South Atlantic Capital Management Group, Inc.

Investment Management

December 31, 2012 Portfolio Review

COMPOSITE PERFORMANCE SUMMARY

South Atlantic Capital (SACMG) versus S&P 500
Annualized as of 12/31/2012

	1 Year	3 Year	5 Year	10 Year	Since Inception*	Total Return Since Inception*
SACMG Core Equity[1] (Net)	12.12%	11.03%	7.75%	9.59%	8.02%	218.19%
S&P 500[2]	15.98%	10.87%	1.66%	7.10%	4.47%	92.75%

**Inception date of South Atlantic Capital's composite is 1/1/98.*

South Atlantic Capital is an independent investment adviser registered with the State of North Carolina. South Atlantic Capital claims compliance with the Global Investment Performance Standards (GIPS®). The firm maintains a complete list and description of composites, as well as GIPS® compliant presentations, which are available upon request by calling (910) 763-4113, or emailing info@SouthAtlanticCap.com. Ashland Partners & Co., LLP, our independent verifier, has verified South Atlantic's compliance on a firm-wide level for the period of January 1, 2002 to December 31, 2012. All returns are net of management fees and include reinvested dividends and interest. Past results are not indicative of future investment results.

How We Source Investment Ideas

Our investment ideas come from multiple sources. Reading a lot helps us find ideas. The fastest talker is 70 words per minute. The slowest reader reads 400 words per minute. So it helps to read transcripts more than listen to video replay. Since we are looking for undervalued companies and investors many times overreact to negative press, many of our ideas come from bad news in the periodicals we follow. We get ideas for other investments from reading the annual reports of our current holdings. We watch for companies trading at 52 week lows and review value line reports. We read numerous financial periodicals including Barron's, Wall Street Journal, Financial Times, and Economist as well as trade journals in industries we follow. We get ideas from monitoring company conference calls, investor presentations, investment conferences, and industry conferences. We track large share buybacks as well as what and what other investors are doing. We also get ideas from our network of professional contacts.

Our Investment Process

Once a potential investment is identified, our goal is to develop a qualitative understanding of the business. This is done through research of the company and its industry. We read the company's 10K and 10Q, earnings transcripts, investor presentations, and general articles through Bloomberg, Factiva searches, trade journals, etc. This qualitative understanding gives us an idea of the company's competitive advantage and future prospects.

We then look for confirmation of this competitive advantage through high returns on equity, total capital, and tangible assets, as well as pricing power for the company's products. We find it very useful to compare financials of companies in the same industry to get a better feel for the relative strengths of the company we're considering investing in.

We look at balance sheet leverage by looking at interest coverage and debt to EBITDA. For insurance companies, we also look at insurance premiums to capital surplus. We look at financial summaries for 5 years to get a big picture view of what affects their business, how cyclical it is, and what their balance sheet trends are.

We then try to get a feel for how clear management's strategic vision is by reading several shareholder letters. This along with reviewing their compensation and shareholdings in the proxy statement helps us determine (1) how much confidence we have in management's integrity and (2) whether the company will be managed in a shareholder friendly manner.

Last, we try to determine whether the stock is clearly undervalued--whether there is a margin of safety against our analysis of their prospects being inaccurate.

Metrics We use to Determine Value

The first thing we look for to determine value in a potential investment is , given our assessment of business quality, whether the company has an attractive free cash flow yield versus bond yields and versus an estimate of the S&P 500's free cash flow yield. As a whole, the S&P 500 is more capital intensive than the companies we normally invest in. We also look at EV/EBITDA to take a company's leverage into consideration. For insurance companies and banks we will look at price to tangible book value in combination with their financial leverage and premium income to capital.

We take private transaction values into consideration, but we need to see an attractive forward rate of return without an asset sale since the environment for financing buyouts can change.

In general, the margin of safety is obvious and seen in our expected forward rate of return which is a function of a free cash flow yield that is higher than warranted, our growth expectations, plus or minus a change in the valuation (multiple of cash flow). While obvious in our view, it isn't precisely calculated. If a guy walks in a room who weighs between 300 and 350 pounds you don't have to know he weighs 325 pounds to know he's fat.

Criteria We Focus on When Selecting a Stock

We look to invest in undervalued companies with attractive expected returns where we feel we have a clear understanding of the quality of their competitive position and prospects. Typically, an attractive free cash flow yield means they aren't capital intensive companies.

