



**TWEEDY, BROWNE
GLOBAL VALUE FUND**

Investment Adviser's Report

March 31, 2004



**TWEEDY, BROWNE
AMERICAN VALUE FUND**

TWEEDY, BROWNE FUND INC.

Investment Adviser's Report



Left to right: John Spears, Tom Shrager, Chris Browne, Bob Wyckoff and Will Browne.

To Our Shareholders:

In our last report to shareholders, the September 30, 2003 semi-annual report, we separated the official semi-annual report from the Investment Adviser's Report. We did this because federal legislation called The Sarbanes-Oxley Act of 2002 requires us to certify the accuracy of everything contained in the Funds' reports, on pain of potential criminal liability. We believe in sharing our thinking about the investment environment and our reaction to trends and views circulating in the market place. However, we do not believe we should be asked to certify the accuracy of anybody's opinions or information prepared by others which we obviously could not independently verify. Rather than "dumb down" our reports to you, we have decided to break them into two parts. The first, which you should have received a few days ago, contains the material required by the SEC and is certified by us under the Sarbanes-Oxley legislation. The second, this report by us in our role as the Funds' investment adviser, contains our additional commentary on a variety of issues and does not contain Sarbanes-Oxley certifications. We hope the SEC will figure out how to modify the certification requirements to enable us to communicate with you in a more seamless way. Meanwhile, we will continue to do our best on your behalf.



We are pleased to present the Investment Adviser's Report for the Tweedy, Browne Global Value Fund and the Tweedy, Browne American Value Fund for the fiscal year ended March 31, 2004. Investment results* for the latest fiscal year, most recent six months, and past three, five, and ten years, and results since inception of both Funds are presented in the tables below:

Period Ended 3/31/04	Tweedy, Browne Global Value Fund	MSCI EAFE ⁽¹⁾⁽²⁾	
		US \$	Hedged
6 Months	19.76%	22.16%	13.51%
1 Year	48.53	57.54	37.29
3 Years	5.17	3.43	-6.61
5 Years	8.28	0.52	-1.72
10 Years	11.06	4.55	5.06
Since Inception ⁽³⁾	12.31	5.08	5.44

Period Ended 3/31/04	Tweedy, Browne American Value Fund	S&P
		500 ⁽¹⁾⁽⁴⁾
6 Months	13.45%	14.08%
1 Year	32.13	35.12
3 Years	2.95	0.63
5 Years	4.87	-1.20
10 Years	12.43	11.67
Since Inception ⁽³⁾	11.72	10.90

* The performance data 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. 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 which is current to the most recent month end. See page 16 for footnotes 1 through 7, which describe the indexes and inception dates of the Funds. Results are annualized for all periods greater than one year.

After three fairly dismal years for most stock markets around the world, stocks rebounded sharply beginning in the second quarter of calendar year 2003, the first quarter of our fiscal year. Our Global Value Fund enjoyed gains in eleven of the past twelve months, and the American Value Fund had positive returns in ten of the past twelve months. The beginning of 2003 was hardly a time of great optimism. Stocks had endured a bear market of classic proportions, recording consecutive back-to-back losses in calendar years 2000, 2001 and 2002. In September 2001, the United States learned it was not immune to terrorism, and after that, the nation was either on the verge of going to war or was actually engaged in war. Economic indicators were not



positive, and much of the press was spinning an economic picture that proved to be far worse than reality. So much for predicting stock markets!

We can recall stock market pundits opining that even after the bursting of the technology, media and telecommunications (“TMT”) bubble in 2000-2001, that stocks were still poised for another major decline. One pundit we cited last year believed stocks would have to decline an additional 40% before reaching equilibrium with historic valuation levels as measured by price/earnings ratios and price-to-book value ratios.

While we have not taken a poll of stock market pundits, we do not have any sense that the prevailing mood a year ago was positive; certainly not of the magnitude that would presage an advance of 30% to 50% depending on which index one chose to watch. But it did happen, and it happened with the same unpredictability that accompanied the bursting of the TMT bubble.

Market timing would be a wonderful investment tool, if only it worked. Given the amount of brain power that has been devoted to timing markets over the years, one would think that someone would have come up with the “Leading Indicators of Stock Market Turns.” If accurate, as a book it would outsell the Harry Potter series.

