PROFESSIONAL BUYER CITYWIRE

Why venerable value shop Tweedy, Browne has no qualms about buying tech

John Coumarianos / 13 September 2022

The value firm- is scooping up smaller European and Japanese stocks along with large-cap technology names. The common denominator? Cheap prices.

Tweedy, Browne began life as a brokerage firm making markets in the small, illiquid stocks that Ben Graham favored and famously brokered the purchase of Warren Buffett's first shares of an old Massachusetts textile mill called Berkshire Hathaway.

Over time, Tweedy became a money manager, putting Graham's value approach into practice. And while value investing has struggled mightily over the past decade, the $5.8bn Tweedy, Browne International Value (TBGVX) fund's 5.39% 10-year annualized return through August 2022 has surpassed the 3.28% return of the MSCI ACWI ex-USA Value index.

In an interview with Citywire, the fund's manager Bob Wyckoff, managing director Roger de Bree, and senior analyst Olivier Berlage discussed why they're now buying (some) tech stocks and scooping up smaller European and Japanese names, their longtime position in Nestle, and why investors shouldn't get too hung up on currency risk despite the dollar's recent run.

Citywire: You own both domestic and foreign stocks. Although, as value investors, you proceed on a stock-by-stock basis, do you notice better valuations in one geographical area or another?

Tweedy, Browne: Since the financial crisis in 2008, US equities (as measured by the S&P 500), led by large and dominant technology companies, have produced more than double the compound return of non-US equities (as measured by the MSCI EAFE). As a result, valuations of US equities on the whole are today often many multiple points higher than their non-US counterparts. This, in our view, presents a significant opportunity for patient and longer term focused investors.

That said, the war in Ukraine and the continued disruption of supply lines it has wrought, particularly in the energy sector, has cast a pall over many, if not most non-US equity markets. In addition, the Chinese response to the rise in Covid cases leading to lengthy lockdowns has had a dilatory impact in the near term on economic growth in the Far East.

These exogenous macro events in Europe and China threaten near term economic growth, and profit margins. But we continue to believe that on a stock-by-stock basis, these concerns present a meaningful pricing opportunity in those regions for investors willing to look a bit further out for their returns. We have of late scooped up a number of new smaller and medium capitalization European and Japanese stocks priced at significant discounts to our estimates of their intrinsic values, and continue to maintain a diversified but limited position in Chinese equities.

CW: It seems like we're a long way from using price-to-book as a Geiger counter for value. At the same time, you've adapted, even holding Alphabet since 2012. Has the price drop in technology and communications-related stocks this year encouraged you to look at them harder?

TB: We have no qualms about investing in higher growth technology companies as long as we believe their particular competitive advantage is sustainable, and we get a pricing opportunity in their shares (i.e., we purchase them at a discount from our estimate of intrinsic value). As Buffett has said, value and growth are joined at the hip. It's simply a question of price. We got a pricing opportunity in Alphabet many years ago as the company stumbled briefly in adapting its technology to mobile devices, and have continued to maintain that position in many of our client portfolios as our estimate of the company's intrinsic value rose right along with its stock price. It has been a phenomenal investment for us. More recently, we have established modest positions in a few of the large Chinese internet platform companies, Baidu, Alibaba, and Tencent. They trade at large, and we believe, somewhat irrational, discounts to their US counterparts, and yet in our view have perhaps longer and more robust runways for future growth. In addition, we believe they have balance sheets to see them through what has been a very challenging period of governmental intervention that has constrained near term performance.

In addition, in the technology sector, we have also established positions in a couple of semi-conductor companies, Intel and Samsung. Their stock prices in the near term have borne the brunt of a slowdown in the high rate of growth in computer sales achieved during the 'stay at home' economy of 2020 and early 2021. These companies, in our view, remain well positioned for what should continue to be a very long runway of growth for all things tech, and trade at attractive valuations

CW: You've held Nestle for decades. What's the thesis for the stock, and how much does the L'Oreal stake figure in the analysis? (Nestle owns around 20% of French cosmetics firm L'Oreal.)