It's important that we that we understand the company's business well enough that we have a clear view of the company's prospects and are comfortable owning the stock long term without a fear of a permanent impairment in value because we believe it can withstand the risks we worry about.

We like to own companies which are managed conservatively, are shareholder friendly, and communicate with shareholders straightforwardly. A current example would be Wells Fargo which has gained share in mortgage lending since they managed their loan book more conservatively in 2005-2008 and avoided many of the underwriting mistakes that led to the credit crisis. They now originate one in three mortgages as their competitors have been forced to pull back due to credit problems. This will benefit them greatly over time as it opens the door to many new customers who will eventually use many more of their products.

As mentioned earlier, we seek investments in companies that have high returns on capital without using much leverage. In order for this to be sustainable, the company needs to have a unique, durable business advantage.

We are not comfortable risking client capital based on our economic forecast. Probably our most important criteria selecting a stock is comfort that there won't be a permanent impairment of capital assuming stressful economic periods, in other words, investing in companies that will find a seat at the table if the music stops and continue to prosper over time.

How We Construct Portfolios

Regardless of the current market outlook, we seek to make investments in about twenty undervalued companies which we expect to own for long periods. We feel if you limit your buying to things you will own for a long time you will put more thought into what you buy and will make better investment decisions.

We concentrate portfolios in about twenty positions for a couple of reasons. First, it gives us more knowledge and conviction in our investments. This makes us opportunistic buyers of mispriced stocks when their price is down and limits emotional mistakes that less informed investors can make during down markets. Second, concentrated portfolios avoid high opportunity costs that result from excess diversification and detract from returns.

One thing that sets us apart is that we think a lot about what an investment can do for the portfolio beyond its expected return. We seek investments with defensive characteristics in order to better position the portfolio to benefit when markets turn down significantly We also seek investments that will protect portfolios from specific risks that we feel are significant. If the downturns or specific risks materialize, we feel we will be well positioned. It's important that our portfolios be positioned to capture investment gains that flow from downturns because we feel these gains are more permanent than gains achieved when stocks are overpriced. This is the secret sauce that has allowed us to outperformed overtime, being invested to capture the upside in markets overtime but also being well positioned to take advantage of market downturns.

We constantly compare expected returns and business quality of new investments against what we hold in the portfolio.

Position sizes are a function of expected returns and confidence in the business. Positions can increase overtime as we gain more knowledge about a company and clarity about its prospects. Positions will be trimmed as a company approaches our estimate of fair value if it exceeds 10% of the portfolio.

If a holdings drops in price and we aren't eager to add to the position, we reassess our view of the attractiveness of the investment. If it turns out the dynamics of the business make it difficult to have a clear view of their prospects and have changed from our original assessment, we are disciplined about liquidating the position which enables us to benefit from price drops in all our holdings.

Cash levels don't reflect a view of the market but are a residual of how many good stocks we can find that meet our criteria.

Summary

Timing the market is difficult. Peter Lynch reviewed market returns for fifty years and found that during that period the market returned 11% a year. He also found that if you were out of the market for the best fifty months your return would have been 3% per year. Investing with a defensive bias and with a long term outlook makes us comfortable staying invested despite economic risks, so we capture the upside in markets over time but historically have protected client capital well during downturns.

Our returns have especially benefited from our flexibility to be opportunistic in down markets which results again from our defensive bias. This can be seen in our PSN rankings versus other managers which have shown, over long periods of time, higher returns and better protection of client capital in down markets. These trends can be seen in the included PSN charts. PSN is the industry's largest database for separate account managers, which provides data analysis and ranks investment returns by category for the benefit of institutional investors. This database contains over 2,000 investment strategies, over 1,000 of which are compatible to our investment strategy and in which we are ranked against.

Not that we haven't made some mistakes but the types of companies we invest in survive and often gain long term benefits during economic weakness. Their financial strength allows them the ability to buy assets cheaply, including their stock, continue to invest in their business and gain market share from weaker competitors, and gain customers from competitors with troubled outlooks. Many investors underestimate the benefits to long term returns, which we have tried to outline, provided by investing in well financed, conservatively managed companies.

Please feel free to contact us if you want to discuss this further.

