South Atlantic Capital Management Group, Inc.

Investment Management

June 30, 2014 Portfolio Review

COMPOSITE PERFORMANCE SUMMARY

South Atlantic Capital (SACMG) versus S&P 500

Annualized as of 6/30/2014

	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception*	Total Return Since Inception*
SACMG Core Equity[1] (Net)	7.83%	17.78%	13.99%	18.48%	9.14%	9.41%	340.61%
S&P 500[2]	7.14%	24.61%	16.58%	18.83%	7.78%	6.29%	173.43%

**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 and the Commonwealth of Virginia. 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, 2014. All returns are net of management fees and include reinvested dividends and interest. Past results are not indicative of future investment results.

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We continue to seek to invest in resilient companies suitable for long term investment despite potential economic weakness. In addition, an important part of our process is to be disciplined about buying at prices that lead to an expectation for returns that are above historical averages. We feel this defensive bias towards investing client funds and a long time horizon create a mindset that is much more conducive to capturing attractive returns overtime than attempts to make short term economic or market predictions and reduces risk over the long term. We are gratified this investment philosophy has led to our Core Equity Composite's gross returns and downside protection both ranking in the top 1% of our peer group according to PSN Informais since inception through March 31, 2014. Our returns net of fees rank in the top 12% during that period. As the market continues to rise, we are still finding investments that meet our criteria; however, it is a tougher environment. A review of our top ten holdings is outlined below.

Berkshire Hathaway increased its $221 billion in book value by $12.1 billion during the six months ending June 30, 2014, an increase in per share book value of 5.6%. The B shares which we own currently trade for $135.03 per share or 142% of book value. Many of the great businesses that Berkshire owns; Geico, other insurance companies with low cost float, Burlington Northern, and several others, are carried on the books well below their true value. As a result, we feel 142% of book value understates the company's worth particularly since we expect book value per share to continue to grow at an attractive rate. It's worth noting that Warren Buffett who very reluctantly buys back his own stock has repeatedly announced he would aggressively do so if the stock reaches 120% of book value or $114 per B share. Since Berkshire has $50 billion in cash in its investment portfolio, $30 billion of which is excess and could be used in a buyback, as well as excess cash in the non -insurance operating companies, there is an effective floor under the stock at $114/share. Looked at another way, the $30 billion Mr. Buffett is patiently waiting to invest would have increased the six month growth in book value to 6.3% if invested in something earning 10% after taxes.

Berkshire will earn a return on its $234 billion of book value in the future in two ways (1) owning and operating businesses which had net earnings in the first six months of $7,864 million representing a 3.6% return on beginning book value (7.2 annualized) and (2) earning returns on their $219 billion investment portfolio which for the first six months generated realized and unrealized gains equating to a 2% after tax return on Berkshire's book value despite holding $50 billion in cash.

Future increases in book value will continue to be driven by non- insurance operating earnings growth as they shift their focus to using funds to acquire operating businesses and away from growth in investments per share. For the decade ended 2010, investments per share still grew by 6.6% a year but per share earnings of noninsurance businesses grew by 20.5% per year and represented 66% of total earnings in the first six months of 2014. We also review Berkshire's valuation by looking at earnings as opposed to growth in book value. Adjusting earnings for amortization of intangibles such as goodwill and adding back "look through earnings on their investment portfolio, Berkshire earned approximately $2.95 per B share in the 2nd quarter or $11.80 annualized.

As always seems to be the case, Berkshire has substantial underutilized or under earning assets that make us optimistic about the future. Besides $30 billion in excess cash, they have underutilized capital in the insurance businesses. For the first six months, they earned premiums of $9.965 billion while holding statutory surplus of $129 billion, or earned premiums to statutory surplus of .15 to 1 annualized, which leaves room to write a lot more business if premium rates become more favorable. By comparison, Chubb, another conservative underwriter, earned premiums for the first six months on an annual basis to statutory surplus was .82 to 1.They also have several housing related businesses whose earnings grew substantially in the 2nd quarter but are, in our opinion, still below normalized earnings when you consider housing starts have averaged only 500,000 annually since 2007 compared to 1,500,000 which is what is considered necessary to keep up with population growth. Finally, Heinz, which they purchased 50% of late last year for $4.25 billion generated losses in the first six months of this year as Berkshire's 50% operating partner, Brazilian private equity firm 3G Capital, restructures Heinz's operations to lower costs.

