

South Atlantic Capital Management Group, Inc.

Investment Management

June 30, 2012 Portfolio Review

COMPOSITE PERFORMANCE SUMMARY

South Atlantic Capital (SACMG) versus S&P 500

Annualized as of 6/30/2012

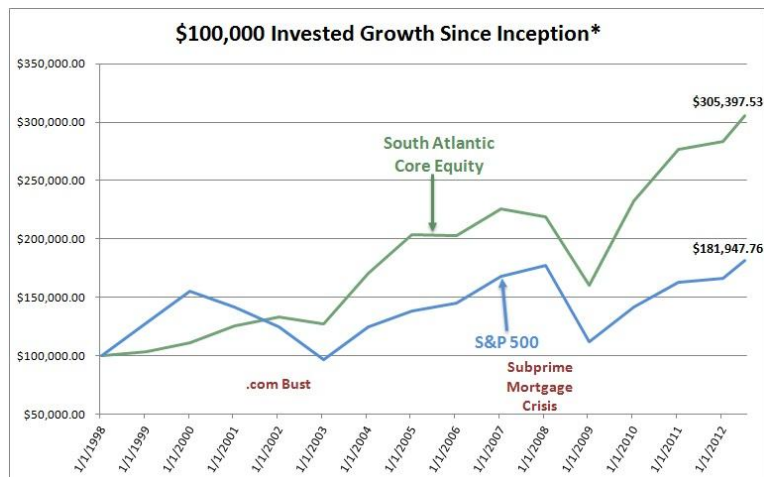
	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception*	Total Return Since Inception*
SACMG Core Equity ¹ (Net)	7.60%	4.99%	18.29%	5.58%	7.89%	8.01%	205.39%
S&P 500	9.48%	5.44%	16.39%	0.22%	5.33%	4.22%	82.10%

*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 June 30, 2012. All returns are net of management fees and include reinvested dividends and interest. Please refer to the additional disclosures at the end of this letter.



Uncertainty about economic growth in Europe as well as the U.S. and China led to a downturn of 2.8% for the S&P 500 this quarter while our Core Equity Composite returned 0.91% net of fees. Year to date, our composite has underperformed the S&P returning 7.60% versus 9.48% for the S&P 500. However, over longer periods we have outperformed the benchmark by a considerable margin.



*Supplemental Information: please refer to the additional disclosures in this newsletter.

In our opinion, too many investors try to overlay macro risks over equities, such as the outlook for the Euro, like an omelet covering a saucepan. We believe you should look at each investment individually based on its specific outlook. We focus on investing in companies with upside potential where we believe their financial strength will allow them to withstand these risks if they occur. In general, this philosophy enables our clients to stay more invested over time versus a philosophy that attempts to predict short term pitfalls. As a result, the long term nature of our investments leads to more tax efficiency and increases the odds that investors will capture the upside in markets over time.

Investment Environment

Investors continue to be too risk averse in our opinion as measured by \$1.2 trillion in net outflows from stock funds to bond funds over the last 4.5 years. Safe havens like government bonds and utility stocks appear to be overvalued and less defensive investments are relatively undervalued as evidenced by stock dividend yields which are higher than government bond yields for only the third time since World War II. Additionally, utility stocks trade close to the market's P/E ratio when historically they have traded at a 30% discount according to Mike Goldstein at Empirical Research. Stanley Cates at Long Leaf Partners has referred to the current prices of defensive investments as a "safe haven bubble". When the bubble predictably stops as investors have to reassess their prejudices that bonds aren't risky, capital losses could be significant.

For example, the thirty year treasury yielded about 2.7% at June 30 versus 5.8% five years ago and an average of 7.5% over the last 25 years. If the yield went to 5.8% five years from now, the 14% cumulative income (2.7% x 5 years) would be more than offset by a 43% principle loss resulting in a net loss of 29%. Today, stocks yield a fraction less than the 30 year bond and trade for 12.9 times the earnings. If stock earnings grow by 6% per year over the next five years, the P/E would have to drop to 7 to match the potential losses in bonds.

Portfolios

We feel that informational advantages in our portfolios which are concentrated in approximately twenty holdings makes it easier for the investments to be dominated by securities that are mispriced for the long term which makes our returns less dependent on short term economic or market outlooks. This concentration leads to more conviction in our investments and helps to avoid making emotional mistakes and high opportunity costs which we feel are caused by excess diversification. Long time clients have heard us speak about an older study by Phillip Fisher showing the wide variations in returns over time among a group of stocks. This study also showed that over 25% of the 140 stocks he tracked over 5 years actually had losses. So, if you diversified by owning all 140 stocks in his study you were incurring opportunity costs by not only owning the roughly 50% whose returns underperformed the group, but also the 25% that actually lost money over 5 years.

