TURTLE CREEK

October 1, 2015

Dear Turtle Creek Client,

The third quarter of this stock market year was a cruel one as returns for a variety of broad market indices turned steeply negative. A potent set of concerns over global economic weakness, the strengthening dollar's impact on U.S. corporate profits earned abroad, and the impact of the Federal Reserve Bank's emergence from an unprecedented stimulus program drove investors to cash in their chips in nearly every corner of the stock market.

U.S. Broad Market Indices Total Returns as of 09/30/2015				
Index Name	**Ticker**	**1 Month**	**3 Months**	**Year To Date**
S&P 500 Index	SPX	-4.02%	-8.20%	-6.00%
Dow Jones Industrial Average	INDU	-2.67%	-7.58%	-7.53%
Dow Jones Composite Index	COMP	-2.00%	-9.24%	-8.80%
Russell 1000 Index	RIY	-4.32%	-7.57%	-5.99%

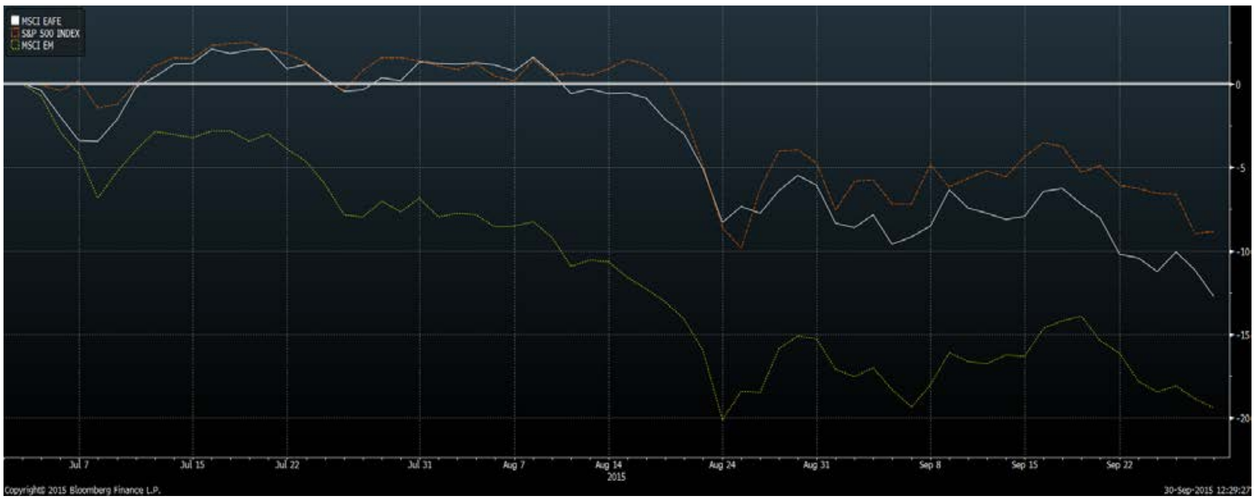
Exhibit 1. – U.S. Stock Market Indices Q3 2015 Performance

(Source – Bloomberg)

While broad U.S. stock market performance in the quarter was daunting enough, cutting these one-size-fits all stock groupings into finer buckets and looking at global alternatives reveal even more volatile trends.
The MSCI EAFE Index, which represents companies in the major developed international markets, declined 12% in the quarter. The MSCI Emerging Markets Index, which reflects share price performance in less developed countries such as India, China, and Brazil dropped an eye-popping 20% in the quarter as these economies grappled with slowing economic growth and sagging commodity prices.

Exhibit 2. – MSCI EAFE and Emerging Market Index Performance vs. S&P 500 – Q3 2015 Performance

Global Indices Total Returns vs. S&P 500 as of 09/30/2015				
Index Name	**Ticker**	**1 Month**	**3 Months**	**Year To Date**
S&P 500 Index	SPX	-4.02%	-8.20%	-6.00%
MSCI EAFE Index	MXEA	-7.65%	-12.07%	-6.85%
MSCI Emerging Markets Index	MXEF	-5.07%	-19.42%	-16.95%



(Source – Bloomberg)

Finally, U.S. investors continue to take a dim view of stumbling companies sporting below average valuation multiples and rewarded more consistent producers with historically premium valuations of earnings and cash flow. The S&P 500 Growth Index has outperformed its S&P 500 Value Index counterpart by six percent through the first three quarters of the year. The effect is more pronounced within the Russell 3000 index which captures medium and small sized companies.

