TWEEDY, BROWNE AMERICAN VALUE FUND

ANNUAL

MARCH 31, 1996

Investment Manager's Report

To Our Shareholders in the Tweedy, Browne American Value Fund:

We are pleased to present the Annual Report of Tweedy, Browne American Value Fund (the "Fund") for the year ended March 31, 1996. To the surprise of stock market pundits, the past year turned out to be much better than almost anyone expected. Of course, even the most daring market prognosticators did not stick their necks out and say, "Standard & Poor's Composite Index of 500 stocks will rise 32.5% over the next twelve months." Once again, the futility of market timing rears its ugly head. When the year began, the more common view was that stocks were fairly valued, whatever that means, and that the most one could expect was a ho-hum year. Moreover, the risk on the downside was considered substantial. Investment strategies that took this risk into consideration missed out on one of the better years in the stock market. The net asset value of shares of your Fund increased from $10.71 to $14.29 or 34.7%*, after adding back a dividend of $0.126 per share on December 29, 1995.

Much of the rise in the overall stock market in the first half of the year was driven by technology stocks, which the Fund did not own, with the exception of Digital Equipment Corporation which rose 45% last year. Technology is generally not an industry in which value investors put much of their money because of the difficulty in valuing technology. One can see years of investment and research wiped out overnight as some other company invents a way to do the same thing faster and cheaper. Moreover, technology stocks seldom trade at discounts to book values or low multiples of sustainable earnings. Few technology companies have sustainable earnings, and need to reinvent themselves every few years. In the case of Digital Equipment, we saw a company trading below book value with a strong balance sheet and a large continuing revenue base. While we do not presume to make judgments as to the company's technological position, the repeated and significant pattern of insider purchases of the company's stock gave us some degree of confidence that a turnaround was on the horizon.

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* Past performance is not a guarantee of future results and total return and principal value of investments will fluctuate with market changes; and shares, when redeemed, may be worth more or less than their original cost.

Another group of stocks that performed quite well in this past year was bank stocks, of which we owned several. Two of our larger holdings were Chase Manhattan Corporation, which gained 85%, and Wells Fargo & Company, which rose 65%. Both banks were purchased at single digit price-to-earnings ratios at a time when banks were not viewed favorably by the investment community. In the case of Wells Fargo, there was considerable scepticism about the value of its rather substantial real estate loan portfolio at a time when California was in a recession. At the time we first purchased the stock, two well-respected bank analysts had completely opposite points of view on the bank. One made the case that Wells Fargo was sitting on significant potential losses in its real estate loan portfolio that could threaten the very existence of the bank. Logic held that if all other California banks were experiencing loan losses, how could Wells Fargo avoid the same fate. The second analyst agreed with the bank's position that its real estate loans were performing and that no potentially large losses could be identified. If that were true, then the stock was trading at less than five times normalized earnings, and the bank had a high return on stockholders' equity coupled with a strong market position in California. When two such respected analysts reach such opposite, yet plausible, conclusions, and when the upside is significant but the downside would be a major loss, we would normally pass. However, if we could get a brilliant analyst to go out to California to meet with the management and come back feeling confident that the bank's point of view was correct, perhaps then we would buy the stock. Such an analyst did appear, and did tell us the bank was correct; his name was Warren Buffett. While Warren Buffett did not visit the company at our behest, and did not report his findings directly to us, he did the next best thing. He bought the stock, and he bought it in large quantities. So did we, and it has turned out to be one of our better performing investments.

In the case of Chase Manhattan, we saw a bank with a strong market position, and with a new management that had addressed the bank's loan problems, and had built a solid base of fee income. The stock was selling for about five or six times expected earnings. This meant that if the bank were to return all of its earnings to the stockholders, we would have a return of 16% to 20%. The stock market did not focus on this return, but was more concerned with the earnings growth potential of a major money center bank. Moreover, the "street" was not willing to give much of a multiple to earnings derived from non-banking related activities. Our opinion was that a 16% to 20% earnings yield controlled by smart management would somehow benefit the shareholders by either wisely reinvesting the money or returning it to us in the form of dividends or stock buybacks. We did not anticipate that Chase Manhattan would be bought out, given its size and the long tradition of ownership by the Rockefeller family. However, it turns out that even a Chase Manhattan is not immune to the forces of consolidation in the banking industry, and its proposed acquisition by Chemical Bank (with the Chase name attached to the surviving institution) will provide significantly enhanced shareholder value. While the stock has risen 85%, largely because of the merger announcement, it still sells at less than eight to nine times expected, post merger earnings.

Other stocks that performed well last year include American Express Company (+42%), Federal Home Loan Mortgage Corporation (+40%), Johnson & Johnson (+49%), Philip Morris Companies, Inc. (+30%) and Mercantile Stores Company Inc. (+42%). Johnson & Johnson may appear inconsistent with our value approach to investing, which is often considered to be buying stocks selling at significant discounts to book value. However, as Warren Buffett has said, value and growth are joined at the hip, the difference is only price. (Our apologies to Warren Buffett for quoting him again, but his pearls of wisdom are legendary.) We initially purchased J&J under $40 per share, or at roughly 12.5 times earnings. The chance to buy a company of this caliber, at that price, is a rare occurrence. Granted, at the time J&J was under the cloud of "health care reform", but the company still had some great businesses like Band-Aids and Tylenol that were safe from governmental meddling. And while we were not privy to management's view of the company's future, we could track stock purchases by certain directors we respected and whose opinions we valued.

We also had our share of bummers in the last year, with Kmart Corporation being the most obvious example. Here is a classic case of management making a difference (in this instance negative), and a board of directors not acting quickly enough to replace management. Kmart is nothing but Walmart without the profits. We did field research before making our initial investment in Kmart. The new store format was just like Walmart; the price of the same basket of goods was the same, if not cheaper, at Kmart. The management of Kmart had an avowed goal of improving margins to match Walmart. What they lacked was a proper focus and an ability to implement their strategy. Kmart did not have to reinvent itself, it merely had to copy its primary competitor. But while Walmart was moving to expand in Mexico, a developing economy contiguous to the United States, where delivery trucks merely had to cross one border, Kmart was experimenting with discount stores in the Czech Republic. Given the task confronting the company to straighten out its U.S. operations, the idea of diverting management's attention to a venture in Eastern Europe was ridiculous. Our investment in Kmart declined 28% over the previous twelve months. What was obvious to the investment community for some time, namely that the chairman had to go, was not forced upon the board of directors until a significant portion of the market value of the company was lost. In the United Kingdom, this would not have been the case. In the U.K., shareholders who are displeased with the management of a company can meet with the board and force changes. In the U.S., such actions would be met with a lawsuit alleging the formation of an illegal group bent on taking over the company. Although such actions have become easier from a regulatory standpoint, the culture here is still biased against activist shareholders. The jury is still out on Kmart. Statistically, it is cheap. If the new management can do what the old management could not, the phoenix will rise from the ashes and patient investors will be amply rewarded from this level. The recent pattern of open market stock purchases by certain officers and directors of the company may indicate that a turnaround is coming.

If we could only determine which of our investments would be Wells Fargos or Chase Manhattans, rather than Kmarts, we could significantly improve our returns. However, as in life, things happen that we cannot predict. That is why we adhere to certain investment principles, which have provided above average rates of return over long periods of time. And that is why we diversify, so that the bad, unforeseen occurrences do not significantly reduce our net worth. We know that, on average, favorable event surprises in a portfolio of stocks comprised of low price-to-earnings or low price-to-book value companies outnumber unfavorable event surprises. In effect, we are writing insurance. If we stick to time tested criteria, we will do well. This does not mean we will not experience some losses. But so long as our gains outnumber our losses, we will increase our net worth at acceptable rates.