Instead, stock market peaks and troughs are more like earthquakes. We know they will happen, we can even predict with some accuracy where they will happen. We just cannot predict *when* they will happen. The “when” is what is really important.

Occasionally, a particular pundit will get it right. It happened in 1987 just before that crash. It will happen again just before the next crash. (We accept the inevitability of periodic stock market “crashes.” We just want to be sure our house is still standing after the crash.) The winner will achieve celebrity status. Interviews on MSNBC and Money Line will follow. However, we have never seen any sustainable ability to predict these stock market turns. The winners become footnotes in the history of the stock market. Just because you win the lottery with 35-46-87-99-34 does not mean you will win the next lottery.

Predicting stock market turns is pretty easy for the pundits. They seldom, if ever, have any money riding on their predictions. They seldom seem to be called on the carpet if they are wrong. They are just forgotten. If they are so good at making stock market predictions, why don’t they back up their predictions with their own money?

The reason may be that it requires a tremendous degree of conviction to profit from such predictions. Setting aside the frictional costs of trading and taxes, how many investors are willing to sell everything when a market top signal is given, and go back in when a bottom is identified? Given the speed with which stock markets can turn positive or negative, quick action is



required to capture the greatest part of the return. And one would have to make an investment decision that generally runs counter to the prevailing wisdom of the day. Optimism is usually greatest near the top, as is pessimism when the bottom is at hand.

The “joy” an investor experienced in our last fiscal year was a result of staying the course. By the time an average, or even above-average, investor who was sitting on the sidelines realized that the fiscal year ending March 31, 2004 was going to be a great year, a good chunk of the profits had been achieved. The first quarter of our fiscal year, the one ended June 30, 2003, was our best quarter of the year for both Funds. For the Global Value Fund, 29.7% of our fiscal 2004 return came in the June 30th quarter, while 35.5% of the American Value Fund’s annual return came in the same first quarter.

On an absolute return basis, both Funds had a rewarding year. Being up 48.53% (Global Value Fund) or 32.13% (American Value Fund) in a twelve-month period versus long-term annual returns in the 10% to 12% range, is not something to cry about. However, we did have a strong tailwind, and on a relative basis our results are not in the Oscar Award category.

The Global Value Fund’s return for the year at 48.53% trailed the MSCI EAFE Index in US\$ (+57.54%) by 9.01 percentage points. The MSCI EAFE Index Hedged to the US\$ gained far less (+37.29%), which is attributable almost exclusively to the weakness of the US\$ versus the Euro and the Japanese Yen over the past year. The hedged index and the performance of the Global Value Fund closely reflect the performance of the stocks in the index and in our Fund in their local market currencies. On this basis, we did relatively well beating the index by 11.24 percentage points. Had the Global Value Fund’s portfolio not been hedged, we would have also handily outperformed the MSCI EAFE in US\$. (A further discussion of our currency hedging and our hedging policy appears at the end of this letter.)

The relatively better performance of the Global Value Fund versus the hedged index is partly attributable to a greater weighting in consumer discretionary stocks that enjoyed strong gains, and to a greater concentration in small and mid-cap issues. Stocks with market caps between \$500 million and \$5 billion performed significantly better than stocks with market caps greater than \$5 billion. The average return for the first category of stocks in the index was approximately 56% last year versus an average return of about 45% for stocks with market caps greater than \$5 billion. However, nearly 88% of the index is invested in stocks larger than \$5 billion in market cap, while less than 12% of the index is invested in stocks in the \$500 million to \$5 billion range.

The Global Value Fund’s return for stocks in the \$500 million to \$5 billion category was approximately 72% last year, and the return on stocks with market caps above \$5 billion was about 38%. In the case of the Global



Value Fund, only about 44% of net assets was invested in the large cap category, while almost 40% of net assets was invested in stocks in the \$500 million to \$5 billion range. Both internationally and in the US, mid-cap stocks in general did better than large cap stocks. The fact that we had a significantly greater percentage of assets invested in mid-cap stocks, and a correspondingly lesser percentage invested in large cap stocks, was not the result of any smart asset allocation decision on our part. We just happen to invest in all capitalization categories. Our goal is to find cheap stocks irrespective of capitalization size.

