South Atlantic Capital Management Group, Inc.

Investment Management

June 30, 2019 Portfolio Review

COMPOSITE PERFORMANCE SUMMARY

South Atlantic Capital (SACMG) Core Equity Composite versus S&P 500 and Russell 1000 Value
Annualized as of 6/30/2019

	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years	Since Inception*	Total Return Since Inception*
SACMG Core Equity (gross)	11.81%	18.59%	10.82%	15.15%	10.40%	10.74%	13.58%	3219.72%
SACMG Core Equity (Net)	10.70%	17.42%	9.73%	14.02%	9.34%	9.66%	12.47%	2434.51%
S&P 500[2]	10.42%	14.20%	12.46%	15.61%	9.32%	6.32%	9.87%	1232.43%
Russell 1000 Value	8.48%	10.19%	8.95%	13.97%	8.34%	6.68%	10.17%	1335.10%

**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 December 31, 2018. All returns are net of management fees and include reinvested dividends and interest. Past results are not indicative of future investment results.

WHAT'S NEXT FOR EQUITY INVESTORS?

Two things are top of mind for equity investors, a market downturn due to a recession or a market downturn due to excessive valuations.

I wouldn't lose sleep wondering if a recession will happen sometime in the future, it will since recessions are a natural part of the business cycle. However, who knows when. It's important to keep in mind that the long term returns for the market of 8-9% include the periods of recession. In other words, we believe you don't have to thread the needle and hold cash during every recession to generate attractive long- term returns.

Maybe more importantly, the long term returns for the average investor significantly trail market returns according to Dalbar and Associates. For the 30 year period ended 2016, they found that the average equity investor earned an annual return of 3.98% versus the 10.16% return for the S&P 500 and for the 20 year period ended the same year, the average equity investor return was 4.79% versus 7.68% for the S&P 500 , both implying that the average investor is not very good at timing markets.

There have been three recessions since 1990 as outlined below.[1]

[1] Wikipedia is the source of the timing and extent of the three recessions since 1990.

From July 1990-March 1991, the economy suffered a peak to trough downturn of **-1.4%** and had a modest twelve month trailing P/E of **15.31**[2] t the beginning of the period (January 1, 1990). For the 1990-1991 period, the S & P 500 generated a cumulative gain of 28%.

From March 2001- November 2001, the economy suffered a mild recession of **-.3%** caused by 9/11 and had a P/E ratio for the trailing twelve months of **27.55%** on January 1, 2001. This recession coincided with the collapse of the dot-com bubble which had led to abnormally strong annual returns for the S&P 500 from 1995-1999. The combination of excessive valuations and a mild recession led to a large cumulative loss from 2000-2002 of 43%.

From December 2007 through June 2009, during the credit crisis, the economy suffered a severe downturn of **5.1%** and began 2008 with a trailing twelve month PE ratio of **17.36**. The cumulative loss for 2008-2009 was 15%. According to Yardeni Research, the trailing twelve month P/E ratio for the S&P 500 using reported earnings was **19.7**, a level that we think implies an environment where active value managers could provide downside protection.

As active managers, we thought it would be interesting to review how much downside protection active managers provided during these periods, particularly value-oriented managers.

	1990-1991	2000-2002	2008-2009
Cumulative S&P 500	+28%	-43%	-13%
Cumulative Large Cap Growth[3]	+38%	-71%	-2%
Cumulative Large Cap Value[3*]	+21.5%	-20%	-15%
Our Core Equity Composite[4]	NA	+13.2%	+6.1%

We draw some general but not conclusive insights from these tables. Active management seems to provide little downside protection from recessions. However, we see excessive valuations as a more significant risk to long term returns than recessions and in the 2000-2002 downturn, by far the most significant multi- year downturn since 1990, active value managers did provide significant protection for investors.

More information as to why we think our approach has provided protection in down markets is available on our website.

OUR PORTFOLIOS

Currently, we have approximately 15% in cash and cash equivalents and after the merger of Oaktree and Brookfield we expect that to be closer to 18%. This was done not because of a fear or prediction of recession but because some holdings no longer met our goal for future returns, mostly due to price appreciation and in the case of CVS Health a deteriorating balance sheet and lost confidence in management. We think being disciplined about executing our investment strategy provides protection to clients.

