ACADEMY
CAPITAL MANAGEMENT

July 8, 2015

Enclosed is your statement for the second quarter of 2015.

For the last two quarters, stock prices have been generally flat, moving up and down in response to news affecting the likelihood of the Federal Reserve raising short-term interest rates. That and the European attempt at quantitative easing are also creating volatility in the bond markets. For the last quarter, fixed income investors saw a reversal of the prior quarter's gains with total returns of -0.75% for the 5-year Treasury Index, -3.05% for the 10-year Treasury Index and 0.06% for the 10-year BB- corporate bonds Index. As we mentioned in last quarter's letter, we think that the combination of high consumer debt, a slow recovery and a strong U.S. Dollar limits the ability of the Federal Reserve to tighten much.

That said, we do not invest by making broad economic forecasts. Rather, we try to view each investment as a business owner might, with an emphasis on understanding the strength and worth of its business model. We have been trimming some positions in our stock portfolios but we have been doing so because of a rise in some prices beyond their particular business fundamentals and not due to a pessimistic outlook. The result should be an increase in cash but that has not occurred because, surprisingly, we have been able to find new investment opportunities in today's elevated market.

In the second quarter, we customarily discuss the earnings growth of the companies that formed the bulk of our prior year's investments. There is an important distinction here. We look at the earnings growth *per share*. Many companies, including some in our portfolio, have been more concerned with increasing earnings and size than per share value.

This is a common issue. With extreme over-indebtedness becoming a global constraint on growth, weakened aggregate demand has meant that the growth of many companies has stagnated. One way to counter this stagnation is to turn to mergers and acquisitions. The combination of high stock prices (to be used as currency) and low interest rates creates a compelling "deal" environment. The result is larger companies with "growth", but after all is accounted for, it is difficult to see much per share value added.

Another strategy for company "growth" has been the repurchase of shares as a way of driving up earning per share (EPS). We have discussed this strategy favorably in the past as an alternative to purchasing new businesses outside the company's competence. We applauded this approach when balance sheets were generally cash rich and, after 2009, stock prices were low. However, this strategy has become a seductive way to mask the impact of stock options in the midst of rising prices as well as to generate higher EPS. The favorable impact on executive compensation is also tempting companies to use cash for buybacks that, after all is accounted for, not only does not add much per share value but also impairs their financial strength.

We prefer companies that grow organically and gain market share by investing in their business. In the long run, such investment creates superior shareholder value. To do so, however, takes long-term leadership and financial strength because market share growth is not only slow, but expensive. Along the way, it may even narrow margins, depress earnings and drop the stock price. Not surprisingly this is the road less travelled, but it has been the source of our investment opportunities so far, this year as well as driving the best results in some of our older holdings.

As we have written previously, we look for long-term (10 years or more) aggregate EPS growth of 6-8% per year in the companies we hold in our portfolios. This growth is what ultimately drives market value growth. During 2014, we held the following companies for the entire year. We have listed the changes in their year over year EPS changes in percentage terms after the company names:

Company	% **Change in EPS***
Abbott Labs	13%
AFLAC	0%
Apollo Group	-23%
BP, PLC	-7%
Becton, Dickinson & Co.	10%
Citigroup	-11%
Comcast	14%
Expeditors	14%
Google	15%
IBM	4%
Intel	23%
Johnson and Johnson	8%
Legg Mason	13%
Medtronic	5%
Merck	0%
Microsoft	-1%
Nat’l-Oilwell Varco	10%
Nestle Sa	29%
Oracle	7%
Pepsi	-2%
Philip Morris	-10%
Procter & Gamble	- 4%
Schlumberger	-8%
Teva	1%
Wal-Mart	-1%

*For EPS, we have used Value Line's most recent numbers using the closest fiscal years. These EPS represent Value Line's best attempt at a description of after – tax operating earnings per share. (C's EPS excludes mortgage settlement.)

The average *increase* in the EPS of our stock holdings was 4.4% last year. Just as in other years, the average reflects some industry-specific issues, such as the challenges caused by a strong U.S. dollar and a sizeable decline in oil prices. Because of those challenges, 2014's EPS average increase was below our target, but, with the exception of Apollo (which we have discussed in an earlier letter), were pleased with company results.

We highlight earnings regularly because it puts the focus on the underlying business rather than the stock price. For example, in 2014 our average EPS was again lower

(4.4%) than our stock price return (10.6%). This low average EPS directs our attention to underlying business characteristics. We want to see improvements in the more important measures of investment success, before considering changes in market value.

As stated in the 2001 Berkshire Hathaway annual report: "when the tide goes out, you'll know who's swimming naked." Close earnings' scrutiny and care in spending our cash holding are our best attempts at swimsuits, when, and if, the tide of mispricing in "risk-free" assets leaves our shores.

We hope this letter helps you understand our process. We want you to stay informed and feel comfortable about our investing discipline. 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.

Government regulations also require us to send the enclosed copy of Academy's Privacy Notice and to 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