Wells Fargo's deposit franchise continued to exhibit its strength in the quarter with a 9% increase in deposits year over year. Of their $1.4 trillion in earning assets $806 billion are funded with deposits bearing interest of $0.14 and $290 billion are funded with noninterest bearing deposits. This is a significant advantage for the bank as you can see in the comparison with some of their peers.

	Wells Fargo	**Bank of America**	**JPMorgan**	**Citi**
Total earning assets	$1,400 billion	$1,840 billion	$2,024 billion	$1,687
Interest bearing deposits	$806 billion @ $0.14	$745 billion @ $0.15	$863 billion @ $0.19	$750 billion @ $0.65
Non- interest bearing deposits	$290 billion	$382 billion	$381 billion	$213 billion
Net interest margin	3.15%	2.26%	2.19%	2.87%
Pre-tax-pre provision profit/loans	4.4%	3.2%**	4.7%	4.5%
Charge offs/loans	0.35%	0.56%	0.63%	1.35%
Charge off coverage	12.6 times	6.7 times	7.5 times	3.3 times

***Before litigation expense*

The deposit franchise gives them a funding cost advantage and flow of new customers that potentially may buy other products. We feel this cost advantage allows them to be more conservative extending credit and still earn attractive returns on capital. Their ability to attract deposits and sell additional products also allows them to earn a healthy portion of non -interest income. If you look at the end result, they generate healthy profit before taxes and credit costs as a percentage of loans which covers their relatively low credit costs much better than their peers. This advantage along with conservatively managing their balance sheet generally puts them in a position of strength to take advantage of opportunities that may arise such as their ability to purchase Wachovia at a bargain price during the credit crisis.

Wells pays an annual dividend of $1.40 and earned $1.01 per share in the last quarter. It trades for $50 per share or approximately 12x 2014 expected earnings compared to the markets P/E of approximately 17x earnings. Given the quality of the bank and their deposit franchise, we think Wells is undervalued especially considering interest rates and net interest margins are artificially low plus the fact that the Federal Reserve has agreed with their assessment that they have excess capital and okayed their request for a $16.7 billion share repurchase which represents about 6% of shares outstanding.

Phillips 66 is a recent spinoff from Conoco Phillips of their refinery, midstream, and chemical businesses. All three divisions should be major beneficiaries of increased energy production in the U. S. The company earned $6.36 the last twelve months and currently trades for $86.47 or about 13.5x earnings. They have reduced their shares outstanding by 11% since being spun out of Conoco Phillips in May of 2012 but still maintain a strong financial position with $5.0 billion in cash, $6.2 billion in debt, and $3.5 billion to $4 billion in annual earnings. Share count reduction and a strong financial position are two things we like to see.

Through their operating cash flow, cash on hand and ability to drop assets down into their publicly traded mid -stream master limited partnership (MLP), they should be able to self- fund several large projects to expand their chemicals and mid -stream businesses and continue to reduce their share count. These expansions will leverage off of their large current footprint resulting from the pipeline and processing infrastructure and chemical operations built out by Conoco Phillips. The added midstream infrastructure is needed to accommodate large expected increases in natural gas and natural gas liquids production in the U. S. and is integrated into the expansion of the petrochemicals business in the United States, including their own, by supplying low cost ethane which will be the primary feedstock for several ethylene manufacturing facilities under construction. We think this increased ethane supply provides significant and long term advantages for chemical manufacturers located domestically. These projects are expected to add to operating earnings, by perhaps $3 billion per year.