[2] All trailing twelve month P/E ratios are sourced from Robert Shiller's book "Irrational Exuberance".

[3-3*] Large Cap Growth and Large Cap Value returns per Fidelity.com represent the average of The Russell 1000 Growth Index and the Lipper Index of Large Cap Growth Funds and the average of the Russell 1000 value Index and the average of the Lipper Large Cap Value Index respectively.

[4] The inception date of our Core Equity Composite is December 31, 1991.

We will probably trim a large position in money center banks because the possibility of lower rates means we are not as optimistic about future earnings growth through rising loan margins and operating leverage. However, we continue to like U. S. money center bank stocks which are gaining market share as the European Global Universal Banks such as Deutsche Bank, BNP Paribas, UBS and others continue to struggle. They also have broad, stabile earnings through wealth management and investment banking and are less vulnerable to lending margins than regional banks.

We also think they will benefit overtime from what we consider market dislocations as their valuations are skewed downward versus momentum oriented stocks which have thrived in the current environment where passive investing is the marginal buyer driving prices. According to Oppenheimer analyst Chris Kotowski, Bank of America earns more than momentum oriented stocks Amazon, PayPal, Intuit Booking, Holdings, Salesforce, Netflix, and ADP combined but their market value is only 17.7% of those companies. At around 10 times next year's earnings the bank stocks trade at historical discounts to the S&P 500 which trades at approximately 18 times forward earnings expectations.

Worst 5 Quarterly Performers		**Best 5 Quarterly Performers**	
Cars.com	(13.5%)	Arconic	35.1%
Boeing	(4.0%)	Disney	25.8%
Lennar	(1.5%)	Carmax	24.4%
Liberty Media	(1.0%)	Allergen	15.1%
Enterprise	(0.7%)	CF Fund	15.1%

Downside Protection

In terms of future market downturns, we don't think you can invest successfully by insisting on positive short term returns. We believe you need to make decisions based on your confidence in three year returns not three month returns. As opposed to market timing, this helps achieve compounding of your capital which Albert Einstein has called the 8th wonder of the world. What we try to do through our investment strategy is invest in equities in a risk averse way which tends to provide downside protection in bad markets which we think helps clients stay invested and compound their capital.

We try to provide this protection by closely monitoring positions, particularly for excessive valuations, as well as focusing on companies that can withstand and benefit from downturns which are inevitable. Many investors take a different approach. They seem to think a recession will almost immediately affect the prospects for every company in the market much like the eggs in an omelet quickly cover the bottom of the saucepan and want to sell everything.

We don't think it works that way. Some companies will fare better than others in a downturn. Some companies' earnings will hold up better and some companies will have stronger balance sheets and better access to funds as assets become more attractive which can provide something of a floor in downturns and typically increases the companies' long term value through cheap acquisitions or share buybacks. We estimate that 67% of the portfolio currently would have strong access to funds if a recession started tomorrow and could buyback a significant amount of shares, 15% would have some access to excess funds and approximately 18% is held in cash and cash equivalents. Basically, what that means is the more the stock price drops, in the short term for the companies in the portfolio, the more you will own of these quality companies in the long term.

Back to the omelet example, deterioration in the economy won't cover the saucepan for the alternative asset managers we own, Brookfield Partners and Ares Management. Economic deterioration would provide opportunities for the roughly $105 billion in dry powder the two companies hold in total out of the $617 billion they manage. Furthermore, a recession would most likely lower interest rates supporting the current trend where pension funds and others are increasing their allocation to alternative asset managers since ultralow rates make it very difficult for them to meet their long term pension obligations through investments in conventional credit.

Other Matters

While we think it's important to focus solely on investment returns which we think is the straw that stirs the drink for an enjoyable retirement, there are other things clients unfortunately need to consider. Long term care insurance for example where the average cost of a facility is $75,000 annually and the average need is 3 years, can protect your net worth and any goals you might have to leave your estate to heirs or charity particularly if you want to protect your assets from being on the wrong side of average. Not the most fun subject in the world but if you want or need to consider it, we would prefer to steer you towards people we trust since as there are many overvalued stocks there are many overvalued insurance professionals.

