

VALUE INVESTING | FUND PROFILE

Why Value Investing Is Facing a 'Tectonic Shift'



Thomas Shrager, left, and Robert Wyckoff are co-managers of the Tweedy, Browne International Value fund. Photograph by Zack DeZon

BY DEBBIE CARLSON

The father of value investing, Benjamin Graham, still looms large over Tweedy, Browne, the New York-based firm that served as his broker back in the early 20th century.

The \$5.9 billion Tweedy, Browne International Value fund (ticker: TBGVX) hews to one of the famed investor's key investing tenets: Buying stocks that trade at discounts to their intrinsic values will build wealth over time.

While Graham's intrinsic-value principle hasn't changed in the nearly 100 years

since he created it, what's different now are the metrics used to determine that value, portfolio co-manager Thomas Shrager says. Classic measurements such as book value, he notes, are less useful because markets have become more efficient.¹

One of the metrics that Shrager, 64, and fellow co-manager Robert Wyckoff, 69, now use in their analysis is enterprise value to earnings before interest and taxes, or Ebit. They look for valuation multiples between 10 and 15, but buy when those multiples are at significant discounts, ideally around 30%. Those types of discounts are similar to what someone who is looking to buy

the business outright would want to see, Wyckoff says.

"It just makes sense to try to buy businesses at discounts to real-world observable valuations that have been paid for comparable businesses," he says.

The co-managers' conservative strategy has paid off, particularly for long-term investors. For the past 15 years, International Value has ranked in the top 1% of Morningstar's foreign large value category, with a 3.7% annualized return. Its benchmark index, MSCI EAFE, has returned an annualized 1.6% over the same time frame.² In 2011, Morningstar gave the seven-manager International Value team its International Stock Manager of the Year award.³

Morningstar rates the no-load International Value a five-star bronze fund, although the 1.37% fee for retail shares is considered high by the research firm.

Value investing should have even brighter days ahead, according to Wyckoff and Shrager. The duo predicts that the shift to value that began in the fourth quarter of 2020 is a "tectonic change." As the global economy began to recover from Covid-19 lockdowns, value stocks started to outperform growth stocks, as they typically do during economic rebounds.⁴

The veteran team expects value's dominance to accelerate now that the Federal Reserve is set to raise interest rates several times to temper inflation. Higher interest rates weigh heavier on growth stocks because more of their value is tied to earnings in the distant future. Plus, value stocks are simply cheaper than growth stocks after years of underperformance, Wyckoff says.

The pair's years of experience and the

(over please)



Photograph by Zack DeZon

Tweedy Browne International Value

	Total Return		
	1-Yr	5-Yr	10-Yr
TBGVX	-6.3%	3.3%	6.2%
Foreign Large Value	-11.6	2.4	4.7
Top 10 Holdings			
Company / Ticker	% of Assets		
Nestle / NESN.Switzerland	5.3%		
Diageo / DGE.U.K.	4.6		
CNH Industrial / CNHI	3.7		
Roche Holding / ROG.Switzerland	3.7		
Berkshire Hathaway / BRK.A	3.5		
Alphabet / GOOGL	3.3		
TotalEnergies / TTE.France	3.1		
United Overseas Bank / UOB.Singapore	3.1		
GlaxoSmithKline / GSK.U.K.	2.9		
SCOR / SCR.France	2.9		
Total:	36.1%		

Note: Holdings as of March 31. Returns through May 9; five- and 10-year returns are annualized. Sources: Morningstar; Tweedy Browne

fund's strong record make their predictions worth considering. Wyckoff and Shrager have helmed the fund since 2007 and 2003, respectively, and have been at Tweedy since 1991 and 1989.

The managers seek to build a portfolio with three types of companies, though all should have strong balance sheets, a diversified customer base, and little debt.

The first are the portfolio stalwarts—high-quality businesses with strong brands and little competition that can compound value over time. That is evident in the fund's top two holdings, Nestlé (NESN.Switzerland), and Diageo (DGE.UK), each bought more than 20 years ago. It's those types of holdings that underscore International Value's 11% portfolio turnover.