All of our gains in fiscal 1996 did not come from large capitalization, household name companies. We have always invested a significant portion of our assets in mid-cap and small capitalization companies. Unlike the millionaire who is unwilling to bend down and pick up a nickel in the street, we will invest wherever value can be found. One of the smaller stocks we owned last year was National Education Corporation, with a market cap of about $100 million, which we began buying at about $4 per share. (The definition of small cap stocks varies depending upon whom you ask. Some would say small cap stocks have market caps of less than $1 billion, or less than $500 million.) The company had four divisions, although its principal business was vocational training. Two of the divisions were losing money, while two were quite profitable. Our appraisal of the company was that the two money making divisions were worth more than $8 per share, and that the management was working to fix or close the unprofitable parts of the business. If the losing divisions could be turned around, the company could be worth even more. After we started buying the stock, the company, which had been part of the Standard & Poor's Composite Index of 500 Stocks ("S&P 500"), was dropped from the index and replaced by another company. This caused the index funds, funds whose portfolios mirror the S&P 500, to sell their shares of National Education. The resulting selling pressure drove the stock down to $3.25, despite an improving trend in operations. Once the selling was over, the stock market recognized the improvement, and the shares rose to $11.75 at March 31, 1996.

Small cap stocks are generally considered likely to provide higher returns than large cap stocks over long periods of time, because small growth companies can sometimes grow into mighty Walmarts and provide spectacular returns. In an article in the December 4, 1995 issue of **Barron's** entitled *The Small Cap Myth*, the author found that although small cap stocks did outperform large cap stocks over a 69-year period, from 1926 to 1994, all of the advantage occurred in just three of the years. The average investor is not content to wait for an advantage that happens every 23 years. In a similar study by Frank Russell Company, covering the 16 years from 1979 to 1994, there is almost no difference in the returns from small cap versus large cap stocks. However, Russell further divides the universe of stocks, other than just large and small cap. They also divide stocks into growth stocks and value stocks. With four categories, large and small growth and large and small value, a more significant difference is apparent. The results are shown below:

Rates of Return from 1979 through 1994

	Large Cap Growth	Small Cap Growth	Large Cap Value	Small Cap Value
Aggregate Total Return	709%	567%	850%	1,080%
Average Annual Return	13.96%	12.59%	15.11%	16.68%

Clearly, there is value added in investing in small cap stocks, but it is difficult for many money managers to do so. The supply of small cap stocks is limited. If a manager is investing $7 billion or $11 billion, it is not possible to invest a significant portion of these assets in small cap stocks, so that their presence will have an impact on results. For example, to invest 1% of a $10 billion fund, or $100 million, in one stock would require a market capitalization of $3.333 billion if the fund were to buy 3% of the company's shares. There are only 532 companies in the U.S. that have a market cap greater than $3.333 billion. This is why most large money managers pick from a limited list of stocks, perhaps as few as 800. The total number of publicly traded stocks in the U.S. is somewhere between 10,000 and 12,000. The same relationship holds true for foreign stocks, with the majority of funds invested in only a handful of issues. Some of the large asset managers are restricting themselves to less than 10% of the companies traded in the U.S. or internationally. Granted, the large companies may account for half, or more than half, of the total market capitalization of U.S. stocks, but that still leaves a lot of opportunities in names and total dollars in which to invest. Within our Fund's portfolio, we estimate that approximately one-third of equity assets are in stocks with a market capitalization of less than $500 million.

Large money managers do not think it is worth their time, or the money they have devoted to research, to analyze smaller companies because they cannot put enough money to work in any individual issue to make it worth their while. Moreover, many, if not most, small cap companies are not followed by brokerage firm analysts for much the same reason. It does not pay to have an analyst research a company where a buy recommendation will not generate orders for hundreds of thousands of shares. And the money manager often likes to confirm his conclusions on a particular company with brokerage firm analysts. We believe the lack of investment community coverage can result in a greater disparity between market price and a company's true intrinsic value. Smaller companies are often much less complex than larger companies and, therefore, easier to analyze. They may have one or two product lines as opposed to a myriad of large divisions. They are often less leveraged because it is more difficult for a small company to borrow money than it is for a large company. Moreover, if we buy shares in a company at less than its net cash, as we did with Astrosystems Inc. (market cap of $26 million), we do not have to make detailed earnings predictions to develop enough comfort to buy the stock. These companies are not like Netscape with a stratospheric price, little sales and a technology that could face significant competition from some well capitalized companies. If you buy Netscape at $87, you had better be sure of your predictions, or you could have had more fun with your money in Las Vegas.

With large cap stocks, we find that we have less to bring to the research table than we do with small cap stocks. This does not mean we do not buy large companies. We have a significant part of our assets invested in large companies. However, we do not believe we are any better at estimating the same store sales growth for Walmart next quarter than the 50 or 100 brokerage firm analysts who make a living doing only that. What we do bring to the table is the ability to recognize a bargain when we see it. When we bought Johnson & Johnson at 12.5 times earnings, we did not do so because we were any better at estimating next year's sales of Band-Aids or Tylenol, nor because we could divine the earnings potential of new drugs they were developing better than the army of drug stock analysts on Wall Street. We bought J&J because it was an incredibly cheap price to pay for such an outstanding business. And we bought Chase Manhattan because the earnings yield (the inverse of the price-to-earnings ratio) was two to three times that of the long-term bond yield, which is pure Ben Graham stock investing. If you have not already done so, we heartily recommend that you read Roger Lowenstein's book, **Buffett, The Making of an American Capitalist**. One chapter describes how Warren Buffett went on a stock buying binge in the mid-1970s after the bear market of 1973-1974. No one among the great market pundits of the time had the courage to buy because they were afraid the market would go lower. But Warren Buffett concluded that some of the greatest businesses of the time were being offered at once in a lifetime prices. And it turned out to be a once in a lifetime opportunity. It is the willingness to buy, when no one else will, that distinguishes true value investors. In 1975, the market pundits agreed that stocks were cheap, but were still unwilling to put out a buy recommendation for fear of not being at the bottom. This is what we bring to large cap stock investing. We buy when a stock is obviously cheap, often against the consensus on Wall Street.

The market caps in which the Fund is currently invested range from Philip Morris at $79 billion to Kent Financial Services Inc. at $5.6 million. Our investments are almost evenly divided between stocks with market caps above and below a billion dollars. As previously mentioned, approximately one-third of our assets are invested in stocks with market caps of less than $500 million. The range of our investments makes it difficult for those who track money managers to pigeonhole Tweedy, Browne. Money managers are usually either value or growth, and big cap versus small cap. While we are easily placed in the value category, the breadth of our investments by market cap makes it difficult to define our peer group. You may ask at this point, "So what?" All you really care about is making money without betting the ranch. However, certain members of the investment community are obsessed with comparing money managers to an index or, as they call it, a benchmark. In professional circles, performance measurement is a relative, not absolute, exercise. There has been a proliferation of indices measuring all sorts of different stock groups. Gone are the days when one looked only at the Dow Jones Industrials or the S&P 500. Now there is the Russell 1000 and 2000, and the Wilshire 5000. And there are indices for technology and biotechnology, and all sorts of other industry specific averages. However, you cannot spend relative earnings. And relatively good performance does not necessarily increase your wealth.