Their refinery operation generates about 50% of earnings down from 60% and is one of the largest in the country processing 2.3 million barrels per day with 55% of their capacity in the Central Corridor and Gulf Coast regions which have the most advantaged feed stocks. In the second quarter, 92% of their processed volumes ran off advantaged feed stocks (other than Brent crude) Thirty eight percent of the yield from their refineries is distillates, primarily diesel fuel, which is higher than industry averages. This hurt their margins in the 2nd quarter as weak diesel demand in emerging economies hurt margins but longer term diesel demand is expected to grow at 3x the rate of gasoline. The rapid increase in oil production in the U. S. and Canada is giving the US refineries cost advantages over refineries processing Brent Crude. This along with a $1-$2 per barrel cost advantage from using lower cost U. S natural gas in the refining process has helped the country go from importing 2 million barrels a day of gasoline to exporting 1.5 million barrels. This benefits primarily refineries on the Gulf Coast that export gasoline to South America and should benefit these refineries further once the Panama Canal is widened.

Despite an improved outlook for refineries, their return on capital employed is lower than that of the mid- stream and chemical businesses. Management is wisely reallocating cash flow from the refineries into higher return projects in the mid -stream and chemicals businesses where benefits from domestic energy production should be more significant and longer term. For example, North American ethylene producers utilizing ethane have a cash production cost of $300 /ton while more than half of the 130 million tons of world capacity has a cash production cost above $800/ton because of higher feed stock prices. This is driving several projects to expand ethylene manufacturing capacity in the U. S. including $6.5 billion to $7.0 billion in self -funded growth spending through 2017 at Phillips 66 in their joint venture in the Chemicals business with Chevron. They also plan a major midstream project near their largest refinery in Sweeney Texas to fractionate and export propane and butane. The fractionation facility will be built in Sweeny and connected to a major natural gas liquids pipeline that they own. Once the natural gas liquids are fractionated, propane and butane will be piped to a marine terminal they own in nearby Freeport for export. Prior to the energy boom in the U. S., this marine terminal had been used to import light sweet crude from West Africa, an example of how the large existing infrastructure built out by Conoco Phillips is giving them a leg up as they provide mid-stream services to growing domestic energy and chemical producers.

Direct TV is the largest satellite television provider in the U. S. and has a large and fast growing presence in the underpenetrated Latin American market. They trade for approximately $84 per share which results in a free cash flow yield for shareholders of about 7% based on our estimate of $6 per share in free cash flow in 2014, a much higher yield than the market's free cash flow yield. We think the stock is cheap given the quality of the business due to exaggerated fears subscribers will cancel pay TV packages in favor a la carte video on demand services. AT&T has offered $95 per share for the company which was significantly above Direct TV's price at the time. This offer has the backing of the boards at both Direct TV and AT&T but is subject to FCC approval and maintaining exclusive rights to NFL's Sunday Ticket. Satellite television offers a quality viewing experience, has very limited competition from cable in rural areas and is more cost effective than cable.

The company generates an 18% return on tangible assets as evidence of their competitive advantages. By contrast, Time Warner Cable which requires more capital assets to provide pay TV services to subscribers generates a return on tangible assets of approximately 10%. This profitability allowed Direct TV to reduce their share count by 9% in the last year despite no share buybacks after they received AT&T's offer. They also maintain a manageable net debt position with operating profit covering interest expense by over 6 times, especially when you consider the recurring revenue nature of the business.

Phillip Morris International is a unique company in terms of their ability to maintain and grow market share while raising prices because of the strength of their brand and distribution advantages. For the first six months of the year, earnings per share were up 12.4% excluding currency headwinds and a restructuring charge to close a manufacturing plant in Holland. This illustrates the powerful effect pricing power can have on both margins and share count as high returns on capital have allowed them to reduce their share count by almost 4% in the last year and almost 28% since they were spun out of Altria in 2008. For the first six months of the year, annualized return on tangible assets even after the currency headwinds and restructuring charge was 35% showing the unique profitability of the business.

Phillip Morris has a market share of approximately 36% in developed countries outside North America versus about a 25% share in undeveloped markets. Clearly, the opportunities for price increases are higher in emerging markets where economies have higher growth rates and purchasing power is increasing. Marlboro is still gaining modest share in all markets and has a higher share among younger smokers aged 18-24 than older smokers. Because of the Chinese government's monopoly, they sell no cigarettes in China which represents 2.5 trillion of cigarette demand compared to 3.5 trillion cigarettes consumed outside the U. S. and China. They are hopeful their reduced risk cigarettes may help them in China over the mid-term. They recently agreed to a licensing and distribution deal with Altria where they each agreed to combine manufacturing and distributions of their low risk cigarettes in their respective territories. This sends a clear message to start up e cigarette companies that they will quickly have a strong scale advantages in manufacturing and distribution and appears to have caused several start- up companies to sell out.

