ACADEMY
CAPITAL MANAGEMENT

April 21, 2017

Enclosed is your statement for the first quarter of 2017.

For the quarter, stock prices generally increased, while bond prices were flat due to expectations of rising interest rates. The lone bond exception was in the "high yield" category where prices were stronger.

Current conditions make it challenging to find reasonably priced investments.
At Academy, we believe these opportunities arise during difficult periods. "Difficult" comes in different forms. The form we prefer occurs when major market dislocations allow us to purchase high quality companies at historical discounts. Next, we favor industries under duress, because a whole industry tends to regroup and regain pricing power. Finally, we look for companies in distress. This is our least favorite, because unlike the other forms, competitors have an incentive to increase distress if they can.

Our favorite kinds of stress are in short supply. In large part, due to central banks driving low interest rates, we have seen little market dislocation for several years. Within the industry category, we did get some opportunities in the oil and gas sector. Finally, in the individual company category, we have had a few opportunities, but they have been more daunting than usual. Nowadays, today the word "difficult" seems to more applicable to a hotly competitive world driven by "disruptive" change as the information power of the internet erodes profitability.

During the past ten years, the earnings of companies in the S&P have barely moved – rising by roughly 10% - while their prices have nearly doubled. The increasing disconnect between earnings and price is due in part in low interest rates, but another part is due to the increasing presence of "disruptive" companies, such as Amazon and Tesla, whose earnings are potential, not actual. It's a striking quarter in which we sell historical powerhouses IBM and Walmart, not just because of a disconnect between their earnings and prices, but also out of concern for these disruptive forces.

The spring quarter's letter regularly addresses the businesses of the stocks which were *newly* purchased over the prior year. Although we also purchased additional shares of companies we had bought in prior years, last year's list was a short one: only one new company.* We purchase stock in a company when we have identified three conditions: first, the company's earnings have a healthy long term outlook; second, the company allocates its excess cash flows intelligently; and third, the stock of the company drops or languishes in price for an extended period. The company whose shares we purchased for the first-time last year because it met these conditions was Apple, Inc.

Cupertino, CA-based Apple, Inc. (AAPL) is the world's most profitable device company. AAPL is widely known and admired for the beauty of its design and intuitive simplicity of its products. The device space is not one we naturally are inclined to – as the examples of Blackberry and Nokia illustrate how former device dominance can quickly be eclipsed. Of further concern to us is AAPL's vertical control of both the hardware and the software comprising its products. Rarely have we seen companies succeed with such a proprietary system. Despite those reservations, it appears to us that AAPL has 1) a culture that is focused on creating beautiful and seemingly simple consumer products, 2) has a loyal buying base that would be forgiving of a failure, 3) an enormous capital base with which to fund its vertical positioning and 4) a price low enough for us to accept the risks involved.

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. This diversity allows us to concentrate on the competitive strengths of our portfolio companies and to welcome market downturns that allow us to increase ownership at better prices. This is the primary reason why we are so pleased when market downturns allow us to increase our ownership at better prices. We remain optimistic that such downturns are in our future.

We hope this 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.

*It is important to reiterate that because we manage individual portfolios but write a general letter, your portfolio may vary from the typical portfolio assumed in our discussions.

If you would like a copy of Academy's updated Form ADV Part 2A Disclosure Brochure, 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