TB: Nestlé is not a cheap stock at the moment. If you back out the L'Oreal stake at market value, it trades around 16x Ebitda based on the average of Wall Street analysts' estimates for 2023. It is not being given away. However, it has been a very stable value-grower, and that has made it a very tax efficient investment. We calculate the growth in intrinsic value for Nestlé over the last ten years (2011-2021) has been in the 6%-7% range, and it is important to keep in mind that this number has been achieved in Swiss Francs, one of the strongest currencies out there. If they reported in euros or dollars, we believe this number would be a few percent higher over longer periods. We think this kind of value growth is quite remarkable for a company with approximately $95bn in annual sales. Often with stocks like these we will hold on to the shares as long as the valuation is not unreasonable in our view, and our estimates for the value compound remain in place. When the stock begins to get expensive, in our view, we trim it back or divest.

In our mind, Nestlé's value growth has been driven by:

- Top positions in high return, growing product categories
- Smart M&A
- Share buybacks,
- Steady margin improvement
- Focusing on the long term
- Embracing new technology.

A good illustration of this may be what they are doing in coffee. Nestlé is the number one player in the world with an approximate 20% market share. The runner up is one-third their size and has a very fragmented, regional brand portfolio. Nestlé, on the other hand, is focused solely on the Nescafe, Nespresso and Starbucks (for the home market) brands, so there are economies of scale in their efforts.

CW: The dollar has had a very big run, and you've benefited in your currency-hedged strategies. How do you view the dollar's run, and would you remove the hedges from strategies that have traditionally had them?

TB: After a great deal of study and analyzing long-term return patterns for hedged and unhedged investment strategies, we came to the conclusion long ago that we were not able to predict with any degree of consistency the future direction of the foreign currencies in which our investments were denominated. We also discovered that over long measurement periods, while the performance of hedged and unhedged strategies could vary significantly in the short run, in the long run, their respective return streams tended to come together. Furthermore, we found that at least from the perspective of a US-based investor, there was generally little upfront cost associated with hedging non-US currency exposure back into the dollar. All of these findings led to a decision early on in our international investment offerings to offer clients the opportunity to hedge their perceived foreign currency exposure back into the US dollar. When we began offering this hedging option way back in the summer of 1993, it was rather unique, in that most other international investment managers in the US did not hedge foreign currency exposure.

Today, our advice to investors remains that currency movements are unpredictable, and they should choose a hedged or unhedged strategy and stick with it over the long term. While they might experience a bit more volatility in the unhedged strategy, over the long term they will likely arrive at a similar return destination.

The information presented in this interview is designed to be illustrative of the general investment philosophy and broad investment style overview of the Fund's investment adviser, Tweedy, Browne Company LLC ("Tweedy, Browne"). It contains forthright opinions and statements on securities, 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. There is no guarantee that these opinions and statements are accurate or will prove to be correct, and some of them are inherently speculative. The information included in this interview 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. This interview does not contain information reasonably sufficient upon which to base an investment decision.

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

The Fund's primary benchmark is the MSCI EAFE Index (Hedged to USD). In the interview, the author chose to show the Fund's performance vs. the MSCI ACWI ex-USA Value Index. For the period referenced in the article, the 10-year annualized return through August 31, 2022, the Fund's performance was 5.39% and the performance of the Fund's benchmark index, MSCI EAFE Index (Hedged to USD), was 9.32%.

The average annual total returns of the International Value Fund for the 1-, 5-, and 10-year periods ending June 30, 2024, were 9.87%, 5.16%, and 4.60%, respectively. Total annual Fund operating expense ratios as disclosed in the Fund's most recent prospectus were 1.40% (gross) and 1.40% (net).

The performance data shown above 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. The returns shown do not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares. Current performance may be lower or higher than the performance data shown. Please visit www.tweedy.com to obtain performance data that is current to the most recent month end, or to obtain after-tax performance information.