Some shrewd money managers have figured out how to beat the system if they are to be measured on a basis relative to a benchmark. They tailor their portfolios to mirror their designated benchmark. For example, if the chosen benchmark is the S&P 500, their portfolio would look very much like that index. Industry groups within the portfolio would be weighted so as not to deviate too much from the industry groups of the S&P 500. The reason for this is that if they did not own any oil stocks and oil stocks took off, they would be left in the dust. So it would be better if they owned some oil stocks even if they did not like oil stocks. If they were international money managers and their designated benchmark was the Morgan Stanley Capital International Europe, Australia, and the Far East Index (known as EAFE), they would tailor their portfolio both on an industrial sector basis, and a geographic basis, not to deviate significantly from the benchmark. Japanese stocks comprise approximately 40% of the EAFE Index and portfolios are thus heavily weighted towards Japan. So when the Nikkei Index was trading near 40,000, they might have been a little nervous having 40% of their money in Japan. But on a relative basis, it would not matter. If the Japanese stock market went in the tank, which it did, the absolute loss of wealth would not matter in the world of relative performance measurement. Their benchmark would have been down, and they would not have been blamed.

If this sounds a bit bizarre to those of you who like to see your net worth grow on a fairly consistent basis, don't be surprised. Most money management is measured in this way. Most money in the stock market does not belong to those individuals charged with picking the money managers. If you make a bad investment decision with your own money, there is no one who will know except perhaps your broker or your spouse. But if you are living in the world of institutional money management, you have to answer to your boss, or a board of directors. If you lost money, but less than or equal to your benchmark, no one could blame you. It was a bad market. However, if the designated benchmark significantly outperformed you, or the managers you selected, you would be in trouble. In addition, the money manager would probably lose the account. After all, someone has to take the blame. If this is reality, it should come as no surprise that money managers that want to keep their clients will construct safe portfolios that will not produce a result much different from the benchmark.

The only problem with this investment strategy is that if you want to beat the index, you cannot look like the index. You have to find stocks that have different fundamental financial characteristics than the market, and your choice of stocks will most likely deviate significantly from the index in terms of industry categories or country allocations. You must also accept the fact that you could underperform the index or benchmark for reasonably long periods of time. In *Are Short-Term Performance and Value Investing Mutually Exclusive*, Eugene Shahan analyzed the investment performance of seven money managers, about whom Warren Buffett wrote in his article, *The Super Investors of Graham and Doddsville*. Over long periods of time, the seven managers significantly outperformed the market as measured by the S&P 500 by between 7.7% to 16.5% annually. (The goal of most institutional money managers is to outperform the market by 2% to 3%.) However, for periods ranging from 13 years to 28 years, this group of managers underperformed the market between 7.7% to 42% of the years. Six of the seven investment managers underperformed the market between 28% to 42% of the years. In today's environment, they would have lost many of their clients during their periods of underperformance. Longer term, it would have been the wrong decision to fire any of these money managers.

We believe the fundamental financial characteristics of your Fund differ significantly from the popular stock market indices. As of the end of March, the S&P 500 as reported in **Barron's** closed at 18.99 times earnings and 3.87 times book value. In your Fund, we invest the major portion of your money in two broad categories of stocks: stocks selling at a significant discount to tangible book value and stocks selling at a low price-to-earnings ratio. In the Fund, 23.4% of assets are invested in 97 stocks that sell for a weighted average price-to-book value ratio of 78%. In the Bloomberg database of 3,880 companies with a market capitalization of more than $100 million, only 48 companies, or 1.2% of the universe, were selling for 78% of book value or less. Your Fund is invested in 48 issues, representing 56.2% of assets, with a weighted average price-to-earnings ratio of 10.6 times earnings. Again in the Bloomberg database, only 364 companies, or 9.4% of the universe, were selling for 10.6 times earnings or less.

A few years ago, a friend of ours told us she was going to interview a number of money managers for some money she had just inherited. Mrs. X is a very smart woman. She conducted seminars for women on financial planning. In her view, too many women are kept in the dark about financial affairs, and as a result of either the death of their spouse or a divorce, are suddenly in charge of a large amount of money whose preservation and growth is central to their well being. Mrs. X's seminars stopped short of the actual selection of money managers, but were very instructive as to where to seek advice. When Mrs. X began to interview money managers herself, we offered the following friendly advice.

1. Ask for their investment record over a ten-year period. Whose record was it, and was that person going to be the one managing her money? Today, we might ask for a fifteen-year performance record simply because the last ten years have been an exceptional time for the market. There is nothing like a bull market to make us all feel like geniuses.

2. Ask them to explain their investment philosophy in simple, layman's, candy store arithmetic terms. Beware of someone with a strategy so complex that only an Einstein could comprehend it. They probably do not understand it either.

3. Ask what they do with their own money. If the manager is not willing to personally own what will be put into your account, why would you want to own it? If they have a better way of making money, they should let you in on the secret. The current and retired general partners and their families, as well as employees of Tweedy, Browne, the investment adviser to the Fund, have approximately $18.3 million of their own money invested in the Fund.

4. A client of ours adds one additional criteria. He says, "Who wants a poor money manager?"

To us, these questions all seem quite logical. This is not a business that requires rocket scientist intelligence. It does require discipline, adherence to some basic investment principles that have worked over time, and a dose of intellectual honesty. The industry has other criteria, of which we agree with some, much of which we do not. John Spears was asked what our succession plan was for Tweedy, Browne. He responded that he was 47 years old and that his hero was Phil Carret who, at close to 100, was still going to the office, reading annual reports and buying stocks. In our own office, Walter Schloss still comes in every day at the age of 79, manages money, never gives out a list of his holdings, but has perhaps the best (if not the only) 40-year investment record of any investor we know. Warren Buffett is just behind Walter in terms of years of managing money. In the world of institutional money manager selection, Warren Buffett and Walter Schloss would probably fail several tests. Neither one of them have much of an organization. Walter has always refused to hire a secretary because he does not want to fill out social security forms. Walter has been joined by his son Edwin for the past 23 years, but Edwin pays his own social security taxes. Warren Buffett makes all his own investment decisions. They make large bets on a few stocks, increasing "portfolio risk" because of significant concentration. Their betas (a measure of volatility relative to the market) are off the charts despite the fact that their volatility is all on the upside.

Given a perfect world, we would prefer some organization, by which we mean that we would prefer that performance not be dependent on one person. Unfortunately, cloning has yet to be perfected. At Tweedy, Browne we have what we believe is the next best thing with three partners who think in a similar fashion, plus the added benefit of Jim Clark's input notwithstanding his retirement last year. We have four very good, perhaps excellent, analysts. We have Geri Rosenberger and her staff to guide us through the minefield of securities' regulation, and a trading desk that seems to be able to buy and sell stocks for us that consistently place us at the most efficient level as measured by independent consultants hired by one of our clients.

Now comes the part we hate, predicting the current year. As we have always said, this is not our strong point. Nor do we think it is anyone's strong point. Our stocks are still valued well below the market, and at reasonable levels given current interest rates. There is no reason to believe interest rates will rise in the near future, especially in an election year. Inflation is low and the economy is growing at a modest rate. We are not economists, but we are comfortable with what we own. We have a mix of good businesses at reasonable prices, and out of favor stocks that will respond to any favorable news. We have been adding stocks to our Fund that are low in price-to-book value or price-to-earnings, are small to medium in market capitalization, and where we see a pattern of insider purchases. This combination has empirically produced better results, and we would be happy if we could invest all of our assets in this way. After a reasonably good first quarter in calendar year 1996, the stock market has been rather choppy of late with some fairly significant one day swings in the averages. It has been a field day for the market pundits trying to predict the market's movements and trying to draw conclusions from all the noise. We take the long view. We know we cannot predict short, or even medium term market movements. But we do know that if we are investing for our retirement or for our children's education, and if we can ignore all the daily reports of boom or bust, we should be able to reach our goals over the long term.

