

# South Atlantic Capital Management Group, Inc.

## Investment Management

### March 31, 2014 Portfolio Review

#### COMPOSITE PERFORMANCE SUMMARY

South Atlantic Capital (SACMG) versus S&P 500  
Annualized as of 3/31/2014

	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception*	Total Return Since Inception*
SACMG Core Equity <sup>1</sup> (Net)	2.17%	15.01%	12.54%	20.79%	8.75%	9.07%	309.9%
S&P 500 <sup>2</sup>	1.80%	21.86%	14.65%	21.16%	7.41%	6.05%	159.8%

\*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](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 March 31, 2014. All returns are net of management fees and include reinvested dividends and interest. Past results are not indicative of future investment results.



The Core Equity Composite returns were 2.17% for the quarter compared to 1.80% for the S&P 500.

For the year ending March 31, turnover of approximately 33.4% was higher than normal due primarily to two mistakes that were sold (JC Penney and Eagle Rock Energy) as well as reducing a cumulatively large position in several multi-national consumer products companies. As mentioned in the last quarterly update, the excessive size of the position in the multi-national companies was driven by an investment process that included too much "macroeconomic input". Specifically, we wanted a large part of the portfolio invested in companies that did significant business overseas in order to benefit from our economic outlook for a weaker dollar and stronger economic growth overseas. As we realized we had strayed a bit from our philosophy of investing with a margin of safety based on company specific analysis, we reduced or eliminated several of these positions. We are optimistic that the portfolios now trade at a bigger discount due to their intrinsic value (margin of safety) and are better positioned as we seek to outperform the S&P 500 overtime.

You can see below the change in the portfolios where we compare our current top ten holdings to last year's top ten.

#### SACMG Top 10 Holdings Snapshot Comparison

Top 10 as of 3/31/2014	Top 10 as of 3/31/2013
Berkshire Hathaway Cl B	Enterprise Prd Partners Lp
Wells Fargo & Company	Berkshire Hathaway Cl B
DirecTV	Wells Fargo & Company
Phillips 66	Philip Morris Intl Inc
Markel Corp	Johnson & Johnson
Enterprise Prd Partners Lp	News Corp Ltd Cl A
Phillip Morris Intl Inc	Nestlé S A Reg B Adr
21 <sup>st</sup> Century Fox Cl A	Sanofi Aventis
Nestlé S A Reg B Adr	PepsiCo Incorporated
Oaktree Capital Group	Coco Cola Company

**In addition to investing with a margin of safety, we believe investing defensively is central to our strong returns overtime.** To us, defensive investing means not only buying companies below intrinsic value but investing in companies that can withstand economic or market stress and maintain the financial strength to take advantage of the opportunities these periods create. We think Wells Fargo is a good example of this given their conservative approach to credit risk and managing their balance sheet. Below we compare the stock performance of various financial institutions before the mortgage credit problems surfaced through today which we think illustrates the benefits of investing defensively in order to withstand risks that can sometimes be difficult to predict.

#### Stock Price Comparison for Defensive Investing\*

Company	Share Price 12/31/2006	Share Price 5/1/2014	Growth of \$100,000 <sup>A</sup>
Wells Fargo	\$29.55	\$49.64	\$167,986
J. P. Morgan	\$40.41	\$55.72	\$137,887
Bank of America	\$46.02	\$15.09	\$32,790
Citicorp	\$501.95	\$47.76	\$9,515
Lehman Brothers	\$25.27	\$0.03	\$119
Merrill Lynch	\$78.77	\$12.97 <sup>B</sup>	\$16,466
S&P 500	1,418	1,883	\$132,792

\*Information provided as supplemental to GIPS compliant presentation.

A. Excluding dividend income

B. Merrill Lynch was acquired by Bank of America. Merrill shareholders received 0.895 Bank of America shares per Merrill share. December 31, 2006 Merrill share price is actually share low for the quarter.

Even though stock prices were severely undervalued five years ago, we are now more than five years in to a period of rising stock prices. While it has certainly gotten harder to find undervalued stocks and our cash levels are currently somewhat higher than normal, we continue to find stocks that we are optimistic can meet our long term criteria. We are not advocates of market timing. However, rising stock prices certainly mean this is not a time to be complacent about what you own.

Please feel free to contact us if you would like more information about our services. We would be happy to provide references upon request. The only fees we charge are on assets under management, so please feel free to contact us if you have an interest in visiting the office to discuss your situation.

Best regards,

Eddie Nowell

## **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.*

*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 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 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
3/31/2014	38.3	24.0	53	2.42%	2.17%	1.80%	0.53%	10.23%	12.29%
2013	37.2	23.0	54	26.97%	25.76%	32.40%	2.23%	9.86%	11.94%
2012	28.6	17.3	47	13.18%	12.09%	15.98%	1.85%	11.18%	15.09%
2011	25.3	15.2	43	3.59%	2.55%	2.12%	2.54%	15.56%	18.70%
2010	22.0	14.4	40	20.20%	19.02%	15.07%	3.43%	17.96%	21.85%
2009	18.6	13.0	36	46.40%	44.95%	26.46%	5.28%	17.29%	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%	14.11%	18.55%
2001	7.4	6.8	18	6.92%	5.86%	(11.88%)	6.23%	13.82%	16.71%
2000	6.8	6.3	15	14.47%	13.47%	(9.11%)	4.23%	13.29%	17.42%
1999	6.4	5.7	14	8.80%	7.77%	21.05%	10.61%		
1998	6.3	5.5	14	4.29%	3.05%	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 March 31, 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 March 31, 2014. The verification and performance examination reports are available upon request by calling (910) 763-4113, or by emailing [info@southatlanticcap.com](mailto: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](mailto: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](mailto: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.

**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 March 31, 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 March 31, 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 March 31, 2014; and
- the Firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards as of March 31, 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  
May 2, 2014