

South Atlantic Capital Management Group, Inc.

Investment Management

FUNDS AVAILABLE IN THE PORTFOLIO TO TAKE ADVANTAGE OF THIS DOWNTURN

December 28, 2018

In the past, we have done well during and immediately after downturns partly due to having liquidity to take advantage of the declines. We sold a few things a few months back and currently have cash available of approximately 10% of the portfolios or about 14% if you include the cash portion of Disney's purchase of most of Fox which should close in the next few months.

A similar amount of liquidity comes from the companies themselves. **A summary of the largest holdings that are well positioned to opportunistically deploy capital is outlined below.** The current authorized buybacks listed below are significant and should add to earnings per share and long-term value. In our view, these companies are already undervalued and will get more undervalued as they reduce their share count.

Enterprise Product Partners-most partnerships pay out all their cash flow as dividends but EPD which currently has a 7% dividend yield conservatively is withholding enough cash flow to fund all the equity portion of new projects to avoid having to sell stock at a cheap price which would diminish the value of new projects and is one of a few companies in this industry with a BBB+ credit rating.

Oaktree Capital a fund manager focused on distressed debt which has \$21.4 bb in "dry powder" out of total assets of \$123.5 billion. They expect to start earnings management fees on \$15bb of the dry powder in the second half of 2019 which would add significantly (about \$.85) to their earnings which were \$2.87 in 2016, \$4.16, in 2017 and \$3.69 for the last 12 months versus a \$40 stock price. They are not aggressive about raising new funds until they see adequate opportunities. From year end 2007 to year end 2009, their assets under management grew by 38% as the credit crisis led to more defaults and more opportunities for them.

JPMorgan has a fed approved buyback authority of \$20.6 billion to buy back up to about 8% of shares outstanding which trade for a cheap price in our view.

Two weeks ago, **Boeing** announced a 20% dividend increase and a \$20 billion share buyback equal to over 11% of shares outstanding at current prices.

Berkshire Hathaway has approximately \$83 billion in excess cash and generates well over \$20 billion per year in free cash flow. Compared to their current total stock market value of \$474 billion this gives them a big opportunity to add to long term value in the current environment.

Bank of America has a fed approved share buyback of \$20.5 billion or about 9% of shares.

Cf Industries has a board approved share buyback of \$500 million or about 5.5% of shares.

In times like this, I wouldn't default to nervous investors to accurately value a stock that I owned. They will never know the company as well as management. While plenty of mediocre managers buy back stock regardless of price, good management which I believe is the case in the examples above wouldn't be buying back stock with corporate funds unless the shares were undervalued.

Insider buying is probably a stronger signal of undervalued shares than share buybacks and last week Ajit Jain, who runs Berkshire Hathaway's Insurance operation and is one of two people most likely to replace Warren Buffett bought \$20 million worth of shares personally thinking the share were a bargain at level 5% above the current price and last week Jim Teague, the CEO of Enterprise Product Partners bought 10,000 shares for \$24.61 again about 5% above the current price. Mr. Teague has bought almost 63,000 shares this year with personal money. Selling along with nervous investors while these guys are buying makes no sense to me.

In summary, we think the downturn is partially due to fundamentals for the market--higher interest rates versus fairly high valuations. That doesn't mean every stock in the market is overvalued and we think our portfolios were not overvalued as of September 30, 2018. In our opinion, the downturn was also exaggerated by short term trading by momentum-oriented program traders, and passive investors who pay no attention to fundamentals which is what drives long term prices and the portfolios have a lot of liquidity to take advantage of this.

Our worst 5 and best 5 performers were as follows:

<u>Worst 5 performers</u>		<u>Best 5 Performers</u>	
Fox	-6.8%	Arconic	29.7%
Sirius	-6.5%	Cf Inds	23.3%
Cars.com	-2.7%	CVS h	23.3%
Moody's	-1.7%	Apple	22.4%
Carmax	2.5%	Berkshire	14.7%

Past results are not indicative of future investment results. An investor should further understand that future results may result in losses for account holders. This information is provided as a supplement to the GIPS compliant presentation.