ACADEMY
CAPITAL MANAGEMENT

August 30, 2023

Enclosed is your statement for the second quarter of 2023.

As we opined last year, continued high inflation is unlikely because of the Fed's commitment to its reduction, the public's support of the Fed and a post-COVID return to capitalistic competition. Progress has been made on all fronts, even though resistance, particularly by resurgent union labor, has been fierce in some quarters. To combat high prices driven by excess demand (as well as corporate "gouging"), the Fed is reducing liquidity until demand abates and prices stabilize. At this point, a credit crunch has ensued, and we remain skeptical that its impact will be minor. As Ben Bernanke remarked, "economic expansions do not die of old age, they are murdered by the Fed."

Our approach to the economy's ups and downs is not to attempt a prediction of them, but to use their unpredictability to make investments at reduced prices. Reduced prices, particularly in the areas we prefer, have been mostly absent and have caused portfolio "cash" - funds invested in money market funds and Treasury bills - to rise to levels not seen in over a decade. That pattern has become a hallmark of our investment approach. We used to comment in our letters: "cash in your portfolio brings you as little joy as it brings us." But over time we have seen tremendous value here. Due to our high cash levels during periods of high prices, we not only blunted the impact of subsequent market downturns but also had shopping money to take advantage of bargains. This combination caused our portfolios to experience far less "down time." During the past thirty years, the stock market has averaged over six years to recover its prior highs, while our portfolios have averaged less than three years.

Our relentless focus remains the discovery and purchase of superior businesses. A superior business is marked by strong earnings growth, which is the focus of our second quarter's letter. Increasingly, our emphasis has been on "compounders" – a designation we use to characterize that rare trait of being a "defensive grower." At the same time, we have been gradually reducing our exposure to "equity bond" and "deep value" cyclical stocks. For example, last year we trimmed six positions in those two categories, while purchasing one "compounder." Although we look for earnings growth of 6-8% per year, the prior five-year EPS growth of our portfolio companies was a strong 13.5% per year, with a prior five-year price return averaging 12.1% per year. While not all current companies were held equally or fully for the entire five-year period, this survey supports our belief that earnings growth is what drives market value as well as illustrating the impact of "compounders."

We reiterate the drawback that despite these "compounder" companies being competitively stronger than other varieties, their prices (relative to their earnings and

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other metrics) are higher and thus more susceptible to price drops in a period of rising rates. Despite that drawback, we have chosen to invest in the best businesses – as time is the friend of the good business and the enemy of the bad one. For that reason, we welcome price drops to increase our stakes in our favorite companies at rarely reduced prices. We subtitle these companies as "buy, don't sell."

We also reiterate that we see a recession as likely. The noun "recession" originally was defined as "the act of ceding back to a former possessor." In order to avoid the experience of "selling low," we suggest that our clients make their own preparations in addition to those we are taking with the portfolios. These include making sure cash is available for emergency needs, selling assets that are burdensome while prices are still reasonable, and minimizing discretionary purchases. These actions are not only useful for "peace of mind" but also for planning on the possibility that this recession may be deeper or more prolonged than normal.

We hope that this brief discussion illustrates why we have been emphasizing our approach and where the risks to our approach may lurk. 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 our office. In addition, our website (at www.academycapitalmgmt.com) has these letters as well as 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 our office.

As always, we appreciate the stewardship responsibilities you entrust to us and your patience with our investment process. Please note, the only two approved methods of Academy business communication are phone calls or e-mails. We are not allowed to conduct any Academy related business via text messages.

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