THE YACKTMAN FUNDS

In 2011, The Yacktman Focused Fund and The Yacktman Fund appreciated 7.41% and 7.30%, compared to the S&P 500 which was up 2.11%. We are pleased to have delivered solid returns in a year where the S&P 500 was barely higher and, according to *The Wall Street Journal*, the average diversified U.S. stock fund declined 2.9%.

Even after a very successful year where our funds stood out for solid absolute and strong relative returns, we wanted to remind investors that we prefer to judge results over longer time periods. We are proud of the long-term performance as $10,000 invested in The Yacktman Focused Fund and The Yacktman Fund ten years ago would be $29,407 and $27,452 compared to $13,335 in the S&P 500 on December 31, 2011.

**Returns as of 12/31/11**

| | ANNUALIZED | | | |
|---|---|---|---|---|
| | 1-Year | 3-Year | 5-Year | 10-Year |
| The Yacktman Focused Fund | 7.41% | 25.04% | 9.13% | 11.39% |
| The Yacktman Fund | 7.30% | 24.41% | 8.04% | 10.63% |
| S&P 500 | 2.11% | 14.11% | -0.25% | 2.92% |

| | CUMULATIVE | | | |
|---|---|---|---|---|
| | 1-Year | 3-Year | 5-Year | 10-Year |
| The Yacktman Focused Fund | 7.41% | 95.52% | 54.79% | 194.07% |
| The Yacktman Fund | 7.30% | 92.56% | 47.21% | 174.52% |
| S&P 500 | 2.11% | 48.59% | -1.24% | 33.35% |

In 2011 there was a significant amount of market volatility as concerns about the financial health of many countries and financial institutions, especially those in Europe, increased greatly. In the steepest of the declines our funds performed much better than the overall market, something we were also able to accomplish in the down markets of 2008-2009 and 2000-2002. We believe protecting capital in challenging times is one of the keys to long-term investment success.

Our top positions continue to be in some of the greatest businesses in the world. Many of these companies offer products or services that are staples of today's global society, giving their businesses a level of predictability and consistency which we think is especially valuable in an environment where there is a high degree of uncertainty.

**Top 10 Positions**

| The Yacktman Focused Fund | % of Fund | The Yacktman Fund | % of Fund |
|---|---|---|---|
| PepsiCo | 10.8% | PepsiCo | 10.6% |
| News Corp Cl. A | 10.4% | News Corp Cl. A | 10.5% |
| Procter & Gamble | 8.6% | Procter & Gamble | 4.9% |
| Microsoft | 6.7% | Microsoft | 4.8% |
| C.R. Bard | 4.3% | Cisco Systems | 4.5% |
| Cisco Systems | 4.1% | Johnson & Johnson | 3.7% |
| Sysco Corporation | 3.3% | Coca-Cola | 3.6% |
| Coca-Cola | 3.1% | C.R. Bard | 3.5% |
| Pfizer | 2.7% | Sysco Corporation | 3.5% |
| U.S. Bancorp | 2.4% | U.S. Bancorp | 2.8% |

**Portfolio Holdings**

**Media**

News Corp, Viacom, and Comcast had strong returns in 2011, yet all three companies still sell at low multiples of earnings and free cash flow. By far our largest media position is News Corp, which we think has an outstanding group of businesses and continues to be priced at a very compelling valuation.

Last year, News Corp was the top contributor to results in each fund, and interestingly was also the most controversial holding. In the middle of the year, a phone hacking scandal at one of News Corp's newspapers in the United Kingdom became a significant short-term issue. Management handled the situation effectively by closing the newspaper where the activities took place, cancelling a proposed transaction to take full control of the largest satellite operator in the United Kingdom, BSkyB, and announcing a return of capital to shareholders via stock repurchase.

We bought additional News Corp shares during the controversy, as we did not think that the company's most valuable assets, cable and television content, would be materially impacted by the scandal. This proved to be the case, and News Corp's cable and television content businesses posted another stellar year in 2011, achieving high rates of growth in revenues and earnings. From August through the end of the year, News Corp management repurchased $2.5 billion of stock, representing more than 5% of the company's outstanding shares, at what we think were very attractive prices. At less than 12 times our estimate of calendar 2012 earnings per share, we think News Corp is still inexpensive.

**"Old Tech"**

Last year, the shares of many more established technology companies were out of favor, allowing us to increase our weighting to a group which we call "old tech". At the end of 2011, Microsoft and Cisco were our largest "old tech" positions and in the top six holdings of each fund. We also owned smaller positions in HP, Corning, and Research in Motion, all of which underperformed in 2011.

Microsoft's shares were modestly weaker last year even though the company delivered solid business results. At year end, the stock sold at slightly more than seven times our estimate of 2012 earnings after adjusting for the excess cash on the balance sheet. At this low multiple, Microsoft can be a good investment if the business just delivers stable results. If Microsoft achieves success from new products like Windows 8, we think the stock could perform exceptionally well.

During 2011 we substantially increased our position in Cisco Systems as the shares collapsed in the middle of the year. We think management has taken a realistic and prudent approach to handling the company's short-term challenges, as did other investors, and the stock rebounded solidly at the end of the year. We think the shares continue to be attractive at current prices.

**Consumer Staples**

Our largest positions in consumer staple companies produced solid results in 2011, with PepsiCo, Procter & Gamble, Coca-Cola, and Clorox appreciating in the mid-to-high single digits. These businesses tend to be fairly stable and predictable, with a strong ability to handle uncertain economic periods. We reduced our weightings in Coca-Cola and Clorox during the year due to their strong price performance.

**Healthcare**

In 2011 pharmaceutical shares were generally strong and medical device stocks weaker. Pfizer was a solid contributor to fund results with the stock appreciating more than 20% in 2011. Johnson & Johnson, which has a diverse set of businesses, including medical device, pharmaceutical, and consumer health also performed well. Medical device stocks like C.R. Bard, Stryker, and Becton Dickinson all declined in the mid-to-high single digit range.

C.R. Bard underperformed in 2011 due to slower customer demand as the weak economy caused a reduced number of patient procedures. Bard is more than 100 years old and sells a wide variety of modestly priced, often disposable medical devices and supplies. We are impressed by the company's product portfolio as well as the CEO, Tim Ring, who is focused on delivering results over the long term while managing risk. We increased our position in C.R. Bard as the stock declined.

**Special Situations**

Apollo Group and H&R Block both increased more than 35% in 2011. Apollo's shares rose sharply as the company demonstrated an ability to successfully handle changes in government student lending policies. H&R Block's stock increased as concerns about potential legacy liabilities from the Option One mortgage business, a unit that was sold in 2008, decreased, and a new CEO, Bill Cobb took over.

**Conclusion**

We are happy with the results of 2011. We achieved solid returns in a turbulent market and effectively managed portfolio risk. Currently, the quality level of the companies in the funds is extremely high and valuations are attractive. We will work hard to objectively examine current positions and new opportunities and, as always, we will continue to be diligent, objective, and patient when managing The Yacktman Funds.

Sincerely,

The Yacktman Team

The expense ratio for 2011 in The Yacktman Focused Fund was 1.25% and for The Yacktman Fund it was 0.80%

The S&P 500 is an unmanaged but commonly used measure of common stock total return performance.

**The performance data quoted for The Yacktman Fund and The Yacktman Focused Fund 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 data may be obtained by calling this toll free number 1-800-525-8258**.

*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 clicking here or by calling this toll free number 1-800-525-8258. The prospectus should be read carefully before investing*.