The second kind of holding the fund seeks are cyclical companies with average levels of growth; they may hold these shares for three to five years. One example is Swedish manufacturer Trelleborg (TREL-B.Sweden), a stock Wyckoff says remains attractively valued. Rubber seals, one of its predominant products, is an inexpensive but critical component of

machines. "A business like that gets pricing power because they're critical for the ultimate success of the enterprise," he says.

Lastly, Wyckoff and Shrager are attracted to deep-value companies, especially those where insiders are buying the stock. In February, the fund bought Finnish company Kemira (KEMIRA.Finland), a supplier of chemicals for water-intensive companies, for around 12 euros (\$12.63) a share, close to the price insiders paid. That represented a sharp discount to its estimated intrinsic value of €17 a share.⁵

Insider buying also alerted the managers to Haitian International (1882.Hong Kong), Taiwan's largest maker of plastic-injection molding machines. Supply-chain bottlenecks weighed on the share price, and in January they bought in at around 21 Hong Kong dollars (\$2.68) a share, near where insiders bought, a price between five to six times their estimates of normalized Ebit. Wyckoff says that valuation multiple should be at least 10 to 11 times, implying a share value of HK\$28 to HK\$30.⁶

The fund has a 42% exposure to Europe but had little direct exposure to Russia and

Ukraine. The war will have an indirect impact on holdings such as Swedish automotive supplier Autoliv (ALV), Shrager says, since Ukraine was a major manufacturer for car harnesses. Higher raw-material costs across the board could eventually flatten operating income for European industrial companies in the near term, he says. In general, Tweedy analysts are still calculating the impact on earnings power from higher input costs on all businesses.

Inflation's overall impact may be less of a bugaboo for a value fund, since it holds mature companies with cash flows, but it's still a worry. Shrager says they're reviewing their holdings to see which companies have the pricing power to pass through higher costs, which should be many of their holdings.

Stock markets are likely to go through some rocky times as they adjust to the Federal Reserve's rate hikes, Wyckoff says. Yet he notes that when markets falter, the fund's conservative strategy gains the most ground compared with its benchmark, thanks to the strong balance sheets of its holdings.⁷

Tweedy, Browne

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Barron’s – May 11, 2022

Endnotes:

1. Shrager and Wyckoff are two members of the seven member Investment Committee that manages the fund's portfolio.
2. 15-year period referenced is from 05/09/2007 through 05/09/2022.
3. At that time, the Investment Committee was a four person team.
4. These statements and others throughout this article represent the opinions of Messrs. Shrager and Wyckoff and are not intended to be a forecast of future events, a guarantee of future results, or an investment recommendation.
5. Of course, the stock may never reach this estimated intrinsic value per share.
6. The firm may be wrong in its estimated valuation multiple, and the stock may never reach this estimated intrinsic value per share.
7. Past performance is no guarantee of future results. There is no guarantee that this statement will prove to be correct.

Other important disclosures:

Tweedy, Browne Company LLC (“Tweedy, Browne”) is the investment adviser for the Tweedy, Browne International Value Fund (also referred to herein as the “International Value Fund” or the “Fund”).

Investment performance and portfolio data for the International Value Fund in the attached reprint is as of 05/09/2007 (unless otherwise indicated) and is subject to change.

INTERNATIONAL VALUE FUND PERFORMANCE

Average Annual Total Returns (for periods ending 06/30/2022)

	International Value Fund	MSCI EAFE (Hedged to US\$) ⁴	MSCI EAFE (US\$) ⁴
1 year	-8.56%	-5.39%	-17.77%
3 years	1.39	5.83	1.07
5 years	2.75	6.05	2.20
10 years	5.80	9.31	5.40
15 years	3.60	3.61	1.42
20 years	6.33	5.89	5.27
Since inception (06/15/1993) ¹	8.28	6.08	4.76

Total Annual Fund Operating Expense Ratios⁽²⁾⁽³⁾

As of 03/31/2021: 1.38% (gross); 1.37% (net)

As of 03/31/2022: 1.38% (gross); 1.34% (net)

The performance data shown represents past performance and is not a guarantee of future results. Total 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 quoted. Please visit www.tweedy.com to obtain performance data that is current to the most recent month end.

1 Prior to 2004, index information was available at month end only; therefore, the closest month end to inception date of the Fund, May 31, 1993, was used.

