South Atlantic Capital Management Group, Inc.

Investment Management

March 31, 2019 Portfolio Review

COMPOSITE PERFORMANCE SUMMARY

South Atlantic Capital (SACMG) Core Equity Composite versus S&P 500 and Russell 1000 Value

Annualized as of 3/31/3019

	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years	Since Inception*	Total Return Since Inception*
SACMG Core Equity (gross)	12.47%	15.48%	8.95%	15.24%	9.50%	10.37%	13.13%	2782.29%
SACMG Core Equity (Net)	11.32%	14.32%	7.87%	14.11%	8.45%	9.30%	12.02%	2105.36%
S&P 500[2]	9.49%	13.51%	10.91%	15.92%	8.57%	6.04%	9.48%	1080.90%
Russell 1000 Value	5.69%	10.46%	7.72%	14.52%	7.64%	6.63%	9.84%	1190.34%

**Inception date of South Atlantic Capital's composite is 1/1/1992.*

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 previous independent verifier, has verified South Atlantic Capital's compliance on a firm-wide level for the period of January 1, 1992 to September 30, 2016. ACA Performance Services has verified our firm-wide compliance for the period of September 30, 2016 to June 30, 2018. All returns are net of management fees and include reinvested dividends and interest. Past results are not indicative of future investment results.

Our Core Equity Composite's net return for twelve months ended March 31, 2019 were 11.32% versus a 9.50% return for the S&P 500.

Composite returns gross and net of fees are populated on PSN's database which is one of the largest databases used by institutions, and high net worth individuals searching for portfolio managers. We're pleased that for the year ending March 31, 2019 our gross returns were in the top 7% for the 248 large cap core managers on the database and top 3% of the 253 large cap value managers on the database. Net of fees, our 12 month returns are in the top 12% and 5% respectively. Since inception against our best year group, large cap core managers, our gross returns rank in the top 1% against these managers and our net returns rank in the top 6%. Other managers on the database include firms such as JPMorgan, Alliance Bernstein, Goldman Sachs, UBS Asset Management, and Deutsche Bank.

Are Growth Stock Valuations Underpinned by Reality?

Since the credit crisis in 2008, annual returns for value stocks, which are stocks trading at low multiples of earnings, cash flow, or book value, have badly trailed returns for the broader market, particularly those for growth stocks. Our analysis shows that through May 24, 2019 the ten- year annualized return for the Russell 1000 value index was 13.05% badly lagging the Russell 1000 Growth Index's return of 16.24%.

According to Rick Friedman at Grantham Mayo Van Otterloo and Company, a leading value investing firm, the Russell 3000 Value Index has underperformed the broader market as measured by the Russell 3000 Index by 2.0% per year since the last cycle began in 2007. This a quite a reversal from the 1.1% outperformance by value stocks since the index's inception in 1978 through 2006.

Our view is that when markets get exuberant valuation guidelines which can underpin asset values in more rational markets are disregarded and that protection for investors is lost. For example, useful guidelines for residential real estate values are cash flow yields in the form of rent versus market value or prices relative to replacement cost which both tend to put a floor under real estate prices.

These guidelines which can limit your downside risk if factored in to the prices you pay were thrown out the window during the real estate bubble when prices rose well above what those benchmarks would indicate were fair values due to speculation that housing prices could only go up regardless of housing affordability, your ability to rent out your house and generate positive cash flow or price relative to replacement cost. This speculation turned out badly. While we certainly didn't see the credit crisis coming, we were advising any client who asked that their real estate holdings were overvalued based on paltry, historically low income or cash flow yields relative to what you could get on a ten year government bond at the time of 5%.

It's worth considering whether something similar (although probably not as drastic) is occurring today in the wide disparity between price levels for growth stocks relative to value stocks. What would a rational buyer pay for the entire company? That is a valuation benchmark that can guide you on a reasonable price to pay for shares representing ownership in that company. Does that guideline provide a floor close to what you're paying for a growth company today?

We were glad to have 2 large holdings increase in price substantially after offers to buy the companies were made well above our cost. Does that same protection exist for an investment in Netflix which as of June 24, 2019 has a market value of $163 billion and negative cash flow? Years ago, when Netflix had a much lower valuation, Bob Iger the CEO of Disney approached Netflix about a transaction which never came to fruition. Today, Disney has decided it's smarter to start their own streaming service rather than buy Netflix. So has Apple, Amazon, and AT&T/ Time warner. Companies that all had the scale to buy Netflix. Do investors in Tesla have that protection? Apparently not as many major car companies are spending large sums to start their own electric car production as opposed to trying to buy Tesla. When investors started paying prices for real estate well above replacement cost and with anemic or negative free cash flow yields they were moving out of the realm of investors and into the realm of speculators in our view and we would say the same about many of the growth companies whose outsized returns have driven so much of the market returns recently.

Worst 5 Quarterly Performers		Best 5 Quarterly Performers	
CVS Health	(17.1%)	Moodys	29.7%
Fox Class A	(9.0%)	Oaktree	27.0%
CF Fund	(5.4%)	Lennox B	24.4%
Berkshire B	(1.6%)	Apple	20.9%
Disney	1.1%	Enterprise Products	20.2%

If you are interested in hearing more about the investment philosophy of South Atlantic Capital, please join us on **Wednesday Aug. 7th at the Cape Fear Country Club's Founder's Room from 5:30 pm – 7:30 pm**. This will be an informal gathering. Any non-clients are asked to call our office (910) 763-4113 to register.

Please feel free to contact us if you would like further information or if you would like to schedule a time to discuss our investment philosophy. Let us know if your financial position has changed significantly. Please note that if you distribute more than 6% of your account annually, you run the risk of a declining account value.

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.*

Russell Value 1000 *seeks to track the investment results of an index composed of large and mid capitalization US Equities that exhibit value characteristics*

Returns are presented gross and 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.

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