Despite definite headwinds in volume as countries around the world continue to take actions to limit smoking, we feel that Phillip Morris can continue to provide attractive returns because of their pricing power and their ability and willingness to reduce the share count. Some underestimate their pricing power because it is leveraged by the amount of taxes in the price of cigarettes at retail. In their markets, the average retail price of a pack of cigarettes is approximately $3.03 which is comprised about 60% by excise taxes. A 3.5% increase in the $3.03 average price at retail equates to a 9.45% price increase for Phillip Morris International because of the excise taxes and would, in our opinion, help them meet double digit increases in earnings per share.

Despite the share buybacks and a $3.44 dividend, they have a solid balance sheet with interest expense covered approximately 11 times by operating income. The company currently trades for $86 per share or about 17 times expected earnings but about 15 times earnings excluding the cost to close the plant in Holland and negative currency effects.

Twenty First Century Fox is a media content provider with approximately 70% of operating profit generated by their cable networks. Their cable networks include Fox News which has a uniquely strong franchise, FX, National Geographic, several regional sports networks including the YES network as well as the Fox International Cable Channels (FIC). They are also building promising start ups already carried in 100 million homes such as Fox Sport1 and FXX , which recently bought the rights to the Simpsons. These start- ups are currently losing money but have the potential to add significant value to Fox overtime. It would be very difficult in our opinion for a startup cable network not sponsored by a cable company with Fox's scale to be carried in 100 million homes as they launch. Another ingredient important for potential success which Fox has and a smaller company would lack is the ability to promote the new networks across their various cable and broadcast properties with high existing viewership. Fox news which is now a profit powerhouse took eight years to become profitable. All of this illustrates the advantages for content providers with Fox's scale and skill and leads us to believe they will continue to have a strong presence far into the future.

They also own the Fox broadcast network and 22 owned and operated stations which they feel is their most undervalued content in terms of retransmission revenue paid by pay tv providers and reverse compensation revenues which is the portion of retransmission revenue television affiliates are obligated to pay the network. Given the unique content they provide, particularly sports rights, to both pay TV providers and Fox network affiliates they believe this content is currently underpriced when you consider the top four television networks generate about 35% of the total television audience but only receive approximately 15% of retransmission revenue.

In addition, they own the Twenty First Century Fox movie studio and several satellite television interests. Recently, they consolidated their satellite television interests by transferring their 100% interest in SKY Italia and their 57% interest in SKY Deutschland to UK based BSKYB where they have a 39% interest. Net of taxes and an additional $900 million investment in BSKYB to maintain their 39% interest, they will receive $9.3billion or $7.2 billion net of taxes plus BSKYB's 21% interest in the National Geographic channel. This will bring their cash balance to about $12.6 billion which represents a lot of excess cash for a company with a large amount of recurring revenue that has almost 6x interest coverage and, as a result, they have announced a $6 billion share buyback.

In fiscal year 2014, they earned $1.55 in operating earnings compared to $1.36 last year with affiliate fees at the domestic cable networks growing 12% and a better year for the film business. This is after amortizing expense related to purchase price accounting of approximately $0.18 per share. "Cash earnings" amount to a return on tangible assets of approximately 16% exhibiting the profitability and competitive strengths of the company. The free cash flow yield on the market value of the stock is approximately 3%, lower than we typically like, but adjusting for the startup expenses and working capital investments related to Fox Sports 1 and FXX, the free cash flow yield would be 5.5% for a company that holds cash worth 15% of market value. Contracts with their primary customers, the cable and satellite tv providers, are fairly long term so it takes a while to close the gap which we think exists between fair value and what the cable and satellite tv operators pay for Fox News, FX, as well as the Fox Network, so we think the wind will be at their back in future negotiations

Enterprise Product Partners is one of the largest and most integrated companies in the mid- stream business providing transportation, storage, processing, fractionation and importantly export services for North American producers of natural gas, natural gas liquids and oil. The systems of pipelines, processing plants and other facilities underlying their services are well located to provide an integrated solution to producers in the most prolific energy producing locations in the country and are better connected to businesses consuming their products with pipeline connections to refineries and petrochemical companies than their competitors. The company is structured as an MLP and as a result pays out most of their cash flow to unit holders as a tax deferred distribution. Their distribution history is outlined below.