2 The Fund does not impose any front-end or deferred sales charges. The expense ratios shown above reflect the inclusion of acquired fund fees and expenses (i.e., the fees and expenses attributable to investing cash balances in money market funds) and may differ from those shown in the Funds' financial statements.

3 Tweedy, Browne has voluntarily agreed, effective May 22, 2020 through at least July 31, 2023, to waive the Fund's fees whenever the Fund's average daily net assets (“ADNA”) exceed \$6 billion. Under the arrangement, the advisory fee payable by the Fund is as follows: 1.25% on the first \$6 billion of the Fund's ADNA; 0.80% on the next \$1 billion of the Fund's ADNA (ADNA over \$6 billion up to \$7 billion); 0.70% on the next \$1 billion of the Fund's ADNA (ADNA over \$7 billion up to \$8 billion); and 0.60% on the remaining amount, if any, of the Fund's ADNA (ADNA over \$8 billion). The Fund's performance would have been lower had fees not been waived from May 22, 2020 to June 30, 2022.

4 The MSCI EAFE Index is free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. The MSCI EAFE Index (Hedged to US\$) consists of the results of the MSCI EAFE Index hedged 100% back into U.S. dollars and accounts for interest rate differentials in forward currency exchange rates. The MSCI EAFE Index (in US\$) reflects the return of the MSCI EAFE Index for a U.S. dollar investor. Results for each index are inclusive of dividends and net of foreign withholding taxes.

Indexes are unmanaged, and the figures for the indexes shown include reinvestment of dividends and capital gains distributions and do not reflect any fees or expenses. Investors cannot invest directly in an index.

Tweedy, Browne's 100-year history is grounded in undervalued securities, first as a market maker, than as an investor and investment adviser. Tweedy, Browne registered as an investment adviser with the SEC in 1975 and ceased operations as a broker-dealer in 2014.

The information presented in this reprint is designed to be illustrative of the general investment philosophy and broad investment style overview of Tweedy, Browne in its management of the International Value Fund. It contains forthright opinions and statements on investment techniques, economic and market conditions and other matters. These opinions and statements are as of the date indicated and are subject to change without notice. Tweedy, Browne does not undertake to advise you of any changes in these opinions or the information contained in this reprint. There is no guarantee that these opinions and statements will prove to be correct, and some of them are inherently speculative. The information included in this

reprint is not intended, and should not be construed, as an offer or recommendation to buy or sell any security, nor should specific information contained herein be relied upon as investment advice or statements of fact. Any discussion of sectors, industries, or securities herein is informational and should not be perceived as an investment recommendation. It should not be assumed that any of the securities discussed are still held in the Fund's portfolio, or that securities transactions discussed were or will prove to be profitable. Any holdings and allocations discussed herein are subject to review and adjustment in accordance with the Fund's investment strategy and may vary in the future.

Investors should consider the Fund's investment objectives, risks, charges and expenses carefully before investing. Investors may obtain a free prospectus, which contains this and other information about the Fund, by clicking here or calling (800) 432-4789. Please read the prospectus carefully before investing.

The Fund invests primarily in foreign equity securities that Tweedy, Browne believes are undervalued. The Adviser seeks to construct a diversified portfolio of stocks from a variety of industries and countries. Value investing seeks to uncover stocks whose current market prices are at discounts (that is, undervalued) to the Adviser's estimate of their true or intrinsic value.

Investment decisions for the International Value Fund are made by Tweedy, Browne's seven-member Investment Committee, which is currently comprised of Roger R. de Bree (since 2013), Andrew Ewert (since 2022), Frank H. Hawrylak (since 2014), Jay Hill (since 2013), Thomas H. Shrager (since 2003), John D. Spears (since 1993) and Robert Q. Wyckoff, Jr. (since 2007). There are no lead portfolio managers. Much of the information in this reprint represents the opinions of the speakers and is not intended to be a forecast of future events, a guarantee of future results, or investment advice. Views expressed may differ from those of the Investment Committee or of Tweedy, Browne as a whole.

The Managing Directors and employees of Tweedy, Browne may have a financial interest in the securities mentioned herein because, where consistent with the Firm's Code of Ethics, they may own these securities in their personal securities trading accounts or through their ownership of various pooled vehicles that own these securities.

