ACADEMY
CAPITAL MANAGEMENT

April 12, 2016

Enclosed is your statement for the first quarter of 2016.

For the quarter, stock prices were volatile with the first two months of the year in a decline, while prices rose in March. Bond prices generally rose during the quarter as interest rates continued to head downward around the globe.

The glaring exception was in the "high yield" category where commodity-based bonds dropped in price. The strength of the US Dollar in conjunction with unusually low interest rates is making the investment environment less certain. As we have said before, volatility is the investor's friend and we find the increased uncertainty an investment opportunity.

At Academy, we believe the best investment opportunities exist in difficult periods. The support provided by low interest rates has propped up the value of stocks. Since the Panic of 2009, the earnings of companies in the S&P have doubled. That is strong growth. Meanwhile, the prices have tripled, rising valuations driven in part by declining interest rates. Despite the best efforts of central bankers, macro issues (such as concerns about China) should provide us with periodic opportunities for purchases. The past quarter allowed us to continue to invest in some areas that we believe are attractively priced, despite the distortions induced by today's low rates.

The spring quarter's letter regularly addresses the businesses of the stocks which were newly purchased over the prior year. Last year's list was surprisingly large with ten (eleven in some cases) purchases. Before we discuss these, it is important to note that because we manage individual portfolios but write a general letter, not all of these stocks may be in your portfolio.

We purchase stock in a company when we have identified three conditions: first, that the company's earnings have a healthy long term outlook; second, that the company allocates its excess cash flows intelligently, either through reinvestment or back to us in the form of dividends and share repurchases; and third, the stock of the company drops or languishes in price for an extended period. (It is the last occurrence that gives most of you pause; it's natural – even at Academy, we occasionally lapse into discussions of stock price rather than business merits.)

We are interested in the purchase of great businesses at reasonable prices, where we have stubbornly defined "great" as a durable competitive advantage created by some form of consumer monopoly, such as a brand. In capitalism's relentless competition to zero profits, we seek safety in these narrowly defined competitive advantages. Unfortunately, those are precisely the kinds of companies that attract investors who generally are

bidding their prices far beyond our "margin of safety." Despite this challenge, we had a very productive year, purchasing shares in numerous companies.

The companies in which we purchased were shares were (in alphabetical order): Anheuser-Busch, Berkshire Hathaway, Core Labs, Diageo, Fleetcor, FMC Corp, Franklin Resources, Liberty Global (for those who don't own Comcast), MasterCard, Precision Castparts, and Valeant Pharmaceuticals.

Belgium-based Anheuser-Busch InBev (BUD) is the world's largest brewing company. BUD has over 200 brands of beer, with the most well-known being Budweiser, Stella Artois and Corona. This is our second time owning BUD, but this is, as the phrase goes, "not your father's BUD." When we owned BUD before, it was a staid, family-controlled, multi-generational company. It had high U.S. market share in the mature beer category. We purchased it as an "equity bond" – a term we use for a company with slow, but predictable, earnings growth. Then InBev showed up with a high-priced offer and we sold our shares rather than take stock in the new entity.

This "new" BUD is the creation of the principals of 3G Capital who had been acquiring or "rolling up" beer brands. Currently, BUD has over 20% of the global market share of beer. To do this, BUD had acquired sizeable debt. But by strategically selling assets, raising equity, and cutting costs with a process called "zero-based budgeting," BUD fortified its financials. Once that occurred, we resumed our in-depth coverage and last August's market sell-off allowed us to purchase shares. Our analysis shows that BUD may again be an "equity bond," but we are optimistic that it may also be a "compounder" – a term we use for a company with superior growth characteristics.

Omaha, NE-based Berkshire Hathaway (BRK) no longer needs an introduction as its creator and CEO Warren Buffett has attained celebrity status. Like BUD, this is our second time owning shares in BRK. In our analysis, BRK has evolved from an insurance conglomerate owning a portfolio of stocks funded by premium "float" to a "capital allocator" owning steady earning businesses with a moderate amount of leverage. When we sold BRK the first time, we had reached a valuation reflecting the maturity and slowed growth of the insurance business model. Since then, CEO Buffett has morphed BRK into a holder of capital intensive businesses with steady streams of cash flows. Concerns about its future growth caused the stock price to drop. However, we believe that because the investment world is reluctant to invest patiently in a growing list of infrastructure needs, Buffett's long term commitment to such projects is a competitive advantage and will generate good growth despite its large size.