Value vs. Growth in U.S. Broad Market Indices - Total Returns as of 09/30/2015				
Index Name	**Ticker**	**1 Month**	**3 Months**	**Year To Date**
S&P 500 Growth Index	SGX	-5.31%	-6.78%	-4.18%
S&P 500 Value Index	SVX	-4.85%	-9.78%	-10.20%
Russell 3000 Growth	RAG	-4.01%	-6.08%	-2.02%
Russell 3000 Value	RAV	-3.65%	-8.76%	-9.20%

(Source – Bloomberg)

Turtle Creek Management's View on Market Volatility:

The spiritual father of value investing, Columbia Professor and famed investment manager Benjamin Graham, created an allegory for the stock market known as "Mr. Market". He framed it as such:

> "Imagine that in some private business you own a small share that cost you $1,000. One of your partners, named Mr. Market, is very obliging indeed. Every day he tells you what he thinks your interest is worth and furthermore offers either to buy you out or to sell you an additional interest on that basis.
>
> You may be happy to sell out to him when he quotes you a ridiculously high price, and equally happy to buy from him when his price is low. ***But the rest of the time you will be wiser to form your own ideas of the value of your holdings, based on full reports from the company about its operations and financial position.***
>
> Basically, price fluctuations have only one significant meaning for the true investor. ***They provide him with an opportunity to buy wisely when prices fall sharply and to sell wisely when they advance a great deal.*** At other times he will do better if he forgets about the stock market and pays attention to his dividend returns and to the operating results of his companies."

Graham's views represents the philosophical underpinnings to security selection at Turtle Creek Management. Market volatility is a fact of life with ample historical precedent. While markets are often efficient, significant volatility usually represents human emotion - fear or greed - rather than rational calculation of a business's long-term value. Given the sometime unreliable implications signaled by market prices, we rely on the following investment rules:

- For each potential investment, we determine that firm's intrinsic value based on a longer-term and conservative appraisal of a firm's future financial performance and free cash flow generation
- We invest in companies with formidable balance sheets, strong positions within their industries, and sustainable competitive advantages. These advantage insure a business persists and prospers through economic cycles and industry downturns
- We wait to invest at an appropriate discount to our estimate of a firm's value, seeking investment junctures that account for potentially negative scenarios.
- We view risk as the potential for permanent impairment of a client's investment capital rather than through fluctuations in share price.

These infrequent junctures, where near-term investor sentiment trumps the longer term fundamental value of a business, are therefore opportunities rather than a risk. As famed investor Warren Buffett states:

"Be fearful when others are greedy and greedy when others are fearful."

By following our rules, and noting the sage advice of investing legends such as Graham and Buffett, and selecting superior businesses for investment; we fully expect your portfolio to generate excellent returns on your investment capital over the longer run.

A Note on Asset Allocation and Cash:

Currently we have cash balances in accounts that are higher than longer-term strategic levels. For well over a year now, Turtle Creek has been hesitant to become fully invested around our target levels for both Equities and Fixed Income. As valuations expanded and headwinds in the global economy became more apparent, our process generated very few compelling opportunities to further deploy client capital.

While cash has earned very little over the past year, it has provided a cushion for portfolios as volatility has increased. In addition, with elevated cash levels at the moment, we find ourselves well positioned to ultimately benefit from price declines of high quality businesses as opportunities to accumulate those securities are becoming much more attractive. We are in no rush and we recognize that valuations, while lower, are still not overly cheap. That coupled with the continued global headwinds (*such as China, Fed Rate Hike uncertainty, Slowing European economies, and others*) is driving us to continue to keep a defensive position in client portfolios for the moment. As conditions become clearer, Turtle Creek will gradually return to longer term strategic allocations in accounts.

In conclusion, these recent market bumps have been felt across investment asset classes. With the worst quarter for stocks since 2011 behind us, we now turn our attention to a continued focus on the high quality names that are represented in our portfolios. We will continue to focus on investing in companies with strong balance sheets and good free cash flow that can take advantage of downturns to make strategic acquisitions of valuable assets at deep discounts, as well as improve market share as a result of financial flexibility and experienced management. Through prudent diversification and disciplined analysis, we believe that the long-term outlook for client portfolios is sound. As usual, our lines of communication are wide open and if you have any questions, comments, or other please don't hesitate to contact us directly.

Sincerely,

TURTLE CREEK MANAGEMENT, LLC
TURTLE CREEK TRUST COMPANY, LTA