

# South Atlantic Capital Management Group, Inc.

## Investment Management

### September 30, 2012 Portfolio Review

#### COMPOSITE PERFORMANCE SUMMARY

##### South Atlantic Capital (SACMG) versus S&P 500

Annualized as of 9/30/2012

	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception*	Total Return Since Inception*
SACMG Core Equity <sup>1</sup> (Net)	12.41%	24.51%	14.08%	8.01%	9.84%	8.18%	219.05%
S&P 500 <sup>2</sup>	16.43%	30.18%	13.20%	1.05%	8.01%	4.58%	93.50%

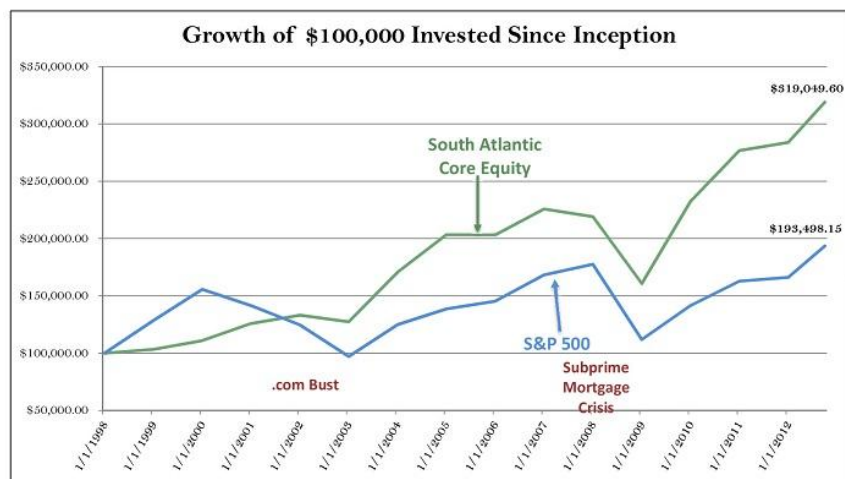
\*Inception date of South Atlantic Capital's composite is 1/1/98.

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](mailto: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 September 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.



#### Third Quarter Performance

The S&P 500 performance was strong during the quarter returning 6.35%. We feel this strong performance had more to do with the central banks of the U.S. and Europe printing money than any valid long-term reason. However, we still feel stocks in general are undervalued relative to bonds. Our core equity composite underperformed the market returning 4.47% while holding approximately 11% in cash.



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

#### Opinions about the Economy and the Election

We are optimistic about the benefits to the economy from the prolific growth in shale gas. A \$65 billion project to export natural gas from the North Shore of Alaska to Asia was just announced. Lower natural gas prices should also benefit the U.S. industry as a whole, particularly the petrochemical industry which has become one of the low cost manufacturers of ethylene worldwide due to lower cost ethane and propane. New petrochemical plants which will benefit from these lower-priced feed stocks are scheduled for construction over the next several years with a total cost estimated in the tens of billions. Several significant projects have also been announced to export propane, possibly influenced by the widening of the Panama Canal. The housing market seems to be bottoming. We are pessimistic about growing levels of government debt to GDP and are concerned about the potential effect the fiscal cliff and the election might have on the economy, recession in Europe, etc.

We have these opinions, but shy away from assuming they're right. We aren't comfortable risking our client's capital on the basis of our economic forecasting because it has such low odds of success compared to making long term investments on their behalf in companies where we have conviction they are trading well below our estimate of value. In terms of the election, many people - including professional managers - think

something resembling the end of the world might follow shortly after the election. We say it's just as unwise to assume things are hopeless as it is to assume things are risk free.

### The importance of Credit

Paying attention to how a company is financed is a primary reason we are confident we can invest successfully over the long-term, regardless of short-term risks to the economy. The previously mentioned possibility that we go off the fiscal cliff and the economy goes into recession is certainly a concern. While it's very unlikely to us this would lead to a contraction in credit similar to that caused by the aftermath of the housing bubble, we try to stay mindful of a company's financial position and access to credit. Playing golf with some friends a few weekends ago, I was reminded of the importance of credit and the possibility of taking it for granted. I hit the only three balls I had in the water by the 5th tee. I could have been out of business by the fifth hole if my partner hadn't been able to lend me a ball. Investing in companies that tee off with only three golf balls is not a good idea.

### Relative Results

Recently, we entered our composite results into PSN<sup>3</sup>, 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. Rankings through September aren't available yet, but our rank versus other managers in our category through June 30, 2012 is outlined below.

