



**Tweedy,  
Browne  
Company LLC**  
*Established in 1920*

Tweedy, Browne's 91-year history is grounded in undervalued securities, first as a market maker, then as an investor and investment advisor. Tweedy, Browne's investment approach derives directly from the work of the late Benjamin Graham who co-authored the first textbook on investment research, *Security Analysis* (1934) and authored *The Intelligent Investor* (1949).

## **Tweedy, Browne Company LLC**

- Manages **global shares** for MLC, since 2009
- Founded in 1920 and serving originally as a broker to Benjamin Graham and other highly noted value investors, the Firm began managing its first value share portfolio in 1959.
- Manages \$12 billion, across the world, as at 30 June 2011
- Offices in New York and London (research office only). Based in New York, USA
- The Firm is managed by four Managing Directors who have worked together between 19-36 years.
- As of 31 December 2010, the current Managing Directors and retired principals and their families, as well as employees of Tweedy, Browne, had \$698 million USD invested in portfolios combined with or similar to client portfolios.

## **Why has MLC chosen Tweedy, Browne?**

Tweedy, Browne is distinguished by the length and quality of its historical investment record (52 years), the experience and stability of its management team, and the efficacy of its value-based approach, which derives directly from its historical association with the founder of this discipline, Benjamin Graham. Their absolute value focus tends to provide good downside protection during market downturns.

MLC believes Tweedy, Browne's experience in global value investing and its proven ability to exploit the inefficiency of global share markets will continue to allow this firm to thrive over time. Their portfolio will typically hold around 30-50 stocks.



*Clockwise from top left: Will Browne, John Spears, Tom Shrager, and Bob Wyckoff.*

## **Philosophy on investing**

The investment management principles practiced by Tweedy, Browne derive from the work of the late Benjamin Graham, professor of investments at Columbia Business School and author of *Security Analysis* and *The Intelligent Investor*. Tweedy, Browne's research seeks to appraise the worth of a company, what Graham called "intrinsic value", by determining its acquisition value, or by estimating the collateral value of its assets and/or cash flow. The term "intrinsic value" may also be referred to as private market value, breakup value or liquidation



value. The process is more closely related to credit analysis, for they have often said, “we are as concerned with the return of our capital as we are with the return on our capital.” Investments are made at a significant discount to intrinsic value, which Graham called an investor’s “margin of safety”. Investments are generally sold as the market price approaches intrinsic value, with the proceeds reinvested in other situations offering a greater discount to intrinsic value. Adhering to the principles of intrinsic value and margin of safety results in an investment policy that runs counter to the general market psychology, and seeks to reduce the decision to purchase or sell securities to a discipline rather than an art.

## **Investment process**

In determining intrinsic value, Tweedy, Browne’s research focuses on fundamental principles of balance sheet and income statement analysis, and a knowledge and understanding of actual corporate mergers, acquisitions, and liquidations. Utilizing a variety of databases, they screen and rank more than 20,000 publicly traded corporations worldwide, and research and select for investment, those issues selling at substantial discounts to their estimates of intrinsic value. To minimize errors in analysis or events which could adversely affect intrinsic values, they adhere to a policy of broad diversification within individual portfolios, with no one issue generally accounting for more than 3% to 5% at cost of portfolio assets, no one industry group generally accounting for more than 15% to 20% of portfolio value, and no one country (except for the US) accounting for more than approximately 20% of portfolio value.

Country, industry and sector allocations are purely a function of Tweedy, Browne’s strict bottoms up stock by stock valuation work. They give no consideration to any stock market index in the construction of their portfolios. Their screening and selection process is focused primarily on developed markets although the more developed emerging markets are considered.

At Tweedy, Browne, the stock selection process is largely about measuring and confirming both quantitative and qualitative measures of value and includes a thorough analysis of financial statements, valuation modeling, competitive analysis, direct communication with the company and competitors, and a review of available street research. Purchase and sale decisions are then made by a consensus of the firm’s Investment Management Team which consists of Chris Browne, Will Browne, John Spears, Tom Shrager and Bob Wyckoff.

Most investments in Tweedy, Browne portfolios have one or more of the following investment characteristics: low share price in relation to book value, low price-to-earnings ratio, low price-to-cash-flow ratio, above-average dividend yield, low price-to-sales ratio as compared to other companies in the same industry, low corporate leverage, low share price, purchases of a company’s own stock by the company’s officers and directors, company share repurchases, and a share price that has declined significantly from its previous high. Academic research and studies have indicated a historical statistical correlation between each of these investment characteristics and above-average investment rates of return over long measurement periods.

## **Investment people**

Rigorous bottom up research is a time honoured tradition at Tweedy, Browne. They do not have portfolio managers in the traditional sense. All portfolios are managed by the management team consisting of the firm’s four active Managing Directors. The management team thinks of themselves as analysts and they are supported by 9 additional analysts:

- John Spears joined Tweedy in 1974 having been an analyst at another firm.
- Will Browne joined Tweedy in 1978 after having been an analyst at a number of other firms.
- Tom Shrager came to Tweedy in 1989 from Bear Stearns where he worked in the investment banking division valuing foreign companies.
- Bob Wyckoff, with 28 years of experience in the investment management industry, joined the firm in 1991 after working in senior positions at a few different firms.