In closing, we would like to say that we appreciate your responses to our letters, and encourage you to let us know what you do not like, and maybe what you do like, so that we can better respond to your desires for information on what we are doing with your and our money.

Sincerely,

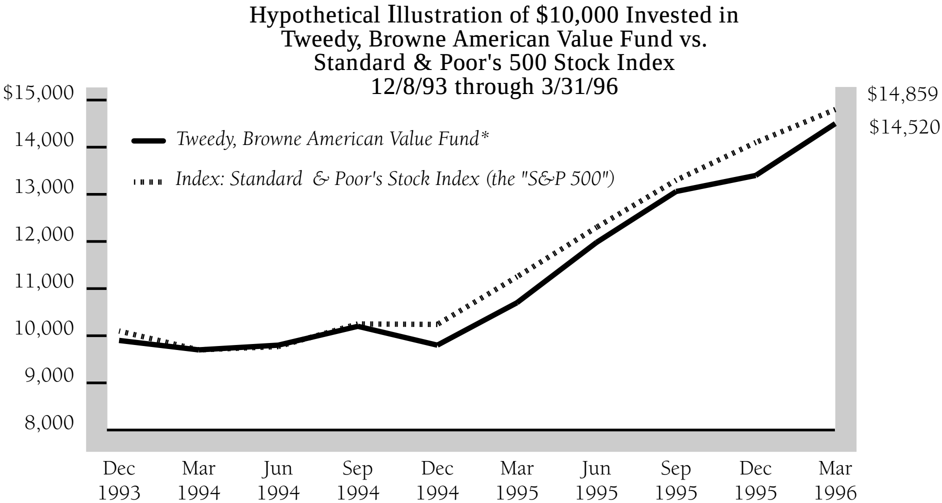
Christopher H. Browne
William H. Browne
John D. Spears

General Partners
TWEEDY, BROWNE COMPANY L.P.
Investment Adviser to the Fund

April 26, 1996

Portfolio Highlights

March 31, 1996



The S&P 500 is an 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.

Index information is available at month end only; therefore, the closest month end to inception date of the Fund, November 30, 1993, has been used.

AVERAGE ANNUAL TOTAL RETURN*

The Fund	Actual	Without Waivers**
Inception (12/8/93) through 3/31/96	17.51%	17.13%
Year Ended 3/31/96	34.70%	34.29%

AGGREGATE TOTAL RETURN*

	Year Ended 3/31/96	Inception 12/8/93 - 3/31/96
The Fund	34.70%	45.20%
S&P 500	32.07%	48.59%

Note: The performance shown represents past performance and is not a guarantee of future results. A Fund's share price and investment return will vary with market conditions, and the principal value of shares, when redeemed, may be more or less than original cost.

*Assumes the reinvestment of all dividends and distributions.

**See Note 2 to Financial Statements.

Portfolio Highlights

March 31, 1996

In accordance with rules and guidelines set out by the Securities and Exchange Commission, we have provided a comparison of the historical investment results of Tweedy, Browne American Value Fund to the historical investment results of the most appropriate broad based securities market index, the Standard & Poor's 500 Stock Index (the "S&P 500"). However the historical results of the S&P 500 in large measure represent the investment results of stocks that we do not own. Any portfolio which does not own exactly the same stocks in exactly the same proportions as the index to which the particular portfolio is being compared is not likely to have the same results as the index. The investment behavior of a diversified portfolio of undervalued stocks tends to be correlated to the investment behavior of a broad index; i.e., when the index is up, probably more than one-half of the stocks in the entire universe of public companies in all the countries that are included in the same index will be up, albeit, in greater or lesser percentages than the index. Similarly, when the index declines, probably most of the stocks in the entire universe of public companies in all countries that are included in the index will be down in greater or lesser percentages than the index. But it is almost a mathematical truth that "different stocks equal different results."

Favorable or unfavorable historical investment results in comparison to an index are not necessarily predictive of future comparative investment results. In *Are Short-Term Performance and Value Investing Mutually Exclusive?* Eugene Shahan analyzed the investment performance of seven money managers, about whom Warren Buffett wrote in his article, *The Super Investors of Graham and Doddsville*. Over long periods of time, the seven managers significantly outperformed the market as measured by the Dow Jones Industrial Average (the "DJIA") or the S&P 500 by between 7.7% to 16.5% annually. (The goal of most institutional money managers is to outperform the market by 2% to 3%.) However, for periods ranging from 13 years to 28 years, this group of managers underperformed the market between 7.7% to 42% of the years. Six of the seven investment managers underperformed the market between 28% to 42% of the years. In today's environment, they

March 31, 1996

would have lost many of their clients during their periods of underperformance. Longer term, it would have been the wrong decision to fire any of these money managers. In examining the seven long-term investment records, unfavorable investment results as compared to either Index did not predict the future favorable comparative investment results which occurred, and favorable investment results in comparison to the DJIA or the S&P 500 were not always followed by future favorable comparative results. Stretches of consecutive annual underperformance ranged from one to six years. Mr. Shahan concluded “Unfortunately, there is no way to distinguish between a poor three-year stretch for a manager who will do well over 15 years, from a poor three-year stretch for a manager who will continue to do poorly. Nor is there any reason to believe that a manager who does well from the outset cannot continue to do well, and consistently.”

Portfolio of Investments

March 31, 1996

Shares		Market Value (Note 1)
	COMMON STOCKS—DOMESTIC—82.8%	
	Banking—17.2%	
55,000	BancFirst Corporation	$ 1,196,250
4,500	Bank of Nashville	47,813
129,780	BanPonce Corporation, New	6,002,325
5,000	Cape Cod Bank & Trust Company	193,750
83,180	Chase Manhattan Corporation	6,113,730
78,900	Comerica, Inc.	3,294,075
111,410	First Chicago NBD Corporation	4,623,515
5,400	First Mortgage Corporation†	33,750
32,900	Mercantile Bancorporation, Inc.	1,505,175
9,000	Peoples Bank Corporation of Indianapolis	225,000
216,500	PNC Bank Corporation	6,657,375
42,760	Salomon Inc.	1,603,500
4,300	Suffolk Bancorp	131,150
18,125	Transworld Bancorp†	235,625
10,600	Wells Fargo & Company	2,766,600
		34,629,633
	Financial Services—11.2%	
144,930	American Express Company	7,155,919
2,000	CM Bank Holding Company	140,000
77,670	Federal Home Loan Mortgage Corporation	6,621,367
31,800	Household International Inc.	2,138,550
18,300	HPSC Inc.†	89,213
387,600	Jan Bell Marketing Inc.†	1,187,025
20,100	Kent Financial Services Inc.†	130,650
10,000	Kinnard Investments Inc.†	41,250
117,450	Lehman Brothers Holdings Inc.	3,141,787
10,000	Letchworth Independent Bancshares Corporation	310,000
44,200	Norex American Inc.†	707,200
6,615	Stifel Financial Corporation	42,171
23,100	Value Line Inc.	808,500
1,604	Whitney Holding Corporation	50,125
		22,563,757
	Consumer Non-Durables—9.4%	
138,100	Bairnco Corporation	932,175
57,700	Coca-Cola Bottling Company	1,947,375
202,900	EKCO Group Inc.	1,192,037
37,800	Fuji Photo Film Company Ltd., ADR	2,182,950
42,235	Great Atlantic & Pacific Tea Company, Inc.	1,309,285
19,000	Hyde Athletic Industries Inc., Class A†	73,625
25,000	Hyde Athletic Industries Inc., Class B†	95,313
108,035	Nestle, ADR	6,049,960
49,800	OroAmerica Inc.†	227,212
59,559	Polaroid Corporation	2,680,155

