ranges from obscure Japanese outfits trading for less than the value of their current assets to giant drug companies priced as if patent medicines were going out of style.

This investing recipe works. In the 17 years since it opened its doors, the fund has averaged a 9.7% annual return, five percentage points better than the return on the MSCI Europe, Australia and Far East index. Browne, son of an early partner in the money manager, runs Tweedy's \$11 billion in assets with three other value hunters: John Spears, Robert Wyckoff Jr. and Thomas Shrager. These chefs eat their own entrées. Together with retirees and other employees, they and

their families have \$590 million at the firm.

Beat the market by five points for a few years and you may just be enjoying a lucky streak. Do that for a sixth of a century and you're probably earning your keep as a money manager (something that few do; see story, p. 66). That return figure is after the no-load fund's expense burden of 1.4% (about average for an actively managed international portfolio).

Tweedy, Browne, a Manhattan firm majority-owned by the publicly traded Affiliated Managers Group, is a sleepy place. Global Value's managers have an average age of 59 and an average tenure of a quarter century. The global fund has an aberrantly low turnover (12% a year), which helps keep costs and taxes down for investors.

It has always been like this. Tweedy started out 90 years ago as a dealer in inactive securities—stocks that trade once a month. In time it developed a specialty managing portfolios of value stocks, a lot of them obscure. What, exactly, is value? Benjamin Graham (1894-1976), whose most famous disciple is Warren Buffett, defined it this way: a company trading at less than net current assets (current assets minus all liabilities). You buy cash and inventory at a discount and pick up any real estate or going concern value for free.

Here's a net current play that Global Value owns: Daiwa Industries, a Japanese vendor of refrigeration



Robert Wyckoff Jr., William Browne and Thomas Shrager: Value is where you find it.



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equipment trading at 4.3 times earnings and at an 18% discount to the cash it has sitting around. John Spears figures Daiwa could sell out for four times the recent share price. Japan being a country without any admiration for hostile takeovers, the insiders are under no pressure to give up control. Patience is needed.

Screaming bargains like Daiwa are hard to come by. So the money men at Tweedy have, just like Warren Buffett, expanded the definition of value beyond Graham's narrow parameters. Value, as they see it, sometimes comes from such intangibles as drug patents and pricing power. Other things being equal, you want a company whose market is not easily invaded by competitors. Buffett calls them companies with "moats" around them.

That explains how Tweedy got attracted to Coke bottlers in warm climates. Browne explains: "You have a business with growing demand and a high return on capital that's tough to kick out of the market." How so? The bottler supplies bodegas with free refrigerators on condition that no competitor's products go in it. "Usually there's not enough room for two coolers," Browne says.

Tweedy's managers started buying into a Latin American bottler at \$15 a share and watched the price sink. They bought more. They knew what bottlers were worth in private transactions: eight to ten times Ebitda (earnings before depreciation, interest and taxes), and this company was being priced in the stock market at much less. If you want to think like a corporate acquirer, compare the enterprise value—the market value of common, plus debt, minus cash—to Ebitda. One day the stock was trading at \$8. A few weeks later Coca-Cola Femsa showed up with a buyout offer at \$22.40.

Global Value now owns shares in Femsa and two other bottlers: Grupo Continental and Embotelladoras Arca. It also has a position in Kronos, a German firm that makes bottling equipment. It bought into that one when the recession hit and orders vanished. Wyckoff explains: "People continue to drink beverages, and the machinery wears out."

Tweedy's fund is, to put it mildly, overweight liquid refreshment. It owns Diageo, despite mediocre volume growth, because Diageo knows how to get Scotch drinkers to trade up from Johnny Walker Red to Johnny Walker Black. It owns Heineken Holding because beer drinkers have favorite brands.

The Finnish Kone Corp. makes elevators. So do lots of other companies. Where's the moat? Maintenance fees and parts sales go

to the company that made the elevator. Says Shrager: "It's really a service business with a manufacturer attached."

With the French life insurance company CNP Assurances you can discern the faint outlines of a moat related to distribution of its investment products (via post offices). The main appeal there: how cheap the castle inside is (eight times expected earnings).

The difference between value and growth, in the end, comes down to one of timing. Value is in the present tense, growth in the future. In an international portfolio the present belongs to Japan and Europe, where Global Value has most of its money, while the future belongs to Brazil, India and China, where it has not a dime.