	2011	2013	2013	June 30, 2014 (6 Months)
Distributable Cash Flow	$2.8 billion	$3.0 billion	$3.7 billion	$1.93 billion
Average Units Outstanding	859 million	893 million	921 million	937 million
DCF/ share	$3.26	$3.36	$4.02	$2.05
DCF/share growth	NA	3.0%	19.6%	15.8%

As the company puts it, "our job is to give producers flow assurance and market choices, and give consumers supply reliability and supply choices". Their ability to do that is evidenced by their industry leading role in the rapidly increasing export of propane, ethane, and condensate-- where U. S. supply is growing faster than demand. This gives producers another market for their product which stabilizes prices and helps generate future production and volumes for Enterprise. The large growth in natural gas liquids production is expected to continue an excess supply picture in the U.S. through 2020 despite increased demand. While not as fast as supply, demand is expected to grow, particularly in the Gulf Coast where many of their facilities are located. Several petrochemical plants are under construction that will be able to make ethylene from ethane. Before logistics and transportation fees, it costs $.08 per pound to make ethylene from ethane compared to $0.48 per pound to make it from Naptha (an oil derivative). That means an ethylene plant producing 1.5 billion pounds per year of ethylene has a $600 million per year cost advantage. Many new ethane crackers are projected to come on line in 2016-2017 but ethane is still expected to be oversupplied. Three months ago Enterprise announced the first ethane export project which is now 85% subscribed. The company is optimistic it will be fully subscribed soon and the level of interest gives them confidence further expansion will be coming and is cheaper than new builds.

The U. S. currently produce 15 million barrels per month, of propane and butane in excess of demand. This excess is projected to increase to 36 million barrels per month by 2020. Enterprise currently exports 7.5 million barrels per month with an expansion to 9 million expected to come online the first quarter of next year and another 7 million barrels per month expansion to come online in the fourth quarter of next year. When completed they will have LPG(propane and butane) export capacity of about 16 million barrels per day which is fully committed for the next several years with some contracts that go to 2024.

In total, they have a backlog of approximately $6 billion in projects to come online between now and 2016 compared to net property plant and equipment today of about $27.7 billion. This gives them strong visibility for distribution growth especially when you consider 85% of their gross margin is fee based with no commodity risk and a very large portion of their operating income is supported by long term contracts. The company has more debt than our typical company with interest coverage of 3.8 times but is one of our most conservative holdings given the lack of commodity exposure and the percentage of business backed by long term contracts. They have less debt compared to operating profit than most of their competitors and it carries an average cost of 5.2% and an average life of 14.3 years. After a recent 2 for 1 stock split, we expect distributable cash flow per share from operations this year of approximately $2.25 versus a current stock price of $40.38.

Markel Corporation is a specialty insurance corporation with a long history of maintaining underwriting discipline and profitability which has allowed them to build up a healthy investment portfolio and grow book value at attractive rates for a long period of time. Currently, given the confidence we have in their underwriting discipline and the size of their investment portfolio relative to book value, we think the company is attractively priced at 1.25x book value. Growth in book value per share is outlined below.

	2009	2010	2011	2012	2013	6/30/2014***
Book value per share	$282.50	$326.36	$352.10	$403.85	$477.16	$511.00
Growth	27.1%	15.5%	7.9%	14.7%	18.2%	14.7%

****June 30, 2014 returns are annualized.*

Excluding 2009 returns which were higher than normal as their equity portfolio rebounded, compound annual increases in book value per share were 14.1%, similar to long term per share increases of 16% for the twenty years ended in 2012.