SEE NOTES TO FINANCIAL STATEMENTS

Portfolio of Investments

March 31, 1996

Shares		Market Value (Note 1)
	COMMON STOCKS—DOMESTIC	
	Consumer Non-Durables—(Continued)	
61,900	Reebok International Ltd.	$ 1,709,987
10,800	TCC Industries Inc.†	28,350
55,500	Village Super Market Inc., Class A†	444,000
		18,872,424
	Insurance—7.0%	
15,000	Allstate Financial Corporation†	96,563
75,100	American Indemnity Financial Corporation	741,612
76,625	American National Insurance Company	5,172,188
600	Amwest Insurance Group Inc.	8,475
16,700	Kansas City Life Insurance Company	885,100
20,900	Merchants Group Inc.	384,037
50,100	National Western Life Insurance Company†	3,156,300
30,500	Provident Companies Inc.	926,438
74,000	Security-Connecticut Corporation	1,933,250
26,700	USLIFE Corporation	784,313
		14,088,276
	Retail—5.1%	
135,400	Ben Franklin Retail Stores Inc.†	287,725
85,000	Best Products Corporation Inc.†	201,875
1,000	Dart Group Corporation, Class A	87,500
84,300	EZCORP Inc., Class A†	569,025
168,500	Fingerhut Companies, Inc.	2,169,437
126,200	Forschner Group Inc.†	1,782,575
59,000	Kmart Corporation	553,125
32,300	Luria (L) and Sons Inc.†	163,519
9,700	Mercantile Stores Company Inc.	595,338
52,000	Penney (J.C.) Company, Inc.	2,587,000
7,500	Seaman Furniture Company†	138,750
133,900	Syms Corporation†	1,104,675
		10,240,544
	Leisure and Entertainment—4.8%	
136,100	C-TEC Corporation†	5,069,725
105,743	Hasbro Inc.	3,912,491
7,500	Latin American Casinos Inc.†	25,312
124,900	Savoy Pictures Entertainment Inc.†	733,788
		9,741,316
	Basic Industries—4.4%	
97,400	ACX Technologies Inc.†	1,765,375
5,235	Binks Manufacturing Company	116,806
59,500	Monarch Machine Tool Company	661,937
65,700	Tremont Corporation†	2,184,525
29,800	Unilever NV, ADR	4,045,350
		8,773,993

■ ■ ■ ■ ■ ■ ■ SEE NOTES TO FINANCIAL STATEMENTS ■ ■ ■ ■ ■ ■ ■

Portfolio of Investments

March 31, 1996

Shares		Market Value (Note 1)
	COMMON STOCKS—DOMESTIC	
	Chemicals—4.3%	
172,300	Lilly Industries Inc., Class A	$ 2,347,587
72,920	Philip Morris Companies Inc.	6,398,730
		8,746,317
	Health Care—3.5%	
10,000	Ciba-Geigy AG, Sponsored ADR	625,625
65,735	Horizon/CMS Healthcare Corporation†	920,290
16,706	Johnson & Johnson	1,541,129
299,000	Sun Healthcare Group Inc.†	3,961,750
		7,048,794
	Consumer Services—3.1%	
186,000	Jones Intercable Inc., Class A†	2,697,000
296,100	National Education Corporation†	3,479,175
		6,176,175
	Real Estate—2.6%	
220,000	American Real Estate Partners Ltd.	1,980,000
25,700	Arizona Land Income Corporation, Class A	131,713
13,200	Mays (J.W.), Inc.†	105,600
121,800	Price Enterprises Inc.†	1,918,350
19,700	Reading Company, Class A†	211,775
144,100	RPS Realty Trust	684,475
21,100	Storage Properties Inc.	146,381
		5,178,294
	Engineering and Construction—2.2%	
12,500	Atkinson (Guy F.) Company California†	143,750
22,000	Devcon International Corporation†	206,250
4,080	Oilgear Company	63,240
40,700	Oriole Homes Corporation, Class A†	307,794
43,800	Oriole Homes Corporation, Class B†	333,975
474,500	Standard-Pacific Corporation	3,440,125
		4,495,134
	Oil and Gas—2.2%	
80,000	Isramco, Inc.†	42,500
155,400	Matrix Service Company†	951,825
84,900	Penn Virginia Corporation	2,886,600
48,900	Pool Energy Services Company†	544,012
848	Resource America, Inc., Class A	29,680
		4,454,617
	Business and Commercial Services—1.8%	
77,100	Duplex Products Inc.†	708,356
300	IIC Industries Inc.†	10,950

Portfolio of Investments

March 31, 1996

Shares		Market Value (Note 1)
	COMMON STOCKS—DOMESTIC	
	Business and Commercial Services—(Continued)	
226,400	Kindercare Learning Centers, Inc.†	$ 2,830,000
12,500	Paris Corporation†	67,187
		3,616,493
	Technology—0.9%	
44,600	Astrosystems Inc.†	263,419
28,800	Digital Equipment Corporation†	1,587,600
11,600	LDI Corporation†	46,400
		1,897,419
	Automotive Parts—0.7%	
66,900	Capco Automotive Products Corporation	827,887
23,000	Standard Products Company	560,625
1,300	Woodward Governor Company	110,825
		1,499,337
	Restuarant Chains—0.6%	
80,900	Vicorp Restaurants Inc.†	1,193,275
	Metals and Metal Products—0.5%	
14,000	American Metals Service, Inc.†	10,008
108,600	Proler International Corporation†	963,825
		973,833
	Food and Beverages—0.4%	
13,400	Guinness PLC, Sponsored ADR	476,504
21,300	National Beverage Corporation†	191,700
40,000	United Foods, Inc., Class A†	80,000
25,000	United Foods, Inc., Class B†	53,125
7,000	Western Beef Inc.†	51,625
		852,954
	Transportation/Transportation Services—0.3%	
51,500	KLLM Transport Services Inc.†	553,625
2,500	Petroleum Helicopters Inc.	35,000
		588,625
	Advertising—0.3%	
2,180	Grey Advertising Inc.	497,040
	Textiles—0.1%	
44,400	Chic by H.I.S. Inc.†	271,950

Portfolio of Investments

March 31, 1996

Shares		Market Value (Note 1)
	COMMON STOCKS—DOMESTIC	
	Telecommunications—0.1%	
11,200	Falcon Cable Systems Company†	$ 107,800
15,000	TCI International Inc.†	105,000
		212,800
	Electronic Equipment—0.1%	
8,000	Espey Manufacturing and Electronics Corporation	116,000
	Furniture—0.0%††	
9,000	Flexsteel Industries Inc.	90,000
	TOTAL COMMON STOCKS—DOMESTIC (Cost $132,766,840)	166,819,000
	COMMON STOCKS—FOREIGN—7.4%	
	Japan—1.9%	
63,000	Aichi Electric Company Ltd.	329,874
49,000	Amada Sonoike Company Ltd.	348,200
12,000	Chofu Seisakusho Company	295,091
5,000	Dowa Fire & Marine Insurance Company	27,583
17,000	Fuji Photo Film Ltd.	486,396
53,000	Koyosha Inc.†	401,898
19,000	Matsushita Electric Industrial Company	309,116
32,000	Morito	314,166
43,000	Nissan Fire & Marine Insurance Company	305,563
36,000	Oak & Company	234,951
62,000	Osaka Securities Finance	376,812
15,000	Sankyo Company Ltd.	343,619
5,000	Shikoku Coca-Cola Bottling	62,179
10,000	Toyo Technical Company Ltd.	107,527
		3,942,975
	Netherlands—1.6%	
16,388	Heineken Holdings NV, Class A	3,223,836
	Switzerland—1.0%	
2,000	Danzas Holding AG PC	469,164
1,000	Edipresse SA, Bearer	285,870
1,500	Magazine Zum Globus PC	798,335
500	Swissair AG, Registered†	525,497
		2,078,866