#### South Atlantic Capital's Core Equity Composite vs All PSN Large Cap Core Managers

PSN Ranking for Periods Ending June 30, 2012

South Atlantic Capital ranks in the top 1% for the 3, 5, 10-yr periods and Since Inception\*

	Year To Date		1 Year		3 Years		5 Years		10 Years		Since Inception*	
	VALUE	RANK	VALUE	RANK	VALUE	RANK	VALUE	RANK	VALUE	RANK	VALUE	RANK
South Atlantic SACM Core Equity	8.12	62	6.03	19	19.48	1	6.62	1	8.95	1	9.07	1
Standard & Poor's 500	9.49	27	5.45	31	16.4	35	0.22	67	5.33	74	4.22	88
Number of Other Managers	313		309		304		295		217		136	

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

For a full view of this chart, please refer to the end of this newsletter.

PSN Data is presented gross of fees. Comparative managers' investment performance is shown in this chart gross of South Atlantic Capital's management fees, the incurrence of which will have the effect of decreasing the composite performance results (for example: an advisory fee of 1% compounded over a 10-year period would reduce a 10% return to approximately a 9% annual return).

We feel our positive results are due to a sound investment philosophy that we employ consistently, and having clients that patiently allow us to execute it. Also, we are very focused and feel compelled to try to achieve results that outperform the market over time, as that is how we add value for our clients.

#### SACMG Top 10 Holdings (as of 9/30/2012)

Holding Description	Percentage of Total Holdings
Cash	10.82%
Enterprise Prd Partners Lp	8.74%
Philip Morris Intl Inc	7.08%
Johnson & Johnson	5.93%
Pepsico Incorporated	5.86%
Nestle S A Reg B Adr	5.83%
Coca Cola Company	5.80%
Berkshire Hathaway Cl B	5.66%
News Corp Ltd Cl A	5.52%
Sanofi Aventis	5.21%
	66.47%

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

### DISCLOSURES

'**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.

***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.*

***PSN Chart** is presented gross of fees. Comparative managers' investment performance is shown in this chart gross of South Atlantic Capital's management fees, the incurrence of which will have the effect of decreasing the composite performance results (for example: an advisory fee of 1% compounded over a 10-year period would reduce a 10% return to approximately a 9% annual return).*

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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](mailto: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	45	3.60%	2.56%	2.12%	2.09%	15.54%	18.70%
2010	22.0	14.4	43	20.20%	19.02%	15.07%	3.23%	17.94%	21.85%
2009	18.6	13.0	43	46.24%	44.79%	26.46%	5.86%	17.27%	19.63%
2008	12.4	8.4	38	(25.99%)	(26.69%)	(37.00%)	3.10%	12.61%	15.08%
2007	17.4	11.9	39	(2.03%)	(2.97%)	5.49%	2.62%	9.33%	7.68%
2006	22.4	12.6	37	12.10%	11.13%	15.80%	2.80%	8.74%	6.82%
2005	12.4	10.8	34	0.79%	(0.16%)	4.89%	2.56%	11.08%	9.04%
2004	12.3	11.1	33	20.39%	19.24%	10.87%	4.54%	12.64%	14.86%
2003	9.2	8.5	25	35.31%	33.95%	28.69%	5.44%	13.78%	18.07%
2002	6.9	6.4	22	(3.34%)	(4.33%)	(22.10%)	5.53%	14.12%	18.55%
2001	7.4	6.8	19	6.92%	5.86%	(11.88%)	5.64%	13.89%	16.71%
2000	6.8	6.3	21	14.35%	13.35%	(9.11%)	5.10%	13.17%	17.42%
1999	6.4	5.9	18	8.55%	7.48%	21.05%	9.02%		
1998	6.3	5.7	15	4.51%	3.25%	28.57%	6.63%		

\*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 September 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 September 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](mailto: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.

