

Market volatility returned during the second quarter and both The Yacktman Focused Fund and The Yacktman Fund outperformed again in a down market. The S&P 500 fell 11.43% while The Yacktman Focused Fund and The Yacktman Fund declined by 9.27% and 9.68% respectively.

Year-to-date, our funds have also outperformed, with The Yacktman Focused Fund and The Yacktman Fund down 4.77% and 4.34% compared to a drop of 6.65% for the S&P 500. While we are generally not very concerned about how we perform compared to a benchmark over short periods of time, we feel it is critically important to provide better protection than the general market during sharp declines.

In the second quarter, we took advantage of lower prices by making additional purchases in many of our favorite holdings. Cash as a percentage of total fund assets has been reduced from the first quarter level, though we maintain sufficient excess cash to bargain hunt should the opportunities get even better.

We are proud of the long term results for our funds. In the last 10 years, The Yacktman Focused Fund and The Yacktman Fund have appreciated 12.49% and 11.85% annually, compared to the S&P 500 which is down 1.59% per year. That translates into a total return of 224.41% for The Yacktman Focused Fund, and 206.84% for The Yacktman Fund compared to a decline of 14.8% for the S&P 500. A shareholder who invested \$10,000 10 years ago would now have \$32,438 in The Yacktman Focused Fund, and \$30,654 in The Yacktman Fund compared to \$8,521 in the S&P 500 index.

**As of June 30, 2010**

		<b>ANNUALIZED</b>			
	<b>YTD</b>	<b>1-YEAR</b>	<b>3-YEAR</b>	<b>5-YEAR</b>	<b>10-YEAR</b>
The Yacktman Focused Fund (YAFFX)	-4.77%	20.06%	5.88%	7.26%	12.49%
The Yacktman Fund (YACKX)	-4.34%	22.53%	4.05%	6.20%	11.85%
S&P 500© Index	-6.65%	14.43%	-9.81%	-0.79%	-1.59%

	<b>Cumulative Return</b>			
<b>As of June 30, 2010</b>	<b>1-YEAR</b>	<b>3-YEAR</b>	<b>5-YEAR</b>	<b>10-YEAR</b>
The Yacktman Focused Fund (YAFFX)	20.06%	18.70%	41.96%	224.41%
The Yacktman Fund (YACKX)	22.53%	12.66%	35.11%	206.84%
S&P 500© Index	14.43%	-26.64%	-3.91%	-14.79%

**There Are Good Bargains in The Funds**

Last quarter we wrote that many holdings had gone from “the exceptional to the more than acceptable.” With the recent price declines, we think many of our top positions have moved back to

offering exceptional potential over time. To us, the risk/reward of our funds is especially compelling, given the quality of the major positions we hold.

### **Emphasis on High Quality Holdings**

Both funds have significant positions in some of the most attractive businesses in the world. It surprises some that we have achieved such strong outperformance while having large weightings in well-known stocks like Coca-Cola, PepsiCo, Pfizer, and Microsoft, as these companies are not exactly undiscovered or underfollowed.

We strive to be as objective as possible in evaluating all opportunities, and if the best businesses in the world are available at compelling valuations we are willing to own big positions in them. We sleep well at night knowing that dominant, well capitalized companies purchased at attractive valuations should produce solid results over time, even in a world with an extreme amount of uncertainty.

We are also willing to own lower quality businesses, but we have to project a meaningfully higher expected rate of return on the investment. Currently, we think most of the best values are in the highest quality companies.

### **Long Product Cycle, Short Repurchase Cycle**

We like businesses that sell products in well-established, slowly changing markets like beverage, household products, personal care, and food. These “consumer staple” products typically sell at low price points and are consumed and repurchased frequently.

Category leaders like Coca-Cola in soft drinks or Tide in laundry detergents may continue their dominance for generations, making it easier to predict the future prospects of these businesses. We are extremely confident that Clorox will be the leader in bleach sales in 10 years, while we are less certain about who will be the dominant seller of cell phones even a few years from now.

### **Value of Recurring Revenues**

The media companies we own are largely subscription businesses, which we also like. Comcast gets paid predictable monthly fees from its customers for providing cable television, internet, and telephone services. News Corp and Viacom receive recurring monthly fees for the cable content they provide to pay television providers. Even in a challenged economy, pay television is one of the last items to be cut by households.

### **Positions greater than 6% of Assets**

#### **The Yacktman Focused Fund**

PepsiCo

News Corporation

Coca-Cola

Clorox

Pfizer

#### **The Yacktman Fund**

PepsiCo

News Corporation

Coca-Cola

Due to The Yacktman Focused Fund's ability to concentrate more assets in our best ideas, we have five positions greater than 6% compared to three in The Yacktman Fund.