■ ■ ■ ■ ■ ■ ■ SEE NOTES TO FINANCIAL STATEMENTS ■ ■ ■ ■ ■ ■ ■

Portfolio of Investments

March 31, 1996

Shares		Market Value (Note 1)
	COMMON STOCKS—FOREIGN	
	United Kingdom—1.0%	
145,000	McAlpine (Alfred) PLC	$ 371,807
32,000	SmithKline Beecham, PLC Units, ADR	1,648,000
		2,019,807
	Finland—0.8%	
15,500	Kone Corporation, Class B	1,606,027
	France—0.5%	
7,200	Compagnie Financiere de Suez	279,424
2,725	Klepierre	348,908
2,300	Peugeot SA	350,650
		978,982
	Spain—0.3%	
5,000	Argentaria	211,549
16,000	Unipapel SA	327,517
		539,066
	Singapore—0.2%	
78,000	Robinson and Company Ord	326,916
	Italy—0.1%	
21,000	Arnoldo Mondadori Editore SPA	174,119
15,000	Franco Tosi SPA	118,630
		292,749
	TOTAL COMMON STOCKS—FOREIGN (Cost $12,118,229)	15,009,224
	PREFERRED STOCK—0.0%††	
	(Cost $16,100)	
1,400	Grant Geophysical Inc., Preferred	21,088

Portfolio of Investments

March 31, 1996

Face Value			Market Value (Note 1)
	COMMERCIAL PAPER—10.6%		
$7,311,000	Ford Motor Credit Company, 5.500% due 4/1/96		$ 7,311,000
7,000,000	General Electric Capital Corporation, 5.450% due 4/1/96		7,000,000
7,000,000	Prudential Securities, 5.430% due 4/1/96		7,000,000
	TOTAL COMMERCIAL PAPER (Cost $21,311,000)		21,311,000
	U.S. TREASURY BILLS—0.2%		
150,000	6,186%** due 5/2/96		149,247
315,000	5.587%** due 8/22/96		308,368
	TOTAL U.S. TREASURY BILLS (Cost $457,615)		457,615
TOTAL INVESTMENTS (Cost $166,669,784*)		101.0%	203,617,927
OTHER ASSETS AND LIABILITIES (Net)		(1.0)	(2,019,420)
NET ASSETS		100.0%	$201,598,507

* *Aggregate cost for Federal tax purposes.*
** *Rate represents annualized yield at date of purchase.*
† *Non-income producing security.*
†† *Amount represents less than 0.1% of net assets.*

Abbreviation:
ADR—American Depository Receipt

Schedule of Forward Exchange Contracts

March 31, 1996

Contracts		Contract Value Date	Market Value (Note 1)
FORWARD EXCHANGE CONTRACTS TO BUY			
(Contract Amount $102,944)			
476,663	Finnish Markka	4/3/96	$ 102,900
FORWARD EXCHANGE CONTRACTS TO SELL			
3,681,860	Finnish Markka	6/28/96	$ (798,008)
1,316,790	Finnish Markka	9/13/96	(286,219)
911,820	Finnish Markka	2/28/97	(199,333)
3,048,600	French Franc	9/13/96	(608,552)
980,600	French Franc	10/31/96	(196,048)
127,828	Great Britain Pound Sterling	10/31/96	(194,448)
418,500,000	Italian Lira	10/31/96	(260,249)
31,776,000	Japanese Yen	4/30/96	(298,408)
29,036,000	Japanese Yen	6/28/96	(274,882)
18,720,000	Japanese Yen	9/13/96	(179,080)
192,800,000	Japanese Yen	10/31/96	(1,856,757)
100,600,000	Japanese Yen	12/27/96	(976,715)
30,345,000	Japanese Yen	2/28/97	(296,967)
1,522,000	Netherlands Guilder	4/29/96	(923,093)
1,083,740	Netherlands Guilder	6/28/96	(659,909)
1,235,025	Netherlands Guilder	9/13/96	(755,883)
231,690	Netherlands Guilder	10/31/96	(142,257)
482,550	Netherlands Guilder	2/28/97	(298,574)
414,900	Singapore Dollar	10/31/96	(299,459)
38,001,000	Spanish Peseta	10/31/96	(301,421)
885,975	Swiss Franc	9/13/96	(757,716)
218,500	Swiss Franc	10/31/96	(187,805)
1,010,070	Swiss Franc	12/27/96	(873,452)
173,115	Swiss Franc	2/28/97	(150,608)
TOTAL FORWARD EXCHANGE CONTRACTS TO SELL			
(Contract Amount $12,350,000)			$(11,775,843)

SEE NOTES TO FINANCIAL STATEMENTS

Statement of Assets and Liabilities

March 31, 1996

ASSETS		
Investments, at value (Cost $166,669,784) (Note 1) *See accompanying schedule*		$203,617,927
Cash and foreign currency (Cost $28,060)		28,000
Receivable for investment securities sold		820,915
Receivable for Fund shares sold		780,959
Net unrealized appreciation of forward exchange contracts (Note 1)		574,113
Dividends and interest receivable		269,255
Unamortized organization costs (Note 5)		51,918
Prepaid expense		558
Total Assets		206,143,645
LIABILITIES		
Payable for investment securities purchased	$4,187,830	
Investment advisory fee payable (Note 2)	181,042	
Payable for Fund shares redeemed	74,627	
Administration fee payable (Note 2)	19,793	
Transfer agent fees payable (Note 2)	5,500	
Accrued expenses and other payables	76,346	
Total Liabilities		4,545,138
NET ASSETS		$201,598,507
NET ASSETS consist of		
Undistributed net investment income		$ 371,199
Accumulated net realized gain on securities, forward exchange contracts and foreign currencies		2,261,481
Net unrealized appreciation of securities, forward exchange contracts, foreign currencies and net other assets		37,522,076
Par value		1,410
Paid-in capital in excess of par value		161,442,341
Total Net Assets		$201,598,507
NET ASSET VALUE, offering and redemption price per share ($201,598,507 ÷ 14,103,718 shares of common stock outstanding)		$14.29