SACMG Top 10 Holdings (as of 6/30/2012)	
Holding Description	Percentage of Total Holdings
Enterprise Prd Partners Lp	10.65%
Philip Morris Intl Inc	8.40%
Coca Cola Company	6.92%
Johnson & Johnson	6.52%
Pepsico Incorporated	6.51%
Berkshire Hathaway Cl B	5.67%
Nestle S A Reg B Adr	5.62%
News Corp Ltd Cl A	5.61%
Sanofi Aventis	5.49%
Wells Fargo & Company	5.12%
	66.52%

Berkshire Hathaway, Wells Fargo, Enterprise, and Newscorp do relatively little business in Europe but six of our top holdings are located in Europe or do significant business there, a risk the market is certainly focused on. We feel people underestimate how global these companies are and how underpenetrated their products are in the developing markets. While economies could certainly get much worse in Europe than they were in the second quarter, we did get a sneak peak this quarter of the global earnings they can produce despite weakness in Europe due to emerging market growth.

Adjusting for constant currency rates, Phillip Morris's earnings per share were up 9% despite a 9.7% volume decline in Europe. Coke's operating income per share was up over 8% despite a 4% volume decline in Europe. Pepsi's organic revenue growth was 5% versus 3% in Europe as emerging market revenue grew 9% after adjusting for currency changes and business restructuring. However, earnings were down as they increased advertising expense in North America to try to maintain market share. Nestlé's had worldwide revenue growth of 6.6% versus growth in Europe of 2.6% and had earnings per share growth of 12.4% in constant currency. Sanofi Aventis had flat sales despite an 11% downturn in Europe due to austerity measures. However, as expected and, we feel, built into their price, their business net income was down 18% in constant currency due to the loss of patents on some high margin drugs they sell through a joint venture where sales are not consolidated. Johnson and Johnson had a sales increase of 3.5% despite a downturn in the U.S. and flattish sales in Europe as sales grew in the Western Hemisphere excluding the U.S. by 22.4% and by 7.7% in the Asia Pacific, Africa region. In general for all these companies, sluggish sales in Europe or the U.S. were offset by strong sales growth in the emerging markets which gives us comfort these companies can withstand the Euro risk.

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 time 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.

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.



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.

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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
2011	25.3	15.2	43	3.60%	2.56%	2.12%	1.98%	15.67%	18.70%
2010	22.0	14.4	40	20.20%	19.02%	15.07%	3.20%	18.02%	21.85%
2009	18.6	13.0	36	46.24%	44.79%	26.46%	5.85%	17.34%	19.63%
2008	12.4	8.4	38	(25.99%)	(26.69%)	(37.00%)	3.08%	12.64%	15.08%
2007	17.4	11.9	37	(2.03%)	(2.97%)	5.49%	2.66%	9.31%	7.68%
2006	22.4	12.6	36	12.10%	11.13%	15.80%	2.87%	8.69%	6.82%
2005	12.4	10.8	33	0.79%	(0.16%)	4.89%	2.67%	11.08%	9.04%
2004	12.3	11.1	30	20.39%	19.26%	10.87%	4.63%	12.67%	14.86%
2003	9.2	8.5	24	35.31%	33.95%	28.69%	5.41%	13.80%	18.07%
2002	6.9	6.4	21	(3.34%)	(4.33%)	(22.10%)	5.57%		
2001	7.4	6.8	18	6.92%	5.86%	(11.88%)	5.52%		
2000	6.8	6.3	15	14.35%	13.35%	(9.11%)	6.71%		
1999	6.4	5.9	14	8.55%	7.48%	21.05%	9.26%		
1998	6.3	5.7	13	4.51%	3.25%	28.57%	17.46%		

**Three year annualized ex-post standard deviation calculated beginning 2003.*

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 time 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 June 30, 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 June 30, 2012. The verification and performance examination reports are available upon request.

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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 an equal-weighted standard deviation calculated for the accounts in the composite the entire year. 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%. These revisions are for a performance period greater than 10 years ago. Please contact us at (910) 763-4113 for further information.

Effective January 1, 2013, South Atlantic Capital's account minimum and management fee schedule will change. These changes will not affect existing accounts. Our minimum account value will change from \$100,000 to \$250,000, and our management fee schedule for accounts with assets up to \$500,000 will be 1.5%. For accounts with assets above \$500,000, 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.