The American Value Fund's results came very close to that of the S&P 500 Index despite significant differences in the composition of our portfolio as compared to the index. Some degree of our underperformance is attributable to the expenses incurred in running a mutual fund, and the drag on performance that even a modest percentage of cash can have in an up year. (The index has no expenses and is fully invested at all times.) In a bull market year, even index funds do not always match the performance of the index after which they are modeled.

The best performing industry category in the S&P 500 was Information Technology, approximately 17% of the index, with a return of more than 43%. The much more technology-weighted NASDAQ Composite Index⁽⁵⁾ enjoyed a gain of 49.37% last year. Technology has never been a significant industry group in our Funds. Financial stocks are the largest single industry category in both the S&P 500 and the American Value Fund, although our Fund is even more heavily weighted in this category than is the index. Both the index and our Fund enjoyed about the same return in this category, 45%. Consumer discretionary stocks were nearly equally weighted as between the index and the Fund at approximately 11% of net assets. However, our consumer discretionary stocks saw a gain of nearly 57%, while those in the index were up almost 40%.

From a market cap perspective, about 96% of the S&P 500 Index is invested in stocks with market caps greater than \$5 billion. The return in this category was approximately equal to the return for the full index. Stocks in the index with market caps below \$5 billion did considerably better, but at only 4% of the index, had little impact on the overall result. The larger cap stocks in the index, led by technology issues, did considerably better than the larger cap stocks in the American Value Fund's portfolio. However, the Fund had considerably less of its assets, 54% versus 96%, in large cap stocks. We made up lost ground with the approximately 40% of net assets invested in stocks with market caps less than \$5 billion that produced a return of about 52%.

In our opinion, investment results in any given year are not meaningful when forming an opinion about a particular investment manager or investment style. Performance over a longer period of time, one that crosses



over several market cycles, is the best way to judge performance. In any one-year period, performance will be driven by certain industry categories or market cap segments. Market leadership by categories of stocks changes or rotates. What was last year's winning industry group may turn out to be this year's laggard. Throughout much of the late 1990s, large cap stocks beat small and mid-cap stocks. The reverse has been true in the past couple of years.

While it would be great, and extremely profitable, to know which industry groups or market cap segments will perform best in the next twelve months, that is an area of expertise well beyond our capabilities. This is not humility; this is reality borne of experience. Industry group and market cap rotation in a stock portfolio based on future predictions of returns is the ultimate extension of "market timing." You might even call it "micro market timing."

In any given shorter term market cycle, someone will make the right prediction. Given the number of market predictions being floated at any particular time, and given the fact that these predictions cover every conceivable market scenario, someone has to be right. However, is getting it "right" once predictive of getting it right the next time, and the next time? If such a person exists, please let us know. We would love to hire him or her.

On a long-term basis, we believe we have accomplished much of what we set out to accomplish. Over the past ten years, both Funds are ahead of the broader stock market indexes domestically and internationally. The Global Value Fund is significantly ahead of MSCI EAFE both in US\$ and hedged. The American Value Fund is ahead of the S&P 500 albeit by a much smaller margin. However, we are in a favorable minority of money managers. According to a study we conducted using data from Morningstar's Principia Pro database, only 28% of Morningstar's Domestic Stock Funds⁽⁶⁾ that have been in existence throughout the ten-year period ended March 31, 2004 outperformed the S&P 500.

We have also achieved our results by seeking to reduce the risk of permanent capital loss. Our personal view of risk leads us to consider the following factors: first, we do not believe in leverage. While leveraging a portfolio can telescope returns on the upside, it can also end in a "three strikes and you're out" result if you get it wrong. Second, we like to diversify, perhaps more than some of our peers. We believe that limiting our exposure to any one company provides some insurance if we are wrong in our research, or if some unforeseen event occurs that negatively affects a particular investment. Third, we try to avoid certain characteristics in the companies in which we invest in the hope of avoiding permanent capital loss: we generally avoid companies with high levels of debt, or undue customer concentration, or dependence on government regulations that could result in a particular company suffering an irreparable reversal of fortunes. So far, we have been lucky. Few of our



investments have ever filed for bankruptcy, or been the object of any major accounting fraud scandals. Much of making money is about not losing money.