Holland-based Core Laboratories (CLB) is a leading oilfield services company, focused on reservoir data. Since oil and gas are commodities, the key to profitability for exploration and production companies is cost control. CLB is in a sweet spot because their data allows for more barrels of production to be efficiently extracted. This is a high "value-added" business with low capital expenditures. Within the entire oil and gas business, this reservoir analysis work has the best financial characteristics in terms of high returns and high margins (Saudi oilfields excepted, of course). The current oil and gas price implosion has allowed us to buy shares in the most attractive business in the industry. Believers that "things are never as good or as bad as they seem," we view CLB as having excellent long term characteristics and welcome "lower for longer" oil prices as a way to purchase more shares.

London, England-based Diageo (pronounced dee-AH-zhay-oh) (DEO) is one of the world's largest alcoholic beverages producers and distributors. Tracing its origins back to the brewery of Arthur Guinness founded in 1759, DEO has a storied history. Some of our favorites include its rumored mashing of Protestant Bibles and Methodist hymn books into the brew to force ingestion of anti-Papal doctrine (not true) and England's national health insurance system covering the purchase of Guinness for nursing mothers (true). Over the years, DEO has acquired brands such as Johnnie Walker, Smirnoff, Captain Morgan and Jose Cuervo. DEO is most likely an "equity bond," sporting a sizeable dividend and slow growth. However, DEO has an unusual growth opportunity in the extremely difficult market of India where its business generates 40% of DEO's beverage volume, but only 1% of its profits.

Norcross, GA-based Fleetcor Technologies (FLT) is a provider of fleet cards and specialty payments to businesses. Basically, FLT delivers fleet buying power to fuel outlets in the same way as American Express delivers "high spender" buying power to retail outlets, with one critical difference – FLT does not carry credit exposure. FLT's business model is desirable because it's sticky, generates high returns and increases in value as more participate (in many ways like a software company). Further, FLT operates in a fragmented business with sizeable growth opportunities. Generally a pricey stock, the pump price declines dropped its price, allowing for us to purchase shares. The turbulence since the beginning of the year allowed us to purchase even more shares.

Philadelphia, PA-based FMC Corporation (FMC) is a specialty chemicals company with three areas of focus: crop medicines, pill "fillers" (also called excipients) and lithium. FMC had its origins in 1884 in the John Bean Spray Pump which was used to apply crop medicines. The area of crop medicines is what gathered our attention. Chemicals are generally unattractive investments. However, agrochemicals have patent processes, branding opportunities and regulatory hurdles that allow for pricing power and profitability. Lower prices in farm products and a strong US Dollar have combined to push FMC's price down to attractive levels. Again, we have used price volatility to lower our cost basis. One interesting aside: John Bean's son-in-law, David Christian Crummey, took over management of the company. Later, when David's grandson attempted to preserve some of that FMC money from taxes, he initiated an estate planning technique now famous as a "Crummey trust."

San Mateo CA-based Franklin Resources (BEN) is a financial services company primarily focused on investment management. BEN is now being run by the fourth generation of the founding Johnson family which still owns nearly 20% of the shares. We have often commented that we prefer family stewardship which tends to marry conservative finances with a willingness to suffer short term financial pain while nurturing new ideas or new markets. BEN has shown those traits and we have long admired it. BEN has no net debt and nearly 40% of its market value in cash. BEN's price has been pressured by several factors – declines in emerging market investment results, fixed income holdings in the oil and gas sector and an increased reliance on new approaches such as passively managed ETFs and robo-investing. We believe these factors are cyclical and their emergence allowed us to purchase shares at good prices and even more at lower prices during recent volatility.