No Managing Director in Tweedy, Browne's 91-year history has ever left the firm to work elsewhere. Tweedy, Browne's Managing Directors are also owners of the firm.

Tweedy, Browne's Managing Directors and analysts are generalists as it relates to industry. Four analysts, Roger de Bree, Olivier Berlage, David Browne, and Sean McDonald spend most of their time researching non-US stocks. Elliot Lerner and Dave Krasne research both US and non-US stocks. The other three analysts spend most of their time evaluating US securities. Tweedy, Browne's investment management team of analysts and partners will seek the opinions of other team members who may have particular insight or knowledge in a particular industry.

<b>Name</b>	<b>Title</b>	<b>Responsibilities</b>	<b>Firm Experience (Years)</b>	<b>Industry Experience (Years)</b>
Will Browne	Managing Director	Investment Committee Member	33	38
John Spears	Managing Director	Investment Committee Member	37	43
Thomas Shrager	Managing Director	Investment Committee Member	22	26
Robert Wyckoff	Managing Director	Investment Committee Member	20	31
Elliot Lerner	Analyst	Share Analyst-Focus on US/non-US Stocks	25	36
Frank Hawyrlak	Analyst	Share Analyst-Focus on US Stocks	25	29
Laura Jereski	Analyst	Share Analyst-Focus on US Stocks	13	26
Olivier Berlage	Analyst	Share Analyst-Focus on non-US Stocks	9	16
Roger de Bree	Analyst	Share Analyst-Focus on non-US Stocks	11	23
J. Jay Hill	Analyst	Share Analyst-Focus on US Stocks	8	13
David Browne	Analyst	Share Analyst-Focus on non-US Stocks	6	6
Dave Krasne	Analyst	Share Analyst-Focus on US/non-US Stocks	1.75	12
Sean McDonald	Analyst	Share Analyst-Focus on non-US Stocks	1.75	10



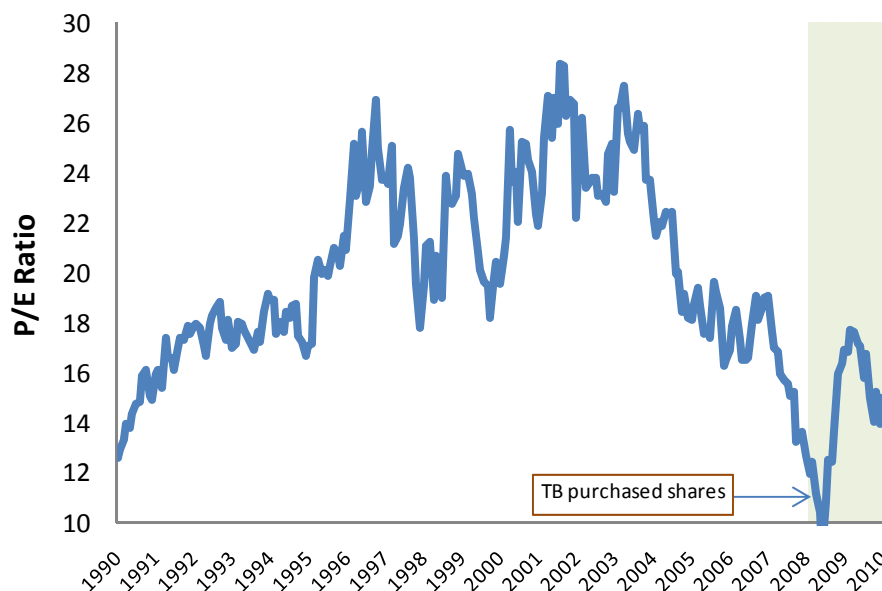
## Stock story - 3M Corporation

Tweedy, Browne believes 3M is one of the world's premier diversified industrial conglomerates with a vast mix of established products and brands. The company is one of the leading product innovators in the world. It is diversified by customer, product and geography with 65% of its sales occurring outside of the US, including 33% from emerging markets. It has minimal debt, a AA- rated balance sheet, and has a history of steady growth in earnings, free cash flow and underlying intrinsic value. Over the last decade, 3M has delivered greater than 10% annual EPS growth and returned more than 90% of cumulative net income back to shareholders via dividends and share repurchases.

In early February, 2009, shares were purchased for MLC's portfolio for around \$53.7 per share, or roughly 11 times normalized earnings and 7.5 times trailing 12-month earnings before interest and taxes ("EBIT"). At purchase, 3M had a dividend yield of approximately 3.8%, and had increased its dividend for 52 consecutive years.

