

South Atlantic Capital Management Group, Inc.

Investment Management

June 30, 2013 Portfolio Review

COMPOSITE PERFORMANCE SUMMARY

South Atlantic Capital (SACMG) versus S&P 500

Annualized as of 6/30/2013

	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception*	Total Return Since Inception*
SACMG Core Equity ¹ (Net)	16.48%	21.36%	15.73%	13.71%	9.83%	8.82%	270.60%
S&P 500 ²	13.84%	20.60%	18.45%	7.01%	7.29%	5.20%	119.43%

*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. 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, 2013. All returns are net of management fees and include reinvested dividends and interest. Past results are not indicative of future investment results.



During the first six months of 2013, our Core Equity Composite returned 16.48% net of fees while the S&P 500 returned 13.84%.

Beware Funny Money

During the dotcom boom, investors put almost any price on an internet company. This “funny money” allowed many undeserving companies to go public at hard to believe valuations and bid already public companies to sky high levels. During the housing boom, homeowners and investors temporarily benefited from unprecedented home price appreciation. This was fueled by funny money in the form of lenders extending trillions in credit to uncreditworthy borrowers, many of whom could never repay their mortgages, based on a belief that housing prices would never fall. Needless to say, neither episode ended well if you owned the assets that had been bid up by the funny money.

Today, we feel government bonds are at unsustainable levels due to funny money in the form of \$3 trillion in bond purchases by the Federal Reserve. Investors owning long dated maturities face significant price risk. If the yield on 10-year treasury notes rose to the median yield since 2000 of 4.7%, investors would suffer losses in bond principal greater than 20%. Further, most investors have to deal with an increase in their cost of living while the typical bond's income is fixed. These two things are in conflict and suggest bonds should be avoided unless the bond's yield is significantly above expected cost of living increases, especially since they compound over time. Bond yields today are artificially low due to these huge Federal purchases and in our opinion do not adequately compensate investors for potential cost of living increases.

Investment Environment

Due to the discussion above, we still feel stocks are undervalued relative to bonds. However, stocks in general are fairly priced and you shouldn't expect prices to increase at the same high level they have for the past eighteen months. In fact, don't be too surprised if at some point you open your monthly statement to find materially reduced portfolio values particularly if the Federal Reserve stops buying bonds. However, we are not concerned about the short term although you should be if you are a levered speculator. As our clients know, we focus on long term expected returns. Even though we are finding it harder to find investments where we have the same level of conviction that we had in the last few years, we continue to expect acceptable long term returns for the companies we hold in the portfolio. Finding fewer investments where we have high conviction is reflected in our cash balances which ended the quarter as our largest holding at 11.42%.

An area where we continue to see value today is financials. In our opinion, bank valuations suffer from disaster myopia or recency bias on the part of investors. This is a phenomenon behavioral economists equate to why people assign an unrealistically high probability to a recent bad event reoccurring. As seen in their valuations, banks still suffer from deep investor skepticism about prospects for their growth and profitability even though their credit standards, capital ratios, and liquidity are much, much stronger than they were before the credit crisis. According to Empirical Research Group, financials trade at valuations relative to their book value that are in the 90th percentile in terms of low historical valuations and we are looking to add a few select names to the portfolios.

SACMG Top 20 Holdings (as of 6/30/2013)

Holding Description	% of Holdings	Ttl % of Top 10 and 20
Cash	11.42%	
Wells Fargo & Company	7.46%	
Berkshire Hathaway Cl B	7.00%	
Enterprise Prd Prtnrs Lp	6.92%	
News Corp Ltd Cl A	6.24%	
Johnson & Johnson	6.18%	
Philip Morris Intl Inc	5.84%	
Sanofi Aventis	5.20%	
Pepsico Incorporated	5.14%	
Directv	5.01%	66.42%
Nestle S A Reg B Adr	4.97%	
Coca Cola Company	4.45%	
Owens Illinois Inc New	4.02%	
Atlas Energy LP	3.15%	
Hartford Finl Svcs Grp	3.03%	
Jpmorgan Chase & Co	2.52%	
National Fuel Gas Co	2.43%	
Atlas Pipeline Part Lp	2.19%	
Tesco Plc Sponsored Adrf	1.47%	
Moody Corp	1.34%	95.99%

Please contact us if you would like to discuss our services in more detail.

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.*

***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.*

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 by 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, 2013.

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.

©2011 South Atlantic Capital Management Group, Inc.

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
YTD	34.3	20.8	50	17.02%	16.48%	13.84%	2.52%	10.53%	13.37%
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 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, 2013.

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, 2013. 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. 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 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.

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.

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, 2013, 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, 2013. 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, 2013; and
- the Firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards as of June 30, 2013.

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

July 29, 2013