London, England-based Liberty Global (LBTYK) is the largest international cable company, operating in 14 countries and led by John Malone. We did not purchase LBTYK for all of our clients, because many still own Comcast bought in 2005 and we did not want double positions in cable. We have been long term investors in cable, believing that its technology had competitive advantages due to its capital intensity and "right of way" complexity. Few investors want to risk "overbuild," duplicating cable structures. However, as its dominance for internet delivery increases, cable has an increased risk of price regulation. Overseas markets are much more competitive and complex. Even though we remain believers in cable, we would probably not venture overseas if it were not for the leadership of John Malone. John Malone is a titan in the cable industry, a focus of books, magazines, television shows and newspaper articles. Not only does he have a deep understanding of cable technology, its costs and its potential benefits but he is also an outstanding allocator of capital. LBTYK's stock price dropped on competitive pricing issues in Europe and we were able purchase shares.

Purchase, NY-based MasterCard (MA) is a leader in global payments. MA, of course, is a household word, but some confusion does exist about the business model. MA is a "network processor" which is basically a provider of the "rails" on which the credit card business is transacted. Network processors receive less than 10% of the fee. In the credit card transaction is the card issuer – typically the bank – who gets the majority of the "interchange fee" and deservedly so. The card issuer bears the risk of the unsecured credit extended in the credit card. Another part of the process is the merchant acquirer who sets up the machine at the merchant's counter. Despite the small fee, MA has a wonderful position without credit risk and low labor and capital costs. We could go on at length, but suffice it to say we have rarely seen a business model so attractive and their financials illustrate it. MA is not and has not even been "cheap," but on market weakness we have managed to "pay up" and create a stake.

Portland, OR-based Precision Castparts (PCP) makes complex metal components and products for aerospace and industrial products. PCP really fell into our "conglomerate" category as the CEO Mark Donegal had made hundreds of acquisitions prior to its becoming an acquisition itself. PCP's shares fell due to declines in the oil and gas business as purchasing of components for oil and gas equipment fell. We took advantage of the price decline to buy shares in an attractive business. But shortly after we purchased shares, BRK bought the entire company. Though that gave us a short term gain, rather than our preferred long term gain, we had a good outcome. In an unusual twist, we sold it, but still own it through our shares of BRK.

West Laval, Canada-based Valeant Pharmaceuticals (VRX) is a pharmaceutical company that is primarily focused on branded generic products. We bought shares of VRX in the midst of significant controversy which is on-going. There are three basic parts to this investment. First, we perceive the assets as high quality. We have successfully invested in pharmaceutical companies, but have grown leery of the risks of "patent cliffs." That is what is said to happen when much of a company's income drops off a cliff due to patent expirations. VRX has a broad portfolio of products which largely avoid this issue. Second, although VRX has significant debt, it seems reasonable in relation to the nature of the assets. Some of our consumer products companies, such as Heineken, Anheuser-Busch and Liberty Global, have higher levels. While debt is a four letter word and we prefer none, we understand its use and look for appropriate levels relative to the stability of income from the assets. Third, VRX ownership has been with competent investors. In

a world of “passive” investors, VRX has an active group of owners who think of investments on a long-term basis and are willing to adopt strategies that make sense. We have particularly high regard for Bill Ackman in this regard. We are confident that with their input and its inherent strengths VRX will “right its ship”, and we can use the current volatility to increase our returns.

Our holdings are diverse. Some of the companies whose stock we hold are huge; some not. Some are global; some not. Some pay dividends; some don’t. Some are widely diversified; some not. However, our selection of these companies all has one thing in common – a sustainable competitive advantage. There are a limited number of ways to gain and sustain this advantage. In the past we have discussed some of them (such as “brands”) but our 2015 companies offered diverse advantages. The wild movements of the market are much less stressful when our attention can focus on the competitive strengths of our portfolio companies. This is the primary reason why we are so pleased when market downturns allow us to increase our ownership at better prices. The distortions alluded to on the first page of this letter may play a role in that.

We hope this rather lengthy letter deepens your understanding of our process and your portfolio. We want you to stay informed and feel comfortable about our investing discipline. In communicating, we try to “do unto others as we would want done unto us.” If you’re new to Academy, past quarterly letters may be useful and may be obtained through your financial advisor or Margie Shelton at our office. In addition, our website (at www.academycapitalmgmt.com) has our investment reports on the individual holdings in your portfolio.

We make available a copy of our updated Form ADV - Part II (our regulatory filing with the SEC). If you would like one, please contact Robert Stovall at our office.

As always, we appreciate the stewardship responsibilities you entrust to us and your patience with our investment process.

Academy Capital Management