

South Atlantic Capital Management Group, Inc.

Investment Management

September 30, 2013 Portfolio Review

COMPOSITE PERFORMANCE SUMMARY

South Atlantic Capital (SACMG) versus S&P 500

Annualized as of 9/30/2013

	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception*	Total Return Since Inception*
SACMG Core Equity ¹ (Net)	17.85%	17.16%	12.76%	13.99%	9.41%	8.75%	274.85%
S&P 500 ²	19.81%	19.35%	16.26%	10.02%	7.56%	5.46%	130.93%
PSN ³ Large Cap Percentile Rankings (Gross)	76	75	87	1	5	1	NA
PSN ³ Large Cap Percentile Rankings (Net)	84	84	95	1	23	10	NA
# of Managers Ranked Against	1012	1010	974	924	689	394	NA

*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 September 30, 2013. All returns are net of management fees and include reinvested dividends and interest. Past results are not indicative of future investment results.



Our composite returned 17.85% net of fees for the first nine months of 2013, trailing the 19.81% return for the S&P 500. Longer term returns have outperformed the index by a fair amount.

We feel risks have increased for stocks as prices rise faster than earnings for the second year in a row but remain below the risk in bonds. We don't enjoy lagging the market, which is certainly due in no small part to poor investments in JC Penney and Eagle Rock Energy, but to some extent our style of investing tends to underperform during periods when stock valuations become more expensive. The S&P 500's P/E ratio has reached a multiple of 16 to 17 times the various projections for this year's earnings. Valuations are somewhat stretched but less so than valuations reached in 2006-2007. As a result, we don't expect anything resembling the market downturn in 2008-2009 particularly since individuals, corporations, and especially banks are in a much stronger financial position, but these valuations do push us to review our expectation of forward rates of return for the stocks we own. You can see from the chart to the right, as evidence of the banks strengthening financial position, loss rates on mortgages underwritten by Wells Fargo are much, much lower since the credit crisis than before the credit crisis.

Residential RE Loss Rates by Vintage

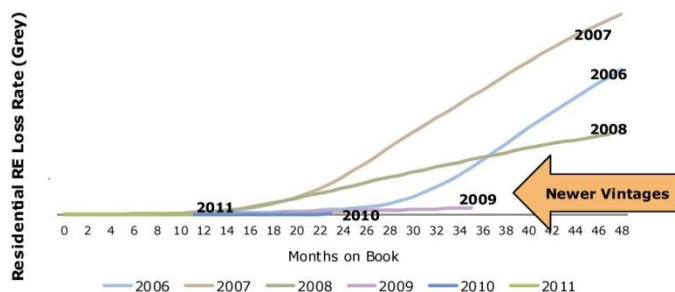


Chart provided by Wells Fargo, Barclays Capital 2013 Global Financial Services Conference, September 9, 2013.

We are most interested in investment gains that are sustainable and permanent and don't fully participate in expensive markets since our cash levels tend to go up as prices rise and expected forward rates of return go down. We underperformed the market in 2006-2007 when valuations were more stretched than they are today. Similarly to what happened after 2006-2007, we feel there are many stocks today whose valuations are excessive relative to a realistic profit outlook and their gains could prove temporary. Their current valuations are dependent on investor optimism, courtesy of the Federal Reserve, and not underpinned by earnings and cash flow expectations that we have confidence in. We try to invest in companies whose earnings overtime are fairly predictable and whose balance sheets make us comfortable they will be in a position to generate these expected earnings by being able to invest in their businesses regardless of varying economic conditions.

One reason that we are optimistic our portfolios have permanent gains ahead, although we can't predict when, is that they are invested in stocks that are reasonably priced relative to the quality of their businesses and their earnings outlook. Another is that, by and large, our positions have balance sheets that would allow them to take advantage of opportunities that should materialize during periods of stress. We try to manage the portfolios to have ample liquidity to take advantage of these more permanent gains through the balance sheets of our investments as well as our

own cash balances. As valuations rise, we try to retest the conviction in our investments so our cash levels may increase. Our goal is for low double digit forward rates of return. Those investments where we have less conviction in meeting that goal overtime may be sold or reduced.

Cash balances as a percentage of our composite are outlined below:

Core Equity Composite Cash Balances*	
Period Ending	% of Total Holdings**
09/30/2013	7.39%
12/31/2012	12.76%
12/31/2011	13.90%
12/31/2010	11.00%
12/31/2009	4.90%

* Supplemental information – see important Disclosures at the end of this page.