In like fashion, Google and Apple are future tense. They are worth their stock market values only if they keep growing. Contrast Novartis, a big holding in the Tweedy fund, which is a buy if it can just hold its own. You can get it for 11 times likely 2010 earnings.

An extreme value player—Ben Graham, if he were alive—would discard Novartis in favor of the even cheaper (on a trailing price/earnings basis) Eli Lilly or Pfizer. But Tweedy's stock pickers are not so extreme that they refuse to see what's staring them in the face. Pfizer and Lilly are confronting worse problems with patent expirations than is Novartis. The fund's collection of ridiculously cheap Japanese firms includes a semiconductor wholesaler (Tomen Electronics Corp., at a 47% discount to net current assets), but it does not include any textilemakers. Shrager: "You don't want to invest in a company where the wind is blowing against you."

Thinking about moats can get you into trouble. Buffett once described the *Wall Street Journal* as having a moat around it, but the newspaper has been a loser for News Corp. The folks at Tweedy also seem to have an unhealthy affection for the publishing business and its supposedly impregnable franchises. Their fund is showing gains in Schibsted in Norway and Axel Springer in Germany. But Mondadori, the Italian equivalent of Springer, is a dog. They also have a loss in Neue Zürcher Zeitung, owner of the leading Swiss daily, despite its nice cash flow (\$9,400 a share in net plus depreciation).

What's your preferred tense? If it's the future, buy an emerging market ETF or a growth portfolio. If it's the present, buy one of the international value funds in the table. **F**

Statistics: Scott DeCarlo

VALUE ABROAD

These are the best-performing international value funds (over the past decade) with assets of at least \$1 billion and expenses below 1.5%.

FUND	TOTAL RETURN 10-YEAR ANNUALIZED	ASSETS 6/30/10 (\$BIL)	ANNUAL EXPENSES PER \$100
Columbia International Value-Z	3.6%	\$1.5	\$1.17
DFA Intl Small Cap Value-Institutional	9.8	6.5	0.71
DFA Tax-Managed Intl Value-Institutional	5.1	1.5	0.56
GMO Foreign Fund-III	3.5	2.6	0.75
GMO Intl Intrinsic Value-III	4.6	4.9	0.65
Nuveen Tradewinds Intl Value-I	2.8	1.0	1.27
Tweedy, Browne Global Value	5.2	4.0	1.40
Vanguard Intl Value-Inv	2.8	6.0	0.45

Performance through June 30. Source: Lipper.

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Information presented in the attached article with respect to the investment performance and portfolio characteristics of Tweedy, Browne Global Value Fund (the "Fund") is as of June 30, 2010 and is subject to change. Information regarding Tweedy, Browne Company's assets under management is as of March 31, 2010 and is subject to change.

The average annual total returns of the Tweedy, Browne Global Value Fund (the "Fund") for the 1-, 5- and 10-year periods ending December 31, 2011 were -4.13%, -0.04%, and 6.19%, respectively. As of March 31, 2011, the Fund's total annual operating expense ratio was 1.40%. *The preceding performance data represents past performance and is not a guarantee of future results. Investment return and principal 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 lower or higher than the performance data shown. Please visit www.tweedy.com to obtain performance data, which is current to the most recent month end. The Fund does not impose any front-end or deferred sales charge.*

As of December 31, 2011, the Fund had invested the following percentage of its net assets in the following portfolio holdings: Daiwa Industries (0.02%); Coca-Cola Femsa (2.7%); Arca Continental (2.3%); Diageo (4.0%); Heineken Holding (3.8%); Kone Corp (2.3%); CNP Assurances (2.2%); Novartis (3.6%); Tomen Electronics Corp (0.1%); Schibsted (1.5%); Axel Springer (3.7%); Mondadori (0.2%); and Neue Zürcher Zeitung (.01%).

Embotelladoras Arca SAB merged with Grupo Continental SAB in a stock transaction in the first quarter of 2011. The combined company now trades under the name Arca Continental SAB de CV.

Current and future portfolio holdings are subject to risk. Investing in foreign securities involves additional risks beyond the risks of investing in US securities markets. These risks include currency fluctuations; political uncertainty; different accounting and financial standards; different regulatory environments; and different market and economic factors in various non-U.S. 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. Investors should refer to the Fund's prospectus for a description of risk factors associated with investments in securities held by the Fund.

The Fund is distributed by Tweedy, Browne Company LLC.

This material must be preceded or accompanied by a prospectus for Tweedy, Browne Fund Inc.