DISCLOSURES

[1] ***Core Equity Composite*** *contains all fully discretionary accounts invested in equities excluding accounts that use significant leverage. For comparative purposes it is measured against the total return for the S&P 500. It includes accounts managed for capital appreciation as well as accounts managed for a combination of capital appreciation and current income. The equity securities are typically mid cap and large cap value oriented U.S. equities and ADR's of similar capitalization. The portfolios also include equity securities that provide higher current income such as master limited partnerships, real estate investment trusts and similar securities that "pass through" most of their cash flow as distributions. The portfolios may from time to invest in fixed income securities and various hedges such as gold backed ETF's as conditions warrant. The portfolios are typically invested in 15-25 positions but have held fewer than 15 positions in the past.*

[2] ***S&P 500 Index*** *has been widely regarded as the best single gauge of the large cap U.S. equities market since the index was first published in 1957. The index has over U.S. $4.83 trillion benchmarked, with index assets comprising approximately U.S. $1.1 trillion of this total. The index includes 500 leading companies in leading industries of the U.S. economy, capturing 75% coverage of U.S. equities and includes the reinvestment of dividends of companies in the S&P 500.*

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Returns are presented net of management fees and include the reinvestment of all income. The U.S. Dollar is the currency used to express performance. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request, as is GIPS compliant presentations and lists and descriptions of South Atlantic Capital's composites, by emailing Info@SouthAtlanticCap.com or calling (910) 763-4113. Portfolio composition is subject to change at any time and references to specific securities, industries, and sectors referenced in this letter are not recommendations to purchase or sell any particular security. Current and future portfolio holdings are subject to risk.

The discussion of our firm's investments and investment strategy (including current investment themes, the portfolio managers' research and investment process, and portfolio characteristics) represents the firm's investments and the views of the investment adviser, at the time of this letter, and are subject to change without notice.

Past results are not indicative of future investment results. An investor should further understand that future results may result in losses for account holders.

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VERIFIED

EDWARD D. NOWELL
Edward D. Nowell is President, founder and sole portfolio manager of South Atlantic Capital Management Group, Inc.

Mr. Nowell has over twenty-five years of experience in the finance business. Prior to founding South Atlantic Capital he worked in the structured finance department of Bankers Trust Company, New York as an Assistant Vice President. His primary responsibility was arranging bank financing for leveraged buyouts led by Kohlberg Kravis Roberts & Company. During graduate school, he interned with Merrill Lynch's Capital Markets Group in New York. Later, he served as an institutional fixed income sales representative for Carolina Securities/Prudential Bank Securities and worked with Fox, Graham, and Mintz, Securities. Mr. Nowell graduated from the University of North Carolina with a B.S. in Economics and received his M.B.A. from the University of Virginia.

SOUTH ATLANTIC CAPITAL MANAGEMENT GROUP, INC.
CORE EQUITY COMPOSITE
ANNUAL DISCLOSURE PRESENTATION

Year End	Total Firm Assets (millions)	Composite Assets (USD) (millions)	Number of Accounts in Composite	Annual Performance Results Composite		S&P 500	Composite Dispersion	Three Year Annualized Ex-Post Standard Deviation*	
				Gross	Net			Core Equity	S&P 500
2012	28.6	17.3	47	13.20%	12.12%	15.98%	1.88%	11.19%	15.09%
2011	25.3	15.2	43	3.60%	2.56%	2.12%	2.54%	15.55%	18.70%
2010	22.0	14.4	40	20.20%	19.02%	15.07%	3.42%	17.94%	21.85%
2009	18.6	13.0	36	46.24%	44.79%	26.46%	5.32%	17.27%	19.63%
2008	12.4	8.4	38	(25.99%)	(26.69%)	(37.00%)	2.30%	12.61%	15.08%
2007	17.4	11.9	37	(2.03%)	(2.97%)	5.49%	2.69%	9.33%	7.68%
2006	22.4	12.6	36	12.10%	11.13%	15.80%	2.50%	8.74%	6.82%
2005	12.4	10.8	33	0.79%	(0.16%)	4.89%	3.12%	11.08%	9.04%
2004	12.3	11.1	30	20.37%	19.24%	10.87%	3.37%	12.64%	14.86%
2003	9.2	8.5	23	35.31%	33.95%	28.69%	4.38%	13.78%	18.07%
2002	6.9	6.4	21	(3.36%)	(4.34%)	(22.10%)	6.43%	14.12%	18.55%
2001	7.4	6.8	18	6.92%	5.86%	(11.88%)	6.23%	13.89%	16.71%
2000	6.8	6.3	15	14.35%	13.35%	(9.11%)	4.23%	13.17%	17.42%
1999	6.4	5.9	15	8.55%	7.48%	21.05%	10.45%		
1998	6.3	5.7	15	4.51%	3.25%	28.57%	3.69%		