At a December 31, 2010 price of \$86.30 per share, 3M is trading for 15.0 times trailing 12-month EPS and 10.5 times enterprise value to trailing 12-month earnings before interest and taxes ("EBIT"). At this price, Tweedy, Browne believes the shares are trading slightly below intrinsic value. However, Tweedy, Browne believes that 3M should be able to compound intrinsic value at a double digit rate in the future. One reason for this view is 3M's growing exposure to emerging markets which provide above average revenue growth and profitability. 3M sales in emerging markets are growing at 2x to 5x the rate of developed markets and currently are generating EBIT margins which are approximately 800 basis points higher than the total company average EBIT margin. This positive mix shift should continue to act as a tailwind to earnings for the foreseeable future.

**3M: Historical P/E Ratio**



Source: Bloomberg

***This stock may no longer be included in Tweedy, Browne's portfolio as their view may have changed since this document was prepared.***

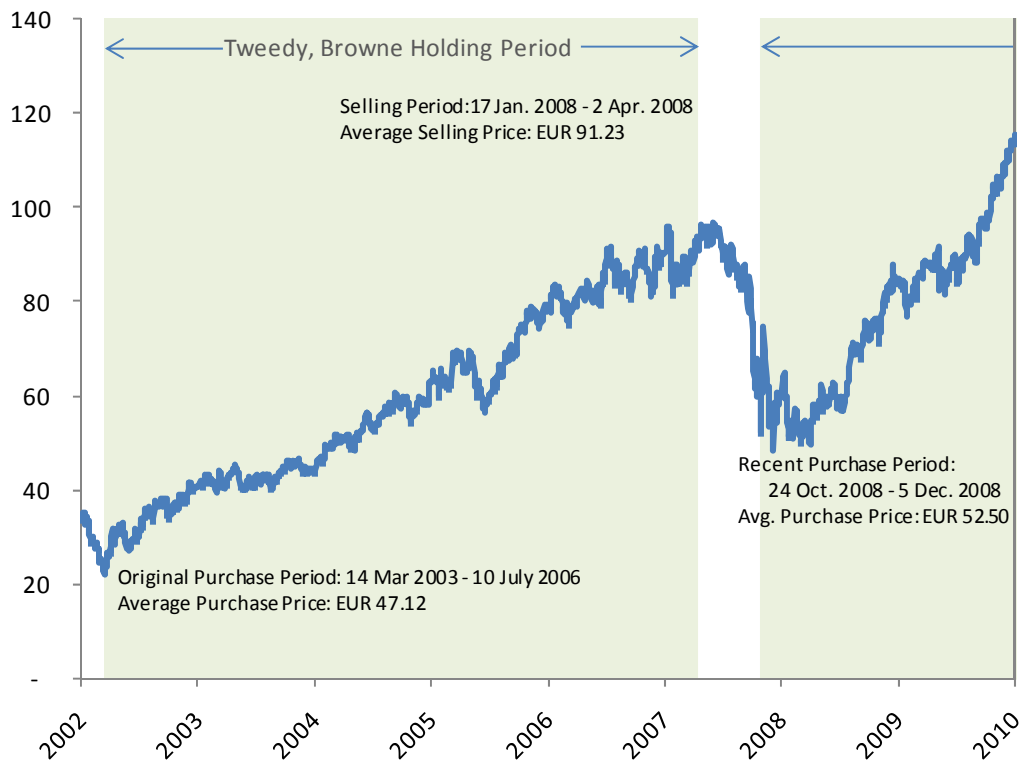


## Stock story - Linde AG

Linde AG is a German, gases and engineering company. The Gases Division offers a wide range of industrial and medical gases mainly used in the energy sector, steel production, chemical processing, as well as in food processing. The company is attractive to Tweedy, Browne because of the high renewal rates of contracts with its customers (90% renewal rates are common). There is a high level of confidence in the revenue stream of this business because of the long-term nature of its contracts with customers and the “take-or-pay” provisions included in those contracts. Recent consolidation in the industry has created a better pricing environment for the remaining players. The Engineering division develops natural gas plants and air separation plants, as well as hydrogen and synthesis gas plants, among other projects. With all the problems and rethinking of nuclear power generation, natural gas will become more topical and that should be good news for Linde's engineering division.

As the following chart illustrates, Tweedy, Browne had originally purchased shares in Linde for client portfolios as early as 2003 and sold the entire investment during early 2008 after the share price reached intrinsic value. As share prices subsequently declined, and as valuation ratios became more attractive, Tweedy, Browne once again purchased shares in Linde. In early February 2009, the MLC portfolio acquired the vast majority of this position for around EUR 55.1 per share, or roughly 10 times earnings, and a little over 7 times earnings before interest, taxes, depreciation and amortization (“EBITDA”). At these levels Tweedy, Browne estimated that the stock was trading at a 30-40% discount from the true intrinsic value of the business.

**Linde AG Historical Daily Closing Prices  
31 December 2002 through 25 May 2010**



Source: Bloomberg

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