The Investment Horizon Today

As we discussed in our September 30, 2003 Investment Adviser's Report to shareholders, we were not finding an "overabundance" of cheap stocks, at least not as we define the term cheap. The situation has not improved in the last six months. Six months ago we spoke of the fact that while the TMT bubble had burst, causing most broad stock market indexes to come down with it, the rest of the market had rebounded. Citing a Morgan Stanley research piece, we observed that the difference between the most overvalued stocks and the most undervalued stocks had narrowed considerably. The decline of the stocks that made up the TMT bubble segment of the market had less influence on our work than the rise at the time of the forgotten part of the market, the non-TMT stocks.

Since the peak of the stock market in March of 2000, the broad stock market indexes are all still in negative territory. As of March 31, 2004, the S&P 500 is still off -20.17%, the NASDAQ Composite is down a healthy -55.73% even after a 50% rise in calendar year 2003, and the MSCI EAFE Index in US\$ and hedged is down -17.95% and -29.96%, respectively. So where are all the cheap stocks? This should be investment Nirvana for value investors like us.

Come mid-December of last year, the latest edition of *Miller's Musings*, written by Paul Miller, popped up on Chris Browne's email screen. Paul is a founder and former Chairman of the money management firm of Miller, Anderson and Sherrard, now part of Morgan Stanley Asset Management. A true value investor, Paul did some of the earliest work on low P/E investing back in the 1960s. Along the way, he has served on numerous not-for-profit boards and their investment committees. In the 1980s, while serving as Chairman of the University of Pennsylvania's board of trustees, Paul recruited John Neff to manage the equity portion of Penn's endowment. John Neff's efforts, provided on a *pro bono* basis, led to Penn's being ranked among the best performing endowments among its peers through much of the 1980s and early 1990s. (Chris Browne is honored to serve with Paul on Penn's endowment investment committee to this day.)

Paul periodically sends out *Miller's Musings* to friends and former associates. His observations on the economy in general, and the stock market in particular, are as insightful and relevant as his work was at the peak of his career. In his latest "Musings," Paul stated, "The stock market is more expensive now [late November, 2003] than it was at the peak of the market averages in the Spring of 2000."



This may seem like an outlandish statement given the decline in the averages from their peaks in 2000, and given the fact that the earnings of the averages have increased since then. The trailing price/earnings ratio of the S&P 500 at the market top in 2000 was 33.87x. Through the end of 2003, the trailing earnings have grown 20%, and the year-end trailing P/E stood at 20.47x. The NASDAQ Composite, at its peak in 2000, traded at a totally absurd 400x earnings. Three years and nine months later at the end of 2003, the NASDAQ Composite's earnings have increased a mere 16%, hardly a robust rate of "growth," and the P/E ratio even after a 60% decline in the Index is still a healthy 137.3x.

While the averages on the surface appear cheaper today, the gross index statistics may not tell the whole story. To paraphrase Paul Miller, the bull market of the late 1990s was a highly concentrated event which was dominated by a handful of technology and large cap companies. The market placed ridiculous valuations on small companies and turned them into large cap stocks. At the same time, many non-tech companies saw their share prices languish, and they became, on a relative basis, small or mid-cap stocks. Paul cites data from Value Line, which covers 1,700 companies. At the height of the tech bubble, when the P/E ratio of the cap-weighted S&P 500 was hovering above 30x, the median P/E of Value Line's universe of stocks was below 13x. According to data from October 2003, the median P/E ratio rose to 18.8x while the P/E ratio of the cap-weighted S&P 500 fell to the low 20x level. This shift was a result of a sharp decline in the prices of many large cap and tech companies, while many small and medium sized companies rose sharply.

A comparison of the performance of the cap-weighted S&P 500 with the performance of the median stock in the index further illustrates this point:

Table from Miller's Musings
Standard & Poor's 500 Stock Index

	% Return Price Only*				
	Cap Weighted	Equal Weighted	Median Stock	Largest 25	Smallest 200
1998	26.7%	10.8%	5.8%	38.4%	1.8%
1999	19.5	10.1	-2.9	29.0	4.4
2000	-10.1	7.1	3.9	-17.9	8.8
2001	-13.0	-0.3	1.2	-15.3	20.7
2002	-23.4	-19.3	-14.6	-24.5	-16.1
2003 (October 31)	19.4	30.0	24.4	11.3	41.0
5.83 Years					
Compounded Rate	1.4	5.5	2.4	0.7	8.7

* Data in this table is from *Perception*, a publication of the Leuthold Group, November 2003



Paul's observations gave us a greater understanding of why we were having so much trouble finding undervalued stocks in the US. It did not take much thought to translate these circumstances to global markets.