***Core Equity Composite* contains all fully discretionary accounts invested in equities excluding accounts that use significant leverage and for comparative purposes is measured against the total return for the S&P 500. It includes accounts managed for capital appreciation as well as accounts managed for a combination of capital appreciation and current income. The equity securities are typically mid cap and large cap value oriented U.S. equities and ADR's of similar capitalization. The portfolios also include equity securities that provide higher current income such as master limited partnerships, real estate investment trusts and similar securities that "pass through" most of their cash flow as distributions. The portfolios may from time to invest in fixed income securities and various hedges such as gold backed ETF's as conditions warrant. The portfolios are typically invested in 15-25 positions but have held fewer than 15 positions in the past. The minimum account size for this composite is $50,000.**

South Atlantic Capital claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. South Atlantic Capital has been independently verified by Ashland Partners & Company LLP for the periods January 1, 2002 to December 31, 2012.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Core Equity Composite has been examined for the periods January 1, 2002 to December 31, 2012. The verification and performance examination reports are available upon request by calling (910) 763-4113, or by emailing info@southatlanticcap.com.

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Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Composite policy requires a three month, temporary removal of any portfolio incurring a client initiated external significant cash inflow of at least 25% of portfolio assets. The temporary removal of such an account occurs at the end of the prior month in which the external significant cash flow occurs and the account re-enters the composite at the end of the second full month after the cash flow. Additional information regarding the treatment of significant cash flows is available upon request. Composite returns represent investors domiciled primarily in the United States. Past performance is not indicative of future results.

The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Returns are presented after trading expenses but before any applicable taxes. Beginning 2002, net of fee performance was calculated using actual management fees applied quarterly. Prior to 2002, the highest applicable management fee of 1% was applied. The annual composite dispersion presented is a size-weighted standard deviation calculated for the accounts in the composite the entire year. The annual dispersion and the standard deviation are calculated based on net returns. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request, as is GIPS compliant presentations and lists and descriptions of South Atlantic Capital's composites, by emailing Info@SouthAtlanticCap.com or calling (910) 763-4113.

As per South Atlantic Capital's error correction policy, please note the following revisions to performance data for 1998. As of the first quarter of 2012, South Atlantic Capital began weighing returns monthly versus quarterly for 1998 – 2001 in order to provide more accurate reporting of data. As a result, our performance returns have been revised for 1998. For that year, our Core Equity Composite's gross annual return has been revised from 6.13% to 4.51% and net annual return has been revised from 5.09% to 3.25%. The number of accounts in the composite at the end of 1998 increased from 13 to 15. These revisions are for a performance period greater than 10 years ago. Please contact us at (910) 763-4113 for further information.

South Atlantic Capital's management fee schedule for accounts with assets up to $500,000 is 1.5%. For accounts with assets between $500,000 and $5,000,000, the management fee schedule is generally set at 1.0% per annum, and is negotiable for accounts with assets over $5,000,000. Actual investment advisory fees incurred by clients may vary.

The Core Equity composite was created on March 1, 2011.

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<u>Independent Accountant's Verification Report</u>

Mr. Edward D. Nowell, President
South Atlantic Capital Management Group, Inc.:

We have examined whether (1) South Atlantic Capital Management Group, Inc. (the "Firm") has complied with all the composite construction requirements of the Global Investment Performance Standards (GIPS® standards) on a firm-wide basis for the periods from January 1, 2002, to December 31, 2012, and (2) the Firm's policies and procedures are designed to calculate and present performance results in compliance with the GIPS standards as of December 31, 2012. The Firm's management is responsible for compliance with the GIPS standards and the design of its policies and procedures. Our responsibility is to express an opinion based on our examination.

Scope of Work
Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Firm's compliance with the previously mentioned requirements; evaluating the design of the Firm's policies and procedures previously referred to; and performing the procedures for a verification required by the GIPS standards and such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Opinion
In our opinion, in all material respects,

- the Firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis for the periods from January 1, 2002, to December 31, 2012; and

- the Firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards as of December 31, 2012.

This report does not relate to any composite presentation of the Firm that may accompany this report, and, accordingly, we express no opinion on any such performance.

Ashland Partners + Company LLP

Ashland Partners & Company LLP
February 15, 2013