As of June 30, 2022, the Tweedy, Browne International Value Fund had invested the following percentages of its net assets, respectively, in the following portfolio holdings: Nestlé (5.2%), Diageo (4.0%), Trelleborg (1.4%), Kemira (0.5%), Haitian International (0.2%), and Autoliv (0.8%).

TOP 20 EQUITY HOLDINGS

Nestlé	5.16%	Switzerland
Diageo	3.97%	UK
TotalEnergies	3.53%	France
GSK PLC	3.15%	UK
Roche Holding	3.14%	Switzerland
Berkshire Hathaway A	2.99%	USA
CNH Industrial	2.96%	UK
BAE Systems	2.94%	UK
Alphabet Inc - CL A	2.87%	USA
Safran	2.84%	France
Heineken Holding	2.74%	Netherlands
United Overseas Bank	2.73%	Singapore
Johnson & Johnson	2.44%	USA
DBS Group	2.40%	Singapore
Alphabet Inc - CL C	2.30%	USA
SCOR SE	2.08%	France
Zurich Insurance Grp	1.99%	Switzerland
Unilever PLC	1.80%	UK
Henkel KGaA	1.80%	Germany
Alibaba Group	1.63%	China
Total: 55.44%		

Allocations shown above reflect the Fund's investments on June 30, 2022, and may not be representative of the Fund's current or future holdings. Data is based on the Fund's net assets reported as of the close of business on June 30, 2022, and may differ from net assets reported in the Fund's financial statements, which reflect adjustments in accordance with accounting principles generally accepted in the United States.

Current and future portfolio holdings are subject to risk. Market prices of investments held by the Fund may fall rapidly or unpredictably due to a variety of economic or political factors, market conditions, disasters or public health issues, or in response to events that affect particular industries or companies. The securities of small, less well-known companies may be more volatile than those of larger companies. In addition, investing in foreign securities involves additional risks beyond the risks of investing in securities of U.S. markets. These risks, which are more pronounced in emerging markets, include economic and political considerations not typically found in U.S. markets, including currency fluctuation, political uncertainty and different financial standards, regulatory environments, and overall market and economic factors in the countries. Force majeure events such as pandemics and natural disasters are likely to increase the risks inherent in investments and could have a broad negative impact on the world economy and business activity in general. 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 or protect against a loss in declining markets.

Investors should refer to the prospectus for a description of risk factors associated with investments in securities held by the Fund. All investments are subject to risk, including the possible risk of loss of principal. There is no assurance that the Fund will achieve its investment objective. There is no guarantee that the Fund's investment strategies will work under all market conditions, and each investor should evaluate his or her ability to invest for a long term, especially during periods of downturns in the market.

Earnings before interest and taxes (or EBIT) is an indicator of a company's profitability, calculated as revenue minus expenses, excluding tax and interest. "Normalized" EBIT is our internal estimate of earnings (often an average) over the business cycle of an industry (not peak, not trough, but in the middle).

For the period ending June 30, 2022, the Fund received an overall Morningstar category rating of 5 stars out of 317 funds in the Foreign Large Value category. For the three, five and ten-year periods ending March 31, 2022, the fund received a star rating of 4 stars out of 317 funds in the category, a star rating of 4 stars out of 285 funds in the category, and a star rating of 5 stars out of 175 funds in the category, respectively.

For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating™ based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.) The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its three-, five- and ten-year (if applicable) Morningstar Rating metrics.

Morningstar Rating is for the share class indicated only (see ticker); other share classes may have different performance characteristics. The Ranking may reflect the waiver of all or a portion of the fund's fees. Without such waiver, the Rankings may have been lower. Past performance is no guarantee of future results.