Our investment criteria are absolute, not relative. We do not screen the universe of US stocks and buy those that, in our estimation, are the cheapest relative to all other stocks based on common statistical measures such as price-to-earnings ratios or price-to-book value ratios. We analyze companies on a company-by-company basis, attempting to make an informed estimate of a company's value on the basis of a sale of the entire company to a knowledgeable, likely buyer. We try to make a value appraisal.

In our opinion, the primary determinant of corporate value is earnings before interest, taxes and amortization of goodwill, which our profession calls EBITA. In certain industries such as newspapers, cable television systems or television stations, it is common corporate valuation practice to add depreciation to EBITA in the calculation of value. This number is referred to as EBITDA. The first cut valuation places a multiple on either EBITA or EBITDA, depending on the nature of the industry. Whether that multiple is 6x, 8x, 10x or more is influenced by both interest rates and industry characteristics. An industry with less favorable growth prospects, such as a basic manufacturing company, or one whose business is highly cyclical, will get a lower multiple. A company with stronger growth prospects and recognized brands will get a higher multiple. We do not assign the multiple based on our own view of the industry in which a company operates, but try to determine what multiple the likely buyers would use in making a bid for the entire enterprise, often relying on actual transactions that have occurred in the past. If there are too few comparable sales transactions in the recent past, we have to make our own estimate of an appropriate multiple of income. We then apply the selected multiple to EBITA or EBITDA to determine a value for the enterprise. Next, we subtract any interest-bearing debt or other similar corporate obligations, and add back any excess cash or non-core investments the company may own to determine a value for the business. We then derive a value per share and look for stocks selling at a significant discount from our estimate of business value.

How to Value a Company at 10x EBITA

Here is an example of valuing a company with 1,000,000 shares outstanding at a 10x multiple of EBITA

EBITA	\$10,000,000 x 10
Value before adding cash or subtracting debt	\$100,000,000
Add cash	+10,000,000
Subtract debt	(30,000,000)
Equals net value	\$ 80,000,000
Net value of each of the 1,000,000 shares	\$ 80 per share

(\$80,000,000 divided by 1,000,000 shares = \$80 per share)



While the principles are easy to comprehend, the intricacies of corporate accounting and an understanding of a company's future prospects can make the analysis more complicated. In Ben Graham's world, the consistency of earnings was an important factor in determining corporate net worth. Are current earnings an aberration either on the upside or the downside? What is a "normal" earnings rate? What economic or competitive factors will influence earnings either positively or negatively going forward? Do we think the company has the ability to grow its business in the future, and, if so, what could the value be five years out? These are a few of the less tangible aspects of our analysis. If we cannot understand how a company accounts for its profits, we walk away from it. This explains why we have owned very few Enrons. Making estimates of future values is problematic. We do the best we can. We avoid industries where predicting the future is particularly difficult, which explains our aversion to technology companies where the persistency of earnings is, in general, far lower than many other industries.

In a recent research piece from Steve Galbraith and his associates, when he was at Morgan Stanley, he analyzed the persistency of earnings from the perspective of Ben Graham across a number of industry sectors. Using the criterion of positive earnings, no losses, over a ten-year period, Galbraith found that 92% of companies in the consumer staples category reported positive earnings in each of the last ten years. Sectors ranging from consumer discretionary businesses to financials to energy, all scored in the mid-to-high 70% range. Telecom companies scored 58% positive earnings records, and technology was lowest with less than one out of two companies reporting positive earnings in each of the past ten years. As Galbraith wrote, "We suspect Graham would look at investors' fascination with all things tech a touch quizzically."

Today, we come up with very few stocks as we screen for companies in both the US and internationally selling at less than the value we estimate a corporate acquirer would likely pay. We track corporate acquisitions and find that few recent takeovers have been at EBITA multiples greater than the average of all publicly traded stocks. Many businesses have been acquired in the last 18 months at EBITA multiples of 8x to 10x. An EBITA multiple of 10x equates to an after tax price/earnings ratio of 16.7x assuming a 40% corporate tax rate. Most stocks currently trade at a price/earnings ratio greater than 16.7x.