Statement of Operations

For the year ended March 31, 1996

INVESTMENT INCOME		
Dividends (net of foreign withholding taxes of $64,710)		$ 2,288,549
Interest		1,170,676
Total Investment Income		3,459,225
EXPENSES		
Investment advisory fee (Note 2)	$1,710,423	
Administration fee (Note 2)	210,669	
Transfer agent fees (Note 2)	61,961	
Custodian fees (Note 2)	51,118	
Legal and audit fees	25,515	
Amortization of organization costs (Note 5)	19,470	
Directors' fees and expenses (Note 2)	8,908	
Other	115,563	
Waiver of fees by investment adviser, administrator and custodian (Note 2)	(295,284)	
Total Expenses		1,908,343
NET INVESTMENT INCOME		1,550,882
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS (Notes 1 and 3)		
Net realized gain (loss) on:		
Securities		2,590,149
Forward exchange contracts		(7,843)
Foreign currencies		(13,036)
Net realized gain on investment during the year		2,569,270
Net change in unrealized appreciation (depreciation) of:		
Securities		33,616,990
Forward exchange contracts		638,355
Foreign currencies and net other assets		(694)
Net unrealized appreciation of investments during the year		34,254,651
NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS		36,823,921
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS		$38,374,803

Statement of Changes in Net Assets

	Year Ended 3/31/96	Year Ended 3/31/95
Net investment income	$ 1,550,882	$ 382,282
Net realized gain (loss) on securities, forward exchange contracts and foreign currencies during the year	2,569,270	(54,613)
Net unrealized appreciation of securities, forward exchange contracts, foreign currencies and net other assets during the year	34,254,651	3,809,073
Net increase in net assets resulting from operations	38,374,803	4,136,742
Distributions:		
Dividends to shareholders from net investment income	(1,344,358)	(236,230)
Distributions to shareholders from net realized gain on investments	(253,652)	—
Net increase in net assets from Fund share transactions (Note 4)	105,965,682	38,822,437
Net increase in net assets	142,742,475	42,722,949
NET ASSETS		
Beginning of year	58,856,032	16,133,083
End of year (including undistributed net investment income of $371,199 and $164,675, respectively)	$201,598,507	$58,856,032

SEE NOTES TO FINANCIAL STATEMENTS

Financial Highlights

For a Fund share outstanding throughout each year.

	Year Ended 3/31/96*(f)*	Year Ended 3/31/95*(f)*	Period Ended 3/31/94*(a)*
Net asset value, beginning of year	$ 10.71	$ 9.71	$ 10.00
Income from investment operations:			
Net investment income*(c)*	0.15	0.13	0.01
Net realized and unrealized gain (loss) on investments	3.56	0.93	(0.30)
Total from investment operations	3.71	1.06	(0.29)
Distributions:			
Dividends from net investment income	(0.11)	(0.06)	—
Distributions from net realized gains	(0.02)	—	—
Total distributions	(0.13)	(0.06)	—
Net asset value, end of year	$ 14.29	$ 10.71	$ 9.71
Total return*(d)*	34.70%	11.02%	(2.90)%
Ratios/Supplemental Data:			
Net assets, end of year (in 000's)	$201,599	$58,856	$16,133
Ratio of operating expenses to average net assets*(e)*	1.39%	1.74%	2.26%*(b)*
Ratio of net investment income to average net assets	1.13%	1.25%	0.64%*(b)*
Portfolio turnover rate	9%	4%	0%
Average commission rate (per share of security)*(g)*	$ 0.0341	N/A	N/A

(a) The Fund commenced operations on December 8, 1993.

(b) Annualized.

(c) Net investment income (loss) for a Fund share outstanding, before the waiver of fees by the investment adviser and/or administrator and/or custodian for the years ended March 31, 1996 and 1995 and the 3.75-month period ended March 31, 1994 was $0.12, $0.11 and $(0.01), respectively.

(d) Total return represents aggregate total return for the periods indicated.

(e) Annualized expense ratios before the waiver of fees by the investment adviser and/or administrator and/or custodian for the years ended March 31, 1996 and 1995 and the 3.75-month period ended March 31, 1994 were 1.61%, 1.94% and 3.51%, respectively.

(f) Per share amounts have been calculated using the monthly average share method, which more appropriately presents the per share data for the period since the use of the undistributed income method does not accord with results of operations.

(g) Average commission rate (per share of security) as required by amended disclosure requirements effective September 1, 1995.

■ ■ ■ ■ ■ ■ ■ SEE NOTES TO FINANCIAL STATEMENTS ■ ■ ■ ■ ■ ■ ■

Notes to Financial Statements

1. Significant Accounting Policies

Tweedy, Browne American Value Fund (the "Fund") is a diversified series of Tweedy, Browne Fund Inc. (the "Company"). The Company is an open-end management investment company registered with the Securities and Exchange Commission under the Investment Company Act of 1940, as amended. The Company was organized as a Maryland corporation on January 28, 1993. The Fund commenced operations on December 8, 1993. The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates. The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements.

Portfolio Valuation Generally, the Fund's investments are valued at market value or, in the absence of market value with respect to any portfolio securities, at fair value as determined by or under the direction of the Company's Board of Directors. Portfolio securities that are traded primarily on a domestic exchange are valued at the last sale price on that exchange or, if there were no sales during the day, at the mean between the last ask price and the last bid price prior to the close of regular trading. Over-the-counter securities and securities listed or traded on certain foreign exchanges whose operations are similar to the United States ("U.S.") over-the-counter market are valued at the mid price between the bid and ask prices. Portfolio securities that are traded primarily on foreign exchanges generally are valued at the preceding closing values of such securities on their respective exchanges, except that when an occurrence subsequent to the time that a value was so established is likely to have changed such value, then the fair value of those securities will be determined by consideration of other factors by or under the direction of the Company's Board of Directors. Short-term investments that mature in 60 days or less are valued at amortized cost.

Repurchase Agreements The Fund engages in repurchase agreement transactions. Under the terms of a typical repurchase agreement, the Fund takes possession of an underlying debt obligation subject to an obligation of the seller to repurchase, and the Fund to resell, the obligation at an agreed-upon price and time, thereby determining the yield during the Fund's holding period. This arrangement results in a fixed rate of return that is not subject to market fluctuations during the Fund's holding period. The value of the collateral is at least equal at all times to the total amount of the repurchase obligations, including interest. In the event of counterparty default, the Fund has the right to use the collateral to offset losses incurred. There is potential loss to the Fund in the event the Fund is delayed or prevented from exercising its rights to dispose of the collateral securities, including the risk of a possible decline in the value of the underlying securities during the period while the Fund seeks to assert its rights. The Fund's investment adviser, acting under the supervision of the Company's Board of Directors, reviews the value of the collateral and the creditworthiness of those banks and dealers with which the Fund enters into repurchase agreements to evaluate potential risks.

Foreign Currency The books and records of the Fund are maintained in U.S. dollars. Foreign currencies, investments and other assets and liabilities are translated into U.S. dollars at the exchange rates prevailing at the end of the period, and purchases and sales of investment securities, income and expenses are translated on the respective dates of such transactions. Unrealized gains and losses which result from changes in foreign currency exchange rates have been included in the unrealized appreciation (depreciation) of currencies and net other assets. Net realized foreign currency gains and losses resulting from changes in exchange rates include foreign currency gains and losses between trade date and settlement date on investment securities transactions, foreign currency transactions and the difference between the amounts of interest and dividends recorded on the books of the Fund and the amount actually received. The portion of foreign currency gains and losses related to fluctuation in the exchange rates between the initial purchase trade date and subsequent sale trade date is included in realized gains and losses on investment securities sold.

Forward Exchange Contracts The Fund has entered into forward exchange contracts for non-trading purposes in order to reduce its exposure to fluctuations in foreign currency exchange on its portfolio holdings. Forward exchange contracts are valued at the forward rate and are marked-to-market daily. The change in market value is recorded by the Fund as an unrealized gain or loss. When the contract is closed, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time that it was opened and the value of the contract of the time that it was closed.