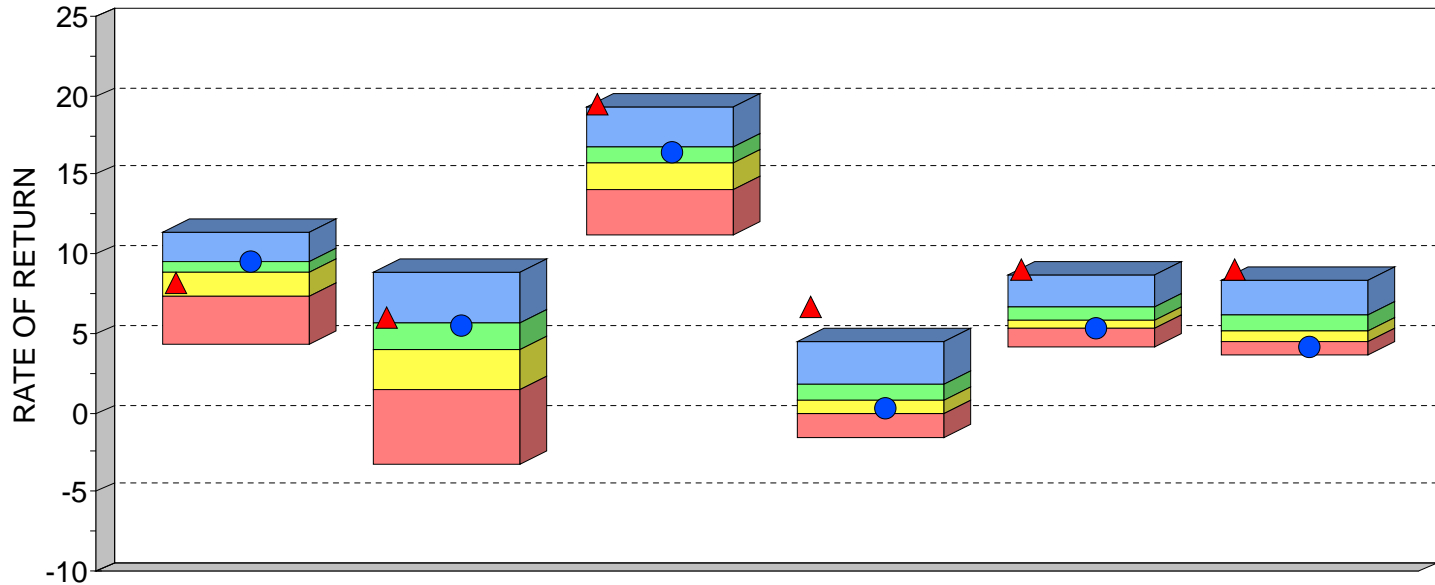
Effective January 1, 2013, South Atlantic Capital's account minimum and management fee schedule will change. These changes will not affect existing accounts. Our minimum account value will change from \$100,000 to \$250,000, and our management fee schedule for accounts with assets up to \$500,000 will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



**QUARTILE RANKING BAR FOR PERIODS ENDING JUNE 30, 2012**  
**SOUTH ATLANTIC CAPITAL SACM CORE EQUITY**  
**VS ALL PSN LARGE CAP CORE MANAGERS**

**SOUTH ATLANTIC RANKS IN THE TOP 1% FOR THE 3, 5, 10-YR PERIODS AND SINCE INCEPTION**



	Year To Date	1 Year	3 Years	5 Years	10 Years	Since Inception
HIGH (0.05)	11.40	8.88	19.36	4.55	8.71	8.30
FIRST QUARTILE	9.57	5.71	16.75	1.70	6.61	6.09
MEDIAN	8.85	4.01	15.83	0.76	5.90	5.13
THIRD QUARTILE	7.28	1.42	14.13	-0.06	5.34	4.48
LOW (0.95)	4.37	-3.30	11.25	-1.58	4.12	3.63
MEAN	8.42	3.58	15.47	0.90	6.00	5.32
VALID COUNT	313	310	304	294	216	135

	Year To Date		1 Year		3 Years		5 Years		10 Years		Since Inception	
	VALUE	RANK	VALUE	RANK	VALUE	RANK	VALUE	RANK	VALUE	RANK	VALUE	RANK
▲ South Atlantic SACM Core Equity	8.12	62	6.03	19	19.48	1	6.62	1	8.95	1	9.07	1
● Standard & Poor's 500	9.49	27	5.45	31	16.40	35	0.22	67	5.33	75	4.22	89

PSN IS THE LARGEST SEPARATELY MANAGED ACCOUNT DATABASE AVAILABLE AND CONTAINS DATA ON OVER 2,000 INVESTMENT MANAGEMENT FIRMS AND MORE THAN 10,000 INVESTMENT PRODUCTS. ON A QUARTERLY BASIS, ALL PRODUCTS ARE REVIEWED QUANTITATIVELY AND RANKED AGAINST OTHER MANAGERS IN THE SAME ASSET CLASS. THE ABOVE REFERENCED SOUTH ATLANTIC CAPITAL MANAGEMENT PERFORMANCE RESULTS ARE GROSS OF FEES. ALL RATES OF RETURN OVER 1 YEAR ARE ANNUALIZED. RANKINGS ARE NOT INDICATIVE OF FUTURE PERFORMANCE. THIS INFORMATION IS PROVIDED AS A SUPPLEMENT TO A GIPS COMPLIANT PRESENTATION.