### **What We Like About Our Top Positions**

#### **PepsiCo**

Frito Lay, the most valuable division of PepsiCo, is the dominant snack chip company in the world. This business has significantly higher market share than any of its competitors, and its dominant market share produces substantially higher margins than most other packaged food companies. Strong distribution and innovation have allowed Frito Lay to grow faster than other large food companies. Outside of snack chips, PepsiCo has a collection of solid businesses including Pepsi, Tropicana, Quaker Oats, and Gatorade.

#### **News Corporation**

News Corporation is a global media conglomerate. In the last decade-plus, Rupert Murdoch has transformed the company from somewhat cyclical, advertising-based businesses like newspapers and network television, to more recurring revenue businesses like cable content. We expect the cable content business, which was in its infancy a little more than a decade ago, to produce approximately 50% of News Corporation's pre-tax profits in the next 12 months.

News Corporation wants to increase its recurring revenue base even further by acquiring the 61% of BSkyB (the dominant pay television provider in the United Kingdom) it does not own. News Corporation has been the largest shareholder of BSkyB for more than 20 years and would be highly accretive to free cash flow per share at the proposed transaction price.

#### **Coca-Cola**

Coca-Cola products account for nearly 3% of beverage consumption around the world. Increased per capita consumption and global expansion have driven more than a century of growth. Today, Coca-Cola is primarily an international company; the stagnant North American business is a minority of operating profits. Due to a strong presence in key emerging markets, we expect Coca-Cola's growth will continue for a long time in the future.

#### **Clorox**

Clorox is a leading household products company, owning a diverse group of well-known brands, including Glad, Clorox Bleach, Kingsford Charcoal, Brita, Armor All and Hidden Valley Ranch. These are products that consumers purchase and use in both good economies and bad. Clorox has extremely high market share in many of its brands, which translates into high margins and strong free cash generation.

#### **Pfizer**

Pfizer is the largest pharmaceutical company in the world. Pharmaceuticals are a cost effective way to treat an aging population. However, Pfizer is the least predictable business of the five in this list because it is fighting patent expirations, pricing controls, and greater competition than consumer or subscriber based businesses.

To compensate for the less predictable future, the stock trades at less than 7 times free cash flow. We believe the company should generate more than \$10 per share in free cash flow over the next 5 years. Given the significant residual value of the business at that point, we see lots of safety in the current price of slightly more than \$14 per share. There can be material upside if the company has even modest success with drugs in its pipeline, finds accretive acquisitions, successfully expands its generic business, or grows its biologic drug presence.

### **Price**

#### **“It’s almost all about the price”**

Identifying great companies is not especially difficult. Appraising the future prospects of a business and paying an appropriate price are far more critical to managing risk and generating attractive returns than just picking leaders. Ten years ago, all five stocks described above sold at substantially higher multiples of earnings than today. Due to the low prices, the average dividend yield for these five companies is 3.3%.

### **Global Economic Issues**

Economic issues may cause short term pressure on the earnings of some of the companies in our funds, though we think we are being sufficiently compensated for that possibility by current valuation levels. We are optimistic and patient, and believe that owning securities at attractive prices and adhering to high quality standards will allow us to endure bumps in the road that may lie ahead.

Over the longer term, we like businesses that have international exposure. The United States represents less than 5% of the world’s population, and for most large companies, the only way to achieve sustained growth over long periods of time, is to expand around the globe.

### **Conclusion**

We are highly confident about the long-term prospects for our funds. We currently own many top-quality companies at what we think are very attractive valuations. In a world where there are significant economic issues we are comfortable because we feel our funds own many businesses that can prosper in good times and bad.

Our team will work hard to objectively examine the opportunities ahead. We appreciate the confidence of our shareholders, and, as always, we will continue to be diligent, objective, and patient when managing The Yacktman Funds.

Sincerely,

The Yacktman Team

The performance data quoted for the Yacktman Funds represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that the investor’s shares, when redeemed, may be worth more or less than their original cost. The current performance may be higher or lower than the performance data quoted. The most

recent month-end performance may be obtained by clicking on “Updated Performance” at [www.yacktman.com](http://www.yacktman.com).

An investor should consider the investment objectives, risks and charges and expenses of the Funds carefully before investing. The Funds’ prospectus contains this and other important information about the Funds. An investor may obtain a prospectus by also going to the Yacktman website at [www.yacktman.com](http://www.yacktman.com) and clicking on “Prospectus” in the left hand column or by calling this toll free number 1-800-525-8258. The prospectus should be read carefully before investing.