**Periods ending 9/30/2013 and 12/31/2012 are exact figures from whole composite calculations. Periods ending 12/31/2011, 12/31/2010, and 12/31/2009 are approximate figures based on representative accounts in the composite.

Overtime, concentrated portfolios invested in what we feel are undervalued companies has allowed us to outperform the S&P 500 index while holding higher cash balances. Furthermore, since an investor has no direct access to the cash within a mutual fund, we believe our client's cash balances along with income from their investments puts them in a better position to fund their distribution needs without selling assets at an inappropriate time and compromising long term returns.

Over a long period of time, our returns have been less volatile than the S&P 500. Low volatility is not a goal. We would prefer higher returns even if they're more volatile. In addition to our higher cash balances, we suspect the lower volatility is due to our focus on durable companies which results from our view that investing by trying to predict market or economic trends is difficult. Lower volatility has been particularly helpful in our relative returns during down markets. In our opinion, our lower volatility and better downside protection is due to investors, in general, having a limited ability to predict a bad market or a bad economy, those that are preoccupied with that approach end up inadvertently taking on more risk by taking their eye off the ball. They are more focused on trying to make these predictions and less focused on the quality of their investments.

Things We Are Looking for or Thinking About

- Supply constrained real assets where reserves or supply grow slower than the real economy
- Companies that have evidenced their competitive advantage through their relative scale and return on tangible equity
- What stocks today are overvalued if interest rates normalize
- We try to avoid commitment bias. If a stock is a large position you have to resist an inclination that you are less likely to be wrong on this stock than a smaller position
- Look to buy companies with an enterprise value less than 10x earnings before interest and taxes
- Look for resilient companies that have staying power in a crisis These types of companies generally come out of a crisis more strongly positioned because of the vulnerability of their competitors
- Avoid businesses where there's some doubt of their viability or their ability to maintain a strong position during an economic cycle

Please feel free to contact us if you would like to discuss this further and let us know if you would like to come by our office and review your current situation.

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.*

***PSN** is a global investment manager database of approximately 2,000 investment managers representing more than 20,000 domestic and international investment products, and is a division of Informa Investment Solutions, Inc. (IIS). All products are reviewed quantitatively on a quarterly basis and on this report, ranked against other investment managers in the large cap equity asset class. Gross of fees performance numbers are used in ranking South Atlantic Capital*

against other managers. 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.

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Returns are presented net of management fees and include the reinvestment of all income. The U.S. Dollar is the currency used to express performance. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request, as is GIPS compliant presentations and lists and descriptions of South Atlantic Capital's composites, by emailing Info@SouthAtlanticCap.com or calling (910) 763-4113. Portfolio composition is subject to change at any time and references to specific securities, industries, and sectors referenced in this letter are not recommendations to purchase or sell any particular security. Current and future portfolio holdings are subject to risk.

The discussion of our firm's investments and investment strategy (including current investment themes, the portfolio managers' research and investment process, and portfolio characteristics) represents the firm's investments and the views of the investment adviser, at the time of this letter, and are subject to change without notice.

Past results are not indicative of future investment results. An investor should further understand that future results may result in losses for account holders.



EDWARD D. NOWELL

Edward D. Nowell is President, founder and sole portfolio manager of South Atlantic Capital Management Group, Inc.

Mr. Nowell has over 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
9/30/2013	32.8	21.1	52	18.69%	17.85%	19.81%	2.17%	9.90%	12.23%
2012	28.6	17.1	47	13.19%	12.10%	15.98%	1.88%	11.20%	15.09%
2011	25.3	15.1	43	3.58%	2.55%	2.12%	2.54%	15.55%	18.70%
2010	22.0	14.3	40	20.18%	19.00%	15.07%	3.43%	17.95%	21.85%
2009	18.6	13.0	36	46.18%	44.74%	26.46%	5.30%	17.28%	19.63%
2008	12.4	8.4	38	(25.96%)	(26.66%)	(37.00%)	2.29%	12.62%	15.08%
2007	17.4	11.8	37	(2.04%)	(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 September 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 September 30, 2013. The verification and performance examination reports are available upon request by calling (910) 763-4113, or by emailing info@southatlanticcap.com.

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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 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 1.25%. 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 September 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 September 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 September 30, 2013; and
- the Firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards as of September 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
October 29, 2013