South Atlantic Capital Management Group, Inc.

Investment Management

September 30, 2014 Portfolio Review

<u>COMPOSITE PERFORMANCE SUMMARY</u>

South Atlantic Capital (SACMG) versus S&P 500
Annualized as of 9/30/2014

	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception*	Total Return Since Inception*
SACMG Core Equity[1] (Net)	8.09%	15.34%	19.00%	14.98%	8.84%	9.20%	336.58%
S&P 500[2]	8.34%	19.73%	22.99%	15.70%	8.11%	6.26%	176.49%

**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 September 30, 2014. All returns are net of management fees and include reinvested dividends and interest. Past results are not indicative of future investment results.

Year to date through September 30, 2014, our core equity composite returned 8.09% net of fees versus a total return for the S&P 500 of 8.34%. Since the January 1, 1998 inception, annual returns net of fees for the composite are 9.20% versus annual returns for the S&P 500 of 6.26%.

Long Term Decisions

Family controlled firms make up 19% of the companies in the Fortune Global 500, which tracks the largest firms by sales. We believe family owned businesses, which can be thought of as having the power to appoint the chief executive, are in a unique position to make long term decisions because they have job security. There is little short term pressure that can be put on the board or the CEO by impatient public shareholders. Generally, this control requires a voting stake of at least 18%.

Since 2008, family-controlled firms have grown revenues by 7% a year slightly ahead of the 6.2% a year by non-family firms. Family firms are also less likely to incur a high amount of debt, perhaps because they have so much to lose. A reluctance to borrow may limit growth in good times but it makes companies more resilient and protects capital in tough times. After applying their index of "organizational health" to 114 family firms and 1,200 other large companies, Mckenzie Consulting feels that family firms have a superior corporate culture since they scored higher on culture, work motivation, and leadership while lagging slightly on innovation and being too internally focused.

Besides higher sales growth, there is evidence of a positive family effect translating into higher financial results as follows. A study by Cristina Cruz Serrano and Laura Letamendia of IE business school in Madrid calculated that 1,000 Euros invested in 2001 in a portfolio of publically traded family firms in Europe weighted by market capitalization would have compounded to 3,533 euros by the end of the decade while 1,000 Euros invested in a portfolio of non- family businesses, again weighted by market capitalization, would have compounded to only 2,241 Euros. That equates to a 5% per year difference in return. Our experience is that the long term share price outperformance outlined in the study is due primarily to a family controlled firm's unique ability to manage the company with a long term view and their reluctance to overleverage. While family controlled businesses is not something we actively screen for, businesses that are resilient and manage the company with a long term view are core to our investment philosophy. As a result, we feel it's no coincidence how many family controlled businesses are in our top ten holdings as reviewed below.

Top Ten Holdings

1. **Berkshire Hathaway** is controlled by Warren Buffett's ownership of more than 20% of the voting shares. He is the only CEO that we know of who has the patience to describe his investment philosophy as "waiting for a fat pitch". His track record speaks for itself.
2. **Wells Fargo** is not family controlled although Berkshire Hathaway does own 8.9% of shares outstanding. They do manage the company with a long term view, however, as evidenced by their foregoing profits during the sub -prime boom which allowed them to maintain their financial strength and buy Wachovia at an attractive price.
3. **Phillps 66** is not family controlled. We feel Greg Garland, the CEO, is a very good capital allocator but have no strong indication that Phillips 66 has quite as strong of a long term culture as that exhibited by many family controlled companies.
4. **Markel** – They were a family owned business until they went public in 1986. They largely maintain a family owned culture which we see through their continued focus on conservative underwriting standards. Instead of seeking short term premium growth, they have the patience to turn down insurance business they don't think will be profitable and typically make estimates for future claims that turn out to be too "conservative" or higher than actual. For the 28 year period through 2013, this culture led to a combined expense ratio of 96% of premiums versus the industry's ratio of 105%.
5. **Enterprise Product Partners** is a master limited partnership (MLP) controlled by the heirs of the founder, Dan Duncan. They own essentially all of the general partner which manages operations and over 35% of the limited partnership interests when you include

management ownership. We feel they will accrue benefits from their long term decision to eliminate incentive payments to their general partner which improved their creditworthiness and lowered their cost of capital. That policy, in addition to their policy to retain more cash flow than the industry by paying out only 70% as dividends, should benefit the company as lower energy prices make it more difficult to raise capital to finance pipelines and other needed infrastructure projects.

6. **Phillip Morris** is not family controlled. However, we consider the CEO a good capital allocator who, along with his predecessor, has taken aggressive action to protect long term advantages for the fast growing e cigarette market by partnering with Altria to create industry leading scale in distribution and manufacturing. But it's hard to say they have quite as strong of a long term culture as many of the family owned businesses
7. **Twenty First Century Fox** is controlled by Rupert Murdoch's family through their 40% ownership of the Class B "voting" shares. They have a long history of taking on long term projects that cause earnings to suffer in the short run but add considerably to long term share value. Establishing the Fox Network was a painful process that was well worth it for long term shareholders. The Fox news network lost money for nine years before becoming an earnings franchise. Currently, they are taking similar action to building cable networks Fox Sports1 and FXX which are hurting current earnings but we are optimistic these networks will add to long term share value.
8. **Direct Tv** is not family controlled and we intend to sell this position as it nears AT&T's buyout offer of $95 per share.
9. **Oaktree Capital** is controlled by founders Howard Marks and Bruce Karsh and other principals who control all of the Class B units which represent approximately 75% of shares outstanding and have voting rights of ten votes per share. Oaktree and Marks are the world's largest distressed debt investors. They have a deserved reputation as defensive and patient investors who prefer to commit capital when risk is well priced into securities. We feel the distress caused by the energy sell off will create attractive opportunities for them to invest current capital and grow the business by raising significant new capital as they did after the credit crisis in 2008-2009.
10. **Atlas Pipeline Partners** is controlled by their general partner which is controlled by the Cohen family. Unfortunately, they have clearly not exhibited the resilience and long term orientation that we seek and which is found in many family controlled businesses. Subsequent to the end of the quarter we have sold this position at a loss.

All told, seven of our top ten holdings are family controlled or, in our opinion, have maintained that type of culture which we feel bodes well for future returns.

Oil Prices – Since September 30, sharply lower energy prices have caused several of our holdings involved in energy infrastructure to sell off considerably. We are confident and relaxed relative to other investors in these names due to our confidence in their resilience as well as their long term prospects. We will go into more detail on these energy related names in next quarter's newsletter.

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

[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
9/30/2014	39.1	26.5	62	8.81%	8.09%	8.34%	0.82%	8.80%	10.42%
2013	37.2	23.0	55	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%	14.13%	18.55%
2001	7.4	6.8	18	6.92%	5.86%	(11.89%)	6.23%	13.85%	16.71%
2000	6.8	6.3	15	14.37%	13.33%	(9.10%)	4.48%	13.33%	17.42%
1999	6.4	5.7	14	8.80%	7.77%	21.04%	10.61%	12.57%	16.52%
1998	6.3	5.5	14	5.17%	4.00%	28.58%	5.61%	12.07%	16.01%

***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 September 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 September 30, 2014. 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 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.

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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 September 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 September 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 September 30, 2014; and
- the Firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards as of September 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
March 5, 2015