We do not believe current stock valuations are in the stratosphere as the TMT stocks were a few years back, or the "nifty fifty" stocks were in the early 1970s. And if history is a guide, 2004 will be another positive year for stocks. Markets generally rise in a presidential election year. However, current stock market levels provide for little uncertainty. Generally, there is some uncertainty factor priced into stock valuations. This is why there are usually a good number of cheap stocks at any particular time in the stock market cycle.



Stock markets like nothing less than uncertainty, which is the fear of some unforeseen negative factor. The problem with the unforeseen is that it is always unforeseen. Forecasts are difficult to make, especially about the future.

While we are not finding a lot of cheap stocks for which we can make a convincing valuation case at this time, we are not out of the market, and are not suggesting getting out of the market. We are suggesting that simply because stocks are rising and economic conditions are improving, there is no reason to abandon investment principles.

Market Timing and Late Trading in the Mutual Fund Industry

In our September 30, 2003 Investment Adviser's Report to shareholders, we described in detail the market timing and late trading practices that were being used to capture short-term gains that otherwise would have gone to longer term investors in funds. Some of these tactics had the tacit approval, if not encouragement, of certain mutual fund management company executives, while others were the acts of lower level employees who were able to permit market timers to trade their employer's funds undetected. Hopefully, the worst offenders have been identified and many have been disciplined.

The investigations are on-going, but allegations that the practice was "pervasive" within the industry may be an exaggeration. Characterizations of how widespread the practice was are a matter of opinion. While we in no way would make excuses for any practice that hurt shareholders, the damage to individual fund investors was far less than what may have been perceived by following the press coverage. However, big profits can be made by small differences in large numbers, and a defense based on how little these practices cost individual mutual fund shareholders holds no water. Fortunately, it would appear that the number of mutual fund management firms who knowingly permitted or encouraged market timing and late trading by speculators is a small minority of the mutual fund management firms in the industry. We believe the vast majority of mutual fund managers take their responsibility to their shareholders seriously and act accordingly.

As Frederick Douglass so aptly put it a long time ago (1894), "The sins of the few are visited upon the many." The number of regulations that have come about as a result of these acts may have another unintended consequence. New regulations were needed. For us, so far, they are something more than a nuisance but less than onerous. However, the current degree of regulation may be raising the barriers to entry into the mutual fund business because the costs associated with compliance are large. In addition, there are other proposals still being considered that, if approved, will further add to the cost of running a mutual fund. Established firms like ourselves can absorb their share of the additional costs involved with complying with these new regulations. However, new entrants may not be able to support these costs and therefore



may not be able to afford to start up a new fund without significant outside financial support. The money management business used to be more entrepreneurial; it was relatively easy for a smart young manager to set up shop and go into competition with older, more established firms. This is becoming less possible today with the result that the average investor may have fewer investment choices in the future.

Hollinger International Inc., *continued*

In our last semi-annual Investment Adviser’s Report we reported that on May 19, 2003 Tweedy, Browne had served a demand on the board of directors of Hollinger International Inc. (“HLR”), parent company of *The Daily and Sunday Telegraph* in London, the *Chicago Sun Times*, *The Jerusalem Post*, and numerous smaller daily and weekly newspapers⁽⁷⁾. Our demand was for the formation of a special committee of the board to investigate a series of payments for management services and non-compete fees arising from the sale of company assets to third parties that were made to the company’s Chairman, Conrad Black, and several of his management associates.

The board agreed to the formation of the committee. A newly elected director was appointed chair of the committee. As the independence of nearly all the standing directors was compromised by their service on either the audit or compensation committees, which had approved the fee payments, two additional independent directors were elected to the board over the summer of 2003. The special committee, as it is known, hired Richard C. Breeden, a former Chairman of the U.S. Securities and Exchange Commission and corporate governance specialist, as their adviser. Mr. Breeden and the committee began interviewing directors and members of management in the late summer of 2003.

Along the way, we had discovered that Conrad Black needed cash to finance debt incurred by Hollinger Inc., a Canadian company that owned a 30.2% equity interest and 72.6% voting interest in HLR. A private company controlled by Black, which was the recipient of the management services fees from HLR, in turn controlled Hollinger Inc. It transpired that Black’s private company had pledged its management services fees from HLR to pay the interest on the debt at Hollinger Inc. In effect, HLR was supporting the debt of its holding company, Hollinger Inc., through service fees paid to a Black controlled entity. We were surprised to learn that a large part of the fees ostensibly paid for “management services” were, instead, really being used to pay interest on debt. If Black’s private company defaulted on its obligation to pay interest on the debt at Hollinger Inc., then Black would be at risk of losing control over HLR, so he had a strong incentive to keep fees high. Apparently, the directors who approved the management services agreements and fees did not know these fees were in large part going to pay the interest on the debt at



Hollinger Inc. The annual management service fees were substantial in amount, reaching a peak level of \$40 million in 2000.