The use of forward exchange contracts does not eliminate fluctuations in the underlying prices of the Fund's investment securities, but it does establish a rate of exchange that can be achieved in the future. Although forward exchange contracts limit the risk of loss due to a decline in the value of the hedged currency, they also limit any potential gain that might result should the value of the currency increase. In addition, the Fund could be exposed to risks if the counterparties to the contracts are unable to meet the terms of their contracts. The Fund currently enters into such contracts with Mellon Bank Corporation ("Mellon Bank") and Brown Brothers Harriman & Co.

Securities Transactions and Investment Income Securities transactions are recorded as of the trade date. Realized gains and losses from securities transactions are recorded on the identified cost basis. Dividend income and distributions to shareholders are recorded on the ex-dividend date. Interest income is recorded on the accrual basis. Dividend income and interest income may be subject to foreign withholding taxes.

Dividends and Distributions to Shareholders Dividends from net investment income, if any, and distributions from realized capital gains after utilization of capital loss carryforwards, if any, will be declared and paid annually. Additional distributions of net investment income and capital gains from the Fund may be made at the discretion of the Board of Directors in order to avoid the application of a 4% non-deductible Federal excise tax on certain undistributed amounts of ordinary income and capital gains. Income distributions and capital gain distributions are determined in accordance with income tax regulations which may differ from generally accepted accounting principles. These differences are primarily due to differing treatments of income and gains on various investment securities held by the Fund, timing differences and differing characterization of distributions made by the Fund.

Federal Income Taxes The Fund intends to qualify as a regulated investment company, if such qualification is in the best interest of its shareholders, by complying with the requirements of the Internal Revenue Code of 1986, as amended, applicable to regulated investment companies and by distributing substantially all of its taxable income to its shareholders. Therefore, no Federal income tax provision is required.

Expenses Expenses directly attributable to each Fund as a diversified series of the Company are charged to that Fund. Other expenses of the Company are allocated to each Fund based on the average net assets of each Fund.

2. Investment Advisory Fee, Administration Fee and Other Related Party Transactions

The Company on behalf of the Fund has entered into an investment advisory agreement (the "Advisory Agreement") with Tweedy, Browne Company L.P. ("Tweedy, Browne"). Under the Advisory Agreement, the Company pays Tweedy, Browne a fee at the annual rate of 1.25% of the value of its average daily net assets. The fee is payable monthly, provided the Fund will make such interim payments as may be requested by the adviser not to exceed 75% of the amount of the fee then accrued on the books of the Fund and unpaid. From time to time, Tweedy, Browne may voluntarily waive a portion of its fee otherwise payable to it. For the year ended March 31, 1996, Tweedy, Browne voluntarily waived fees of $192,301.

The current and retired general partners and their families, as well as employees of Tweedy, Browne, the investment adviser to the Fund, have approximately $18.3 million of their own money invested in the Fund.

The Company on behalf of the Fund has entered into an administration agreement (the "Administration Agreement") with First Data Investor Services Group, Inc. ("FDISG"), a wholly owned subsidiary of First Data Corporation. Under the Administration Agreement, the Company pays

FDISG an administrative fee and a fund accounting fee computed daily and payable monthly at the following annual rates of the value of the average daily net assets of the Fund.

	Fees on Assets		
	Up to $200 Million	Between $200 and $500 Million	Exceeding $500 Million
Administration Fees	0.10%	0.08%	0.06%

	Up to $100 Million	Exceeding $100 Million
Accounting Fees	0.06%	0.04%

For the year ended March 31, 1996, FDISG voluntarily waived administration fees of $54,000.

Under the terms of the Administration Agreement, the Company will pay for Fund Administration Services, a minimum fee of $40,000 per Fund per annum, not to be aggregated with fees for Fund Accounting Services. The Company will pay for Fund Accounting Services a minimum fee of $40,000 per Fund per annum, not to be aggregated with fees for Fund Administration Services.

No officer, director or employee of Tweedy, Browne, FDISG or any parent or subsidiary of those corporations receives any compensation from the Company for serving as a director or officer of the Company. The Company pays each director who is not an officer, director or employee of Tweedy, Browne, FDISG or any of their affiliates $2,000 per annum plus $500 per Regular or Special Board Meeting attended in person or by telephone, plus out-of-pocket expenses.

Boston Safe Deposit and Trust Company ("Boston Safe"), an indirect wholly owned subsidiary of Mellon Bank, serves as the Fund's custodian pursuant to a custody agreement (the "Custody Agreement"). From time to time, Boston Safe may voluntarily waive a portion of its fee otherwise payable to it. For the year ended March 31, 1996, Boston Safe voluntarily waived fees of $48,983. Unified Advisers, Inc., serves as the Fund's transfer agent. Tweedy, Browne also serves as the distributor to the Fund and pays all distribution fees. No distribution fees are paid by the Fund.

For the year ended March 31, 1996, the Fund incurred total brokerage commissions of $210,767.

3. Purchases and Sales of Securities

Cost of purchases and proceeds from sales of investment securities, excluding short-term investments for the year ended March 31, 1996, aggregated $104,565,645 and $10,791,655, respectively.

At March 31, 1996, the aggregate gross unrealized appreciation for all securities, in which there was an excess of value over tax cost was $38,572,397 and the aggregate gross unrealized depreciation for all securities, in which there was an excess of tax cost over value was $1,624,254.

4. Capital Stock

The Company is authorized to issue one billion shares of $0.0001 par value capital stock, of which 400,000,000 of the unissued shares have been designated as shares of the Fund. Changes in shares outstanding for the Fund were as follows:

	Year Ended 3/31/96		Year Ended 3/31/95	
	Shares	Amount	Shares	Amount
Sold	12,329,516	$153,231,522	4,305,320	$43,591,028
Reinvested	112,691	1,493,159	22,466	224,083
Redeemed	(3,834,573)	(48,758,999)	(492,575)	(4,992,674)
Net Increase	8,607,634	$105,965,682	3,835,211	$38,822,437

5. Organization Costs

The Fund bears all costs in connection with its organization including the fees and expenses of registering and qualifying its shares for distribution under Federal and state securities regulations. All such costs have been deferred and are being amortized over a five-year period using the straight-line method from the commencement of operations of the Fund. In the event that any of the initial shares of the Fund are redeemed during such amortization period, the Fund will be reimbursed for any unamortized organization costs in the same proportion as the number of shares redeemed bears to the number of initial shares held at the time of redemption.

Report of Ernst & Young LLP, Independent Auditors

To the Shareholders and Board of Directors of
Tweedy, Browne Fund Inc.:

We have audited the accompanying statement of assets and liabilities, including the portfolio of investments and schedule of forward exchange contracts of the Tweedy, Browne American Value Fund (one of the series of Tweedy, Browne Fund Inc.) as of March 31, 1996, the related statement of operations for the year then ended and the related statement of changes in net assets for each of the two years in the period then ended and financial highlights for each of the two years in the period then ended and for the period from December 8, 1993 (commencement of operations) to March 31, 1994. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of March 31, 1996, by correspondence with the custodian and brokers and other appropriate auditing procedures where replies from brokers were not received. An audit also includes assessing the accounting principles used and signficant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Tweedy, Browne American Value Fund, a series of Tweedy, Browne Fund Inc., at March 31, 1996, the results of its operations for the year then ended and the changes in its net assets for each of the two years in the period then ended and financial highlights for each of the two years in the period then ended and for the period from December 8, 1993 to March 31, 1994, in conformity with generally accepted accounting principles.

Ernst + Young LLP

Boston, Massachusetts
May 3, 1996

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