A primary concern for us with insurance companies is conservative underwriting. Profitable underwriting is always a goal for Markel and they've achieved that in 9 of the last 11 years and 15 of the last 21. They are willing to walk away from business if they don't think it will be profitable. They are also very conservative about current year estimates of losses. Their policy is to establish insurance reserves at a level that is more likely to be redundant than deficient which has been the case for nine of the last twelve years and gives us confidence in their earnings. They have also accomplished this goal over longer periods of time. In 2013, they had $395 million of redundant reserves from prior years meaning they were overly conservative about estimating losses in prior years. This is a function of what in our view is the company's uniquely disciplined culture and importantly their incentive compensation. According to the company's 2012 shareholder letter, "no underwriter in Markel receives incentive compensation unless his or her book of business produces an underwriting profit over a multiyear view." This helps them attract quality underwriters and along with redundant reserves from conservative loss estimates in prior years creates a virtuous cycle of conservatism and discipline which makes it easier to pay claim requests from policyholders since it's on profitable business.

Importantly, this underwriting discipline and profit generation has helped accumulate a healthy investment portfolio. The investment portfolio after the Alterra acquisition has grown to $17.65 billion, including $3.69 billion of cash and short term investments and $3.76 billion of equity investments as of June 30, 2014 compared to book value of $7.15 billion. It's not unreasonable to assume that after paying interest on $2.26 billion in debt, Markel can generate a 5% after tax return on investments over time. With confidence in their underwriting profitability, all of that return would accrue to the benefit of book value and currently would equate to a return on book value of 12.3% with no contribution from insurance underwriting. Those return assumptions would require a reallocation of equities in the portfolio closer to their stated goal of 80% of book value. It is lower than that currently because of the recent acquisition of Alterra for $3.2 billion. This acquisition was accretive to book value, premium income per share, and investments per share but has temporarily left them with below average equity exposure. We are very familiar with and have confidence in their defensive minded portfolio manager, Tom Gaynor, who manages the entire investment portfolio and returned 10% annually on their equity portfolio for the last twenty years versus an 8% return for the S&P 500.

Oaktree Capital is a leader among global investment managers specializing in alternative investments and is one of the world's largest investors in distressed debt. Assets under management have grown approximately 11.6% per annum over the last ten years and were $91 billion as of June 30, 2014 versus $75 billion a year ago. The firm is led by Howard Marks whose defensive oriented investment philosophy has helped generate very impressive long term returns.

Since inception 26 years ago, Oaktree has generated gross annual returns on their closed end funds of 19.9% on drawn capital over that period of $62 billion. These results and their asset growth were achieved with consistent application of their investment philosophy along with their reputation for treating limited partners well. This has led to their client base growing to approximately 100 of the 300 largest global pension plans, 74 of the largest U. S. pension plans, 300 endowments and foundations, 12 sovereign wealth funds and 38 of the 50 primary state retirement plans in the U. S.

Many of their clients participate in more than one of their strategies as large pension funds acceptance of alternative investment strategies grows particularly due to returns relative to more traditional strategies and their need to meet actuarial demands. As many of the larger pension plans expand investments in alternative investments, their use of multiple Oaktree strategies is indicative of their preference for having more assets under the umbrella of large managers and their compliance, reporting, and risk control capabilities.

The firm is controlled by their 8 principals but went public in 2012. Currently approximately 23% of the stock is held by public shareholders. They generate revenues three ways, from management fees, incentive fees on returns above a preferred return, and investment income from their investment in their own funds as well as from seed investments in promising money managers.

The stock is off about 14% this year mostly due to a large reduction in incentive fees realized which reduced their dividend in the most recent quarter to $0.55. This represents a 4.4% annual yield on their stock which trades for approximately $50 per share. Incentive fee payments are lumpy and depend on where funds are in the cycle. For most of the funds where they can earn incentive fees, they don't receive any fees until enough investments have been sold that limited partners have received all of their principle plus an 8% return. Currently, many of their incentive based funds are early in their cycle so they are generating returns high enough to create incentive income but won't realize it until assets are sold. Including accrued but unpaid incentive income net of accrued compensation expense, they earned "economic income" of $1.17 this quarter and $2.50 for the first six months. In addition, assets earning management fees, assets accruing incentive fees, and cash and investment balances are all up versus last year.

