ACADEMY
CAPITAL MANAGEMENT

January 23, 2020

Enclosed is your statement for the fourth quarter of 2019.

For the quarter, stock prices surged, as the Federal Reserve maintained current monetary policy – support we think sensible given high corporate leverage. The S&P 500 rose 9.05%, the Dow 6.67% and the NASDAQ 12.5%. Academy Capital-selected stocks rose 7.81%, though as usual results in portfolios differed due to the varying amounts of cash held and differences in stock holdings. Meanwhile, bonds underperformed. A bond composite measured by the Barclays Aggregate Total Return eked out a 0.18% gain, while long-dated US Treasuries, as measured by the Barclays Long-Term Treasury Index, lost -4.2%.

As we have discussed in the past, volatility is the investor's friend. During the past quarter, it helped us add to our existing stock positions and purchase new positions despite the strong overall lift in prices. Further, we were able to take advantage of the volatility to work on reducing taxes created by sizeable gains we realized during the year.

Our preferred stock holding period is "forever"- or for as long as the underlying company is preserving or increasing its competitive advantage. Low turnover is a hallmark of our portfolios. However, exceptionally high prices caused the sale of three portfolio companies during the past year, while strategic issues caused the sale of a fourth.

In March, we sold our position in Diageo (DEO). Diageo (pronounced dee-AH-zhay-oh) was created in 1997 by merging Guinness beer and Grand Metropolitan – a holder of various liquor brands, such as Smirnoff vodka and Johnnie Walker scotch. We purchased DEO in 2015 at a time of currency volatility that complicated earnings. DEO is Tier I, which is our highest classification, designating a company with products that are desirable and difficult to replicate, accompanied by strong pricing power. It's a pleasure to research companies with products like Guinness beer that have staying power (since 1759) and are easy to understand. Due to the consistency of DEO's earnings, investors have bid up its stock price despite little earnings growth. Given high prices and an outlook for continued slow growth, we took a profit of over 50%. We await an opportunity to repurchase the stock at a future date as we continue to practice its pronunciation.

In May, we sold our remaining position in Johnson and Johnson (JNJ). JNJ was founded in 1887 by three Johnson brothers, becoming both profitable and famous for its sterilized dressings and bandages. We initially purchased JNJ in 2002, at a time of drug pricing concerns (some things don't change). We varied our position subsequently, most notably

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when we increased our ownership at the depths of the Great Recession in March 2009. JNJ is a prime example of an “equity bond” - a company whose earnings consistency resembles the interest payments of a bond. As markets recovered with the assistance of lower rates, investors sought out JNJ’s consistency despite tepid growth rates. Due to slow growth and high valuations, we trimmed our position in 2014 and exited our remaining position this year with a substantial profit, nearly tripling our initial investment.

During September and October, we sold our position in Colfax (CFX). CFX is a company for which we held high hopes as the second iteration of Danaher. Danaher was founded by the Rales brothers, who led by an approach of intelligently buying “high moat” companies, cutting speculative expenditures and narrowly focusing on cash flows. The investment result was to put Danaher in our esteemed “compounder” category. When the Rales brothers created CFX with the same formula, we invested. CFX owned the best in industrial fans, pumps and welding equipment. Subsequently, declines in oil and gas prices hurt profitability. We were confident that CFX would work through that and capitalize on those cyclical woes. But CFX took a different approach and made a wholesale switch to the medical area. Given the Rales brothers’ history, their radical transformation is likely to be successful. Still we didn’t understand the new business, nor the price paid for it, and sold our shares at roughly breakeven after only a year’s ownership.

In November, we sold our position in Allergan (AGN). Allergan is a company which we followed for years whose primary product is the miracle drug, Botox. We have often said that we want to own products that can “make you look better, feel better and live longer.” Botox clearly qualifies in the first and maybe the second categories. Further, we prefer companies with long-lived assets, and AGN’s dermatology and eye-care products fit that criterion. In mid-2018, we purchased AGN on bad news. It dropped and we nearly purchased more, but Abbvie – the maker of Humira - intervened with a buyout. As a result, the stock jumped, and we sold for a quick (for us) profit of roughly 8%.

With these letters, we hope to provide you a deeper look at our investment process. It is worth pointing out that critical to the execution of these ideas is our excellent operations department, led by Derek Richards and supported by the careful work of Joyce Bell, Maria Esau, Sara Johnson and Kari Siler.

If you’re new to Academy, past quarterly letters may be useful and may be obtained from Joyce Bell and Maria Esau at our office or our website - www.academycapitalmgmt.com. Government regulations also require us to send the enclosed copy of Academy's Privacy Notice and to make available to you a copy of our updated Form ADV - Part II (our regulatory filing with the SEC). If you would like one, please contact our office.

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

Academy Capital Management