Tweedy, Browne has voluntarily agreed, effective May 22, 2020 through at least July 31, 2024, to waive the International Value 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 during certain periods.

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 Fund's financial statements.

The article refers to Bob Wyckoff as the Fund's manager. In fact, investment decisions for the Funds are made by consensus of the available members of Tweedy, Browne's Investment Committee, which is comprised of Roger R. de Bree, Andrew Ewert, Frank H. Hawrylak, Jay Hill, Thomas H. Shrager, John D. Spears and Robert Q. Wyckoff, Jr. Much of the information in this interview 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. In the course of the interview, Tweedy, Browne personnel mention certain securities that may have been held in the Fund as of or prior to the date of the interview. Discussion of any particular security, sector or Fund by Tweedy, Browne personnel does not constitute information reasonably sufficient upon which to base an investment decision, should not be considered a recommendation to purchase or sell any particular security, and should not be considered an offer to sell or a solicitation of an offer to buy any of the securities referenced. Moreover, discussions relating to portfolio consideration are for illustrative purposes only. The information in this interview is not guaranteed as to its accuracy or completeness.

As of June 30, 2024, the Fund had invested the following percentages of its net assets in the following portfolio holdings:

	International Value Fund
Alphabet	5.0%
Baidu	0.4%
Alibaba	0.0%
Tencent	1.2%
Intel	0.0%
Samsung	1.1%
Nestle	3.4%

The above listed portfolio holdings reflect the Fund's investments on the date indicated and may not be representative of the Fund's current or future holdings.

Current and future portfolio holdings are subject to risk. 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 and accounting standards, regulatory environments, and overall market and economic factors. 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. There can be no guarantee of safety of principal or a satisfactory rate of return. Investors should refer to the prospectus for a description of risk factors associated with investments in securities held by the Fund.

Although the practice of hedging against currency exchange rate changes utilized by the Fund reduces the risk of loss from exchange rate movements, it also reduces the ability of the Fund to gain from favorable exchange rate movements when the U.S. dollar declines against the currencies in which the Fund's investments are denominated and may impose costs on the Fund. As a result of practical considerations, fluctuations in a security's prices, and fluctuations in currencies, the Fund's hedges are expected to approximate, but will generally not equal, the Fund's perceived foreign currency risk.

Stocks and bonds are subject to different risks. In general, stocks are subject to greater price fluctuations and volatility than bonds and can decline significantly in value in response to adverse issuer, political, regulatory, market or economic developments. Unlike stocks, if held to maturity, bonds generally offer to pay both a fixed rate of return and a fixed principal value. Bonds are subject to interest rate risk (as interest rates rise, bond prices generally fall), the risk of issuer default, issuer credit risk, and inflation risk, although U.S. Treasuries are backed by the full faith and credit of the U.S. Government.

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

Price-to-book value (P/B) is the ratio of the market value of a company's shares to the value of the company's assets as expressed on its balance sheet.

Earnings before interest, taxes, depreciation and amortization (or EBITDA) is used to gauge a company's operating profitability, adding back the non-cash expenses of depreciation and amortization to a firm's operating income (EBIT + depreciation + amortization expense).

The *MSCI EAFE Index* is an unmanaged, free float-adjusted 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 100% hedged back into U.S. dollars and accounts for interest rate differentials in forward currency exchange rates. Index figures do not reflect any deduction for fees, expenses or taxes. The *MSCI ACWI ex USA Value Index* captures large and mid-cap securities exhibiting overall value style characteristics across 22 developed and 24 emerging markets countries.

Past performance is no guarantee of future results.

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This material must be preceded or accompanied by a prospectus for Tweedy, Browne Fund Inc. Investors should consider the Fund's investment objectives, risks, charges and expenses carefully before investing. Click here or call (800) 432-4789 to obtain a free prospectus, which contains this and other information about the Fund. Please read the prospectus carefully before investing.