We were told that the committee had expanded its mandate beyond the management services agreements and the non-competition fees to include any possible conflicts of interest and self-dealing. While doing its work, the special committee made no public announcements about its progress.

However, the press was having a field day. Black is a larger-than-life character in the media world. *The Daily Telegraph* is the largest selling broadsheet paper in the UK, and a staunch supporter of the British Conservative Party. In 2001, Black renounced his Canadian citizenship to take a seat in the British House of Lords with the title Lord Black of Crossharbour. On the board of HLR, Black surrounded himself with important and influential people from the world of politics and business. We are sure that if Black had been a more ordinary CEO running a more mundane business, the investigation by the special committee would not have drawn nearly as much attention.

While one could draw the conclusion, based on certain press articles, that we were going after Black, that is not the case. Our demand for a special committee related to the board and the information it considered in awarding Black such lucrative fees, which the special committee has since determined totaled more than \$224 million since 1996. If these fees were found to be excessive, and if the board had not exercised its duty to carefully consider them, we wanted the fees paid back to the company, and thus its shareholders. Whether repayment came from Black or the members of the board was of no consequence to us. We made this point quite clear in an op-ed piece that we were invited to submit to the *Financial Times*.

On November 17, 2003, HLR announced that the special committee had uncovered \$32.15 million in payments made to Black and his associates that were “styled” as non-compete payments but which had never been approved by the board or any of its committees. Approximately half of these payments had not been reported in previously filed financial statements, which occasioned their immediate disclosure. Within days, Black stepped down as CEO of HLR, although he continued as Chairman of the Board. Black further agreed to repay \$7.2 million to the company, as did his associate, David Radler, President of HLR. Radler also agreed to relinquish his executive duties. The board then hired Lazard Freres to advise the company on strategic alternatives, a euphemism for seeking buyers for the company and/or its assets. Black agreed not to interfere with the work of the committee and also agreed not to seek a buyer for his voting control position in the company. That agreement went through December 31, 2003, at which time Black was also due to make payment of the first installment of the \$7.2 million he had agreed to repay the company.

By January 1, 2004, Black refused to make good on his promise to pay the first installment and claimed that he did not owe this money to the company,



as these payments had been approved by the board. Concern was rising that Black might attempt to use his voting control of the company to fire the board and the special committee. The board had stopped making payments under its management services agreement with Black's private company for all but a fraction of the fee.

Next, the SEC intervened and the company entered into a consent decree not to terminate the special committee. Furthermore, if Black attempted to disband the committee, the SEC said it would seek to have Mr. Breeden appointed Special Monitor to insure that the work of the committee continued. At the same time, the company sued to recover more than \$200 million from Black and his associates for improper fees. The board terminated Black as Chairman and reaffirmed the independent directors' unanimous conclusion that the fees had not been approved.

Black reacted by unilaterally enacting changes to the by-laws of HLR, which prohibited the company from selling any assets without unanimous board approval, and he disbanded all board committees except the special committee and the audit committee. Although Black had agreed with HLR in November 2003 not to seek a buyer for his voting control position in HLR, it transpired that since May 23, 2003, the day after the annual meeting, he had been negotiating to sell Hollinger Inc., through which he controls HLR, to a private British company owned by Lords Frederick and David Barclay, wealthy and reclusive brothers.

The HLR board adopted a poison pill provision to dilute voting control should the Barclays acquire control of Hollinger Inc. The HLR board also sued Black to stop him from selling to the Barclays, and Black countersued. The whole thing went to trial on February 18 and in late February the court handed down a 130-page decision ruling in favor of HLR's board on all counts. The court concluded that Black "... repeatedly behaved in a manner inconsistent with the duty of loyalty he owed the company." The court further concluded that "Black breached his fiduciary and contractual duties persistently and seriously ..." in his dealings with the board of HLR and ultimately its minority shareholders. By doing so, the court stated that "His conduct threatens grave injury to International [HLR] and its stockholders by depriving them of the benefits that might flow from the Strategic Process' search for a value-maximizing transaction." At this point, it seems that our acting like an owner has paid off.