Morningstar has ranked the International Value Fund among its peers in the Foreign Large Value Category. As of June 30, 2022, the International Value Fund was ranked in the top 14% (out of 344 funds in the Morningstar Large Value Category) for the 1-year period; the top 15% (out of 292 funds in the category) for the 5-year period; the top 11% (out of 175 funds in the category) for the 10-year period; and the top 1% (out of 117 funds in the category) for the 15-year period. The highest (or most favorable) percentile rank is 1 and the lowest (or least favorable) percentile rank is 100. The top-performing fund in a category will always receive a rank of 1. The "out of" number represents the total number of funds in the category for the listed time period. Percentile rank in a category is based on total returns, which include reinvested dividends and capital gains, if any, and exclude sales charges. (The Morningstar Foreign Large Value Category consists of portfolios that invest mainly in big international stocks that are less expensive or growing more slowly than other large-cap stocks. Most of these portfolios divide their assets among a dozen or more developed markets, including Japan, Britain, France, and Germany. These portfolios primarily invest in stocks that have market caps in the top 70% of each economically integrated market (such as Europe or Asia ex-Japan). Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow). These portfolios typically will have less than 20% of assets invested in U.S. stocks.) The Ranking may reflect the waiver of all or a portion of the fund's fees. Without such waiver, the Rankings may have been lower. Past performance is no guarantee of future results.) Content reproduced from Morningstar is ©2022 Morningstar, Inc. All Rights Reserved. Some of the information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar, its content providers nor the Fund are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

The Manager Research Group evaluates funds based on five key pillars, which are process, performance, people, parent, and price. The Manager Research Group uses this five-pillar evaluation to determine how they believe funds are likely to perform relative to a benchmark over the long term on a risk adjusted basis. They consider quantitative and qualitative factors in their research. For actively managed strategies, people and process each receive a 45% weighting in their analysis, while parent receives a 10% weighting. For passive strategies, process receives an 80% weighting, while people and parent each receive a 10% weighting. For both active and passive strategies, performance has no explicit weight as it is incorporated into the analysis of people and process; price at the share-class level (where applicable) is directly subtracted from an expected gross alpha estimate derived from the analysis of the other pillars. The impact of the weighted pillar scores for people, process and parent on the final Analyst Rating is further modified by a measure of the dispersion of historical alphas among relevant peers. For certain peer groups where standard benchmarking is not applicable, primarily peer groups of funds using alternative investment strategies, the modification by alpha dispersion is not used. The Analyst Rating scale is Gold, Silver, Bronze, Neutral, and Negative. For active funds, a Morningstar Analyst Rating of Gold, Silver, or Bronze reflects the Manager Research Group's expectation that an active fund will be able to deliver positive alpha net of fees relative to the standard benchmark index assigned to the Morningstar category. The level of the rating relates to the level of expected positive net alpha relative to Morningstar category peers for active funds. For passive funds, a Morningstar Analyst Rating of Gold, Silver, or Bronze reflects the Manager Research Group's expectation that a fund will be able to deliver a higher alpha net of fees than the lesser of the relevant Morningstar category median or 0. The level of the rating relates to the level of expected net alpha relative to Morningstar category peers for passive funds. For certain peer groups where standard benchmarking is not applicable, primarily peer groups of funds using alternative investment strategies, a Morningstar Analyst Rating of Gold, Silver, or Bronze reflects the Manager Research Group's expectation that a fund will deliver a weighted pillar score above a predetermined threshold within its peer group. Analyst Ratings ultimately reflect the Manager Research Group's overall assessment, are overseen by an Analyst Rating Committee, and are continuously monitored and reevaluated at least every 14 months. [Click here](#) for more detailed information about Morningstar's Analyst Rating, including its methodology. The Morningstar Analyst Rating (i) should not be used as the sole basis in evaluating a fund, (ii) involves unknown risks and uncertainties which may cause the Manager Research Group's expectations not to occur or to differ significantly from what they expected, and (iii) should not be considered an offer or solicitation to buy or sell the fund.

NET ASSETS: Approximately \$5.7 billion (as of June 30, 2022).

Initial investment \$2,500, minimum subsequent investment \$200; IRA minimum initial investment \$500.

Tweedy, Browne International Value Fund is distributed by AMG Distributors, Inc., Member FINRA/SIPC.

This material must be preceded or accompanied by a current prospectus for Tweedy, Browne Fund Inc. Please click [here](#) for a free copy of the prospectus. You should consider the Funds' investment objectives, risks, charges and expenses carefully before investing. The prospectus contains this and other information about the Funds. The prospectus should be read carefully before investing.