Currently, they are seeking to raise $10 billion for a new fund given their opinion that loose underwriting standards in the bond market and a large increase in high yield bond issuance will lead to future opportunities. While stress in the economy and various parts of the market will hurt the market valuations for their funds, Oaktree provides defensive characteristics for our client portfolios given their predilection for investments with strong downside protection and their ability to raise large amounts of capital from investors during times of stress as they did in 2009 due to their reputation as savvy and disciplined distressed debt investors.

Nestle is one of the world's largest food and wellness companies. Headquartered in Switzerland, Nestle was forced to expand outside its own country long before American food companies because of the size of their domestic market and as a result has a stronger presence in emerging markets. Emerging markets revenue grew 9.6% in constant currency in the first six months versus less than 1% in developed markets and now represent more than 35% of total business. Currency headwinds caused a reduction in earnings for the first six months to $1.63 from $1.71 last year despite organic revenue growth of 4.7% and slightly higher margins in constant currency. We have been reducing this position since, in our opinion, it is no longer undervalued and our expectation of forward rates of return have been reduced given its high valuation of approximately 23 times this year's earnings. Even though it's free cash yield at less than 3% suffers from currency headwinds and working capital increases which may be temporary, it reduces the company's ability to consistently reduce their share count beyond a recently announced $8.8 billion share buyback which is really a one-time event to re-leverage their balance sheet. Given its valuation and the fact that the company's economics as measured by a return on tangible assets of about 13% are strong but not outstanding, we plan to reduce this position 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.*

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 thirty 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 Bache 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
6/30/2014	39.2	25.9	59	8.33%	7.83%	7.14%	0.56%	10.08%	12.09%
2013	37.2	23.0	54	26.97%	25.76%	32.39%	2.23%	9.88%	11.94%
2012	28.6	17.3	47	13.02%	11.93%	16.00%	1.83%	11.19%	15.09%
2011	25.3	15.2	43	3.60%	2.56%	2.11%	2.54%	15.55%	18.71%
2010	22.0	14.4	40	20.20%	19.02%	15.06%	3.42%	17.94%	21.85%
2009	18.6	13.0	36	46.22%	44.77%	26.46%	5.32%	17.26%	19.63%
2008	12.4	8.4	38	(25.99%)	(26.68%)	(37.00%)	2.30%	12.59%	15.08%
2007	17.4	11.9	37	(1.89%)	(2.83%)	5.49%	3.03%	9.31%	7.68%
2006	22.4	12.6	36	12.08%	11.11%	15.79%	2.52%	8.75%	6.82%
2005	12.4	10.8	33	0.79%	(0.16%)	4.91%	3.12%	11.08%	9.04%
2004	12.3	11.1	30	20.37%	19.24%	10.88%	3.37%	12.64%	14.86%
2003	9.2	8.5	23	35.31%	33.95%	28.68%	4.38%	13.78%	18.07%
2002	6.9	6.4	21	(3.36%)	(4.34%)	(22.10%)	6.43%	14.11%	18.55%
2001	7.4	6.8	18	6.92%	5.86%	(11.89%)	6.23%	13.83%	16.71%
2000	6.8	6.3	15	14.50%	13.45%	(9.10%)	4.39%	13.15%	17.42%
1999	6.4	5.7	14	8.80%	7.77%	21.04%	10.61%		
1998	6.3	5.5	14	6.31%	5.10%	28.58%	7.52%		

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 June 30, 2014.

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, 2014. The verification and performance examination reports are available upon request by calling (910) 763-4113, or by emailing info@southatlanticcap.com.

South Atlantic Capital is an independent registered investment adviser registered with the State of North Carolina and the Commonwealth of Virginia. 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 by emailing info@southatlanticcap.com.

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 period. 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.

South Atlantic Capital's management fee schedule for accounts with assets up to $500,000 is 1.25%. 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.

Ashland Partners & Company LLP

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Independent Accountant's Verification Report

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 June 30, 2014, and (2) the Firm's policies and procedures are designed to calculate and present performance results in compliance with the GIPS standards as of June 30, 2014. 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 June 30, 2014; and
- the Firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards as of June 30, 2014.

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
October 16, 2014