Our purpose during this entire process was to gain a fair and equal outcome for all shareholders, not one that favors one shareholder over another. We think the process should insure that the best price is attained for the benefit of all shareholders, including Black.

People have asked us why we bothered to engage in this whole process. They have asked whether it would not have been easier to just sell our HLR stock and move on. It clearly would have been easier. At the time we made



the demand for the formation of the special committee, we could not have known what would transpire seven or eight months later. However, at that time, the stock was selling for just over \$10. It is now just over \$20. The market may be seeing the unlocking of the underlying value of HLR. Also, back in May 2003, Black asked whether our actions in opening the investigation were contrary to our interests as shareholders. We do not think so. We believe it is important for shareholders to act like owners. If we don't, who will? (On a side note, Black has described us as "corporate governance terrorists." We consider it a compliment.)

Currency Hedging, *continued*

In our September 30, 2003 Investment Adviser's Report to shareholders, we said we would investigate the possibility of offering both a hedged and an unhedged way for shareholders to invest in our Funds. This alternative has proven easier said than done, and we are still exploring how it might actually work. As we have said in the past, our personal preference is to invest in foreign stocks through a currency hedged fund. We are not currency experts and do not believe we could add anything to the investment process by changing our currency position from time to time. We have also observed that when the consensus of opinion is strongest, it can also be wrong. During the Funds' fiscal year the dollar bottomed out against the Euro on February 17th, and has been stronger ever since. During the same period the Yen reached its peak on March 5th. While this can all reverse itself any day, the mere fact that the dollar has been stronger lately flies in the face of a chorus of currency pundits predicting a relentless decline in the dollar versus other major currencies.

We are still trying to find a way to provide both alternatives to our investors, and hope you appreciate that the legal, accounting and portfolio management obstacles to providing the same portfolio of stocks with different hedging policies is not easy. We hope to have a more definitive answer in the near future.

Very truly yours,

TWEEDY, BROWNE COMPANY LLC

Christopher H. Browne
William H. Browne
John D. Spears
Thomas H. Shrager
Robert Q. Wyckoff, Jr.
Managing Directors

May 5, 2004



Footnotes

- (1) 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. We strongly recommend that these factors be considered before an investment decision is made.
- (2) MSCI EAFE US\$ is an unmanaged capitalization-weighted index of companies representing the stock markets of Europe, Australasia and the Far East. MSCI EAFE Hedged consists of the results of the MSCI EAFE Index hedged 100% back into US dollars and accounts for interest rate differentials in forward currency exchange rates. Results for both indexes are inclusive of dividends and net of foreign withholding taxes.
- (3) Inception dates for the Global Value Fund and the American Value Fund were June 15, 1993 and December 8, 1993, respectively. Except for the S&P 500 Index, information with respect to all other indexes and averages used is available at month end only; therefore the closest month end to each Fund's inception date, May 31, 1993 and November 30, 1993, respectively, were used.
- (4) S&P 500 is an unmanaged capitalization-weighted index composed of 500 widely held common stocks listed on the New York Stock Exchange, American Stock Exchange and over-the-counter market and includes the reinvestment of dividends.
- (5) NASDAQ Composite Index is an unmanaged capitalization-weighted index composed of all NASDAQ domestic and non-US based common stocks listed on the NASDAQ Stock Market.
- (6) The Morningstar Domestic Stock Fund Category consists of all mutual funds in the Morningstar Universe that have over 70% of their assets invested in domestic stocks.

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- (7) As of March 31, 2004, shares of Hollinger International Inc. represented 4.2% and 2.5% of the net assets of Tweedy, Browne American Value Fund and Tweedy, Browne Global Value Fund, respectively, and may not be representative of the Funds' current or future holdings.



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 US markets. These risks involve economic and political considerations not typically found in US markets, including currency fluctuation, political uncertainty and different financial standards, regulatory environments, and overall market and economic factors in the countries. Investors should refer to the prospectus for description of risk factors associated with investments in securities held by the Funds.

Tweedy, Browne American Value Fund and Tweedy, Browne Global Value Fund are distributed by Tweedy, Browne Company LLC.

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



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