October 30, 2020

Enclosed is your statement for the third quarter of 2020.

In our third quarter letter, we have a tradition of addressing broader issues that go beyond specific portfolio holdings. In last year's letter, we discussed underlying economic trends and their impact on portfolios held at Academy. In this letter, we will discuss our general redefinition of "real estate" and how it affects our investing.

As long-term clients know, we are "bottom-up" investors. "Bottom-up" investors are those who begin with an analysis and valuation of individual companies and then assemble a portfolio. As we gather information in this manner, we develop a larger view of the business environment anchored by these individual company data points. One recurring feature of this environment has been a divergence in pricing between the popular "haves" and the unpopular "have nots." Regularly and profitably we have rotated out of the companies that have caught popular imagination and rotated into the unpopular ones. Yet, for the past several years as these divergences in pricing have grown ever more severe, we have maintained and increased ownership of the "haves" and trimmed or sold the "have nots." Long-term clients might be asking, "Has Academy changed?"

Bewildering dislocations are the norm when fundamental changes are occurring. Today's pandemic accelerates and highlights disruptive trends that were already in place. While it is painful to see movie theaters closing and filing for bankruptcy, their future, even without the pandemic, was like that of many newspapers and shopping malls - destined to fill an increasingly small niche. The real estate they occupied is not needed to meet the needs for entertainment, information or shopping in today's world. Given such dynamics, some businesses and perhaps some industries will not experience "a return to the good old days" or as mathematicians like to phrase it, "a reversion to the mean." The key, then, is to identify areas where disruption is maximized and one of our themes is the replacement of high-priced physical real estate with digital real estate.

For centuries, the U.S. economy has been a real estate-based economy. In the 18th century, navigable lakes and rivers were significant to the development of towns and cities. In the 19th century, the railroads were critical in harnessing the great scale and productivity of the national real estate assets established in the prior century. In the 20th century, the Interstate Highway system set the stage for a powerful consumer economy and an increasing standard of living. Throughout this period, certain pieces of real estate gained disproportionate value due to the old mantra of "location, location, location," and individuals, banks and businesses gathered disproportionate wealth and abnormally high

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returns on capital due to these locational strengths. In our opinion, these locational strengths are being surpassed by new data strengths – giving rise to "digital real estate."

Digital real estate is simply data. Those who can generate, capture, and utilize that data are in the position that railroads of the 19th century were in – not only being monopolistic but determinative of social and capital structures. Just as companies in the 19th century had to adapt to the emerging power of railroads, so too are consumer and industrial companies having to adapt to the emerging power of these data companies. So, our current shift in our investment process is not an abandonment of our identity as a "value" manager. Rather in the spirit of Cornelius "Commodore" Vanderbilt, who recognized a new reality and reallocated capital from steamboats to railroads, we are adapting to a new reality that significantly affects value.

Times are a-changing, but math still applies. In future letters we will provide some related specifics involving companies out of which we have rotated and companies into which we have invested. As always, analysis of individual companies, not a cheery popular consensus, will form the foundation of our process. After the Commodore recognized the disruptive significance of railroads, he did not put his money in just any railroad or even a basket of railroads. He went after the New York Central Railroad, with its natural advantages that made it an essential link between East and West. It was the irreplaceable real estate of its day. Our goal is to acquire and hold the irreplaceable digital real estate of our day.

The remarkable coordination of monetary and fiscal policies in recent times has naturally encouraged speculation and elevated current stock prices. That price support is likely to create significant and sometimes disturbing volatility. Despite the potential volatility and the current social environment of divisiveness, we are optimistic about the changes unfolding and the openness of political dialogue. Even with some elevated prices, we believe the companies in your portfolio are likely long-term winners, many of which will dominate in the same way as the great railroads did in the 19th century.

If you're new to Academy, past quarterly letters may be useful and may be obtained through your financial advisor or Mitzi Rosales at our office. In addition, our website (at www.academycapitalmgmt.com) has our investment reports on the individual holdings in your portfolio. If you would like a copy of Academy's updated Form ADV Part2A Disclosure Brochure, please contact Derek Richards at our office.

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

Academy Capital Management

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