Secondly, if you expect that your estate will be liable for significant estate taxes which will likely have to be paid by selling appreciated stocks creating additional tax liabilities you could look into borrowing somewhat modest amounts against those stocks to pay the premiums for a life insurance policy. In many cases, those proceeds would not be subject to taxes and under different scenarios you would have generated those funds at attractive returns by paying premiums on a life insurance policy.

Lastly, please let us know if there has been any material change in your financial position that might prompt a change in your financial objectives.

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.

South Atlantic Capital Management Group, Inc. Verification and Core Equity Composite Performance Examination Report

December 31, 2018

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PERFORMANCE SERVICES

Verification and Performance Examination Report

Mr. Edward D. Nowell, President
South Atlantic Capital Management Group, Inc.

We have verified whether South Atlantic Capital Management Group, Inc. (the "Firm") (1) has complied with all the composite construction requirements of the Global Investment Performance Standards (GIPS®) on a firm-wide basis for the periods from October 1, 2016 through December 31, 2018, and (2) designed its policies and procedures to calculate and present performance in compliance with the GIPS standards as of December 31, 2018. We have also conducted a performance examination of the Firm's Core Equity Composite for the periods from October 1, 2016 through December 31, 2018. The Firm's management is responsible for compliance with the GIPS standards and the design of its policies and procedures and for the Core Equity Composite's compliant presentation. Our responsibility is to express an opinion based on our verification and performance examination. We conducted this verification and performance examination in accordance with the required verification and performance examination procedures of the GIPS standards. We also conducted such other procedures as we considered necessary in the circumstances.

In our opinion, the Firm has, in all material respects:

- Complied with all the composite construction requirements of the GIPS standards on a firm-wide basis for the periods from October 1, 2016 through December 31, 2018; and
- Designed its policies and procedures to calculate and present performance in compliance with the GIPS standards as of December 31, 2018.

A verification covering the periods from January 1, 1992 through September 30, 2016 was performed by another verification firm, whose report expressed an unqualified opinion thereon.

Also, in our opinion, the Firm has, in all material respects:

- Constructed the Core Equity Composite and calculated the Core Equity Composite's performance for the periods from October 1, 2016 through December 31, 2018 in compliance with the GIPS standards; and
- Prepared and presented the Core Equity Composite's accompanying compliant presentation for the periods from October 1, 2016 through December 31, 2018 in compliance with the GIPS standards.

A performance examination of the Firm's Core Equity Composite covering the periods from January 1, 1992 through September 30, 2016 was performed by another verification firm, whose report expressed an unqualified opinion thereon.

This report does not relate to or provide assurance on any composite compliant presentation of the Firm other than the Firm's Core Equity Composite.

ACA Performance Services, LLC

ACA Performance Services, LLC
August 26, 2019

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
2018	46.1	36.2	77	1.52%	0.51%	-4.38%	0.72%	12.74%	10.80%
2017	41.6	37.6	77	23.79%	22.57%	21.83%	1.20%	13.43%	9.92%
2016	35.6	29.7	71	10.66%	9.56%	11.96%	1.63%	12.81%	10.59%
2015	42.0	23.4	70	(4.41%)	(5.36%)	1.38%	1.11%	11.57%	10.47%
2014	40.7	26.8	67	8.19%	7.16%	13.69%	0.98%	7.99%	8.97%
2013	37.2	23.1	55	26.97%	25.77%	32.39%	2.15%	9.88%	11.94%
2012	28.6	17.3	46	13.02%	11.94%	16.00%	1.69%	11.19%	15.09%
2011	25.3	15.2	42	3.63%	2.59%	2.11%	2.48%	15.55%	18.71%
2010	22.0	14.4	40	20.19%	19.00%	15.06%	3.42%	17.94%	21.85%
2009	18.6	13.0	36	46.20%	44.76%	26.46%	5.32%	17.26%	19.63%
2008	12.4	8.4	38	(25.98%)	(26.68%)	(37.00%)	2.30%	12.59%	15.08%
2007	17.4	11.9	37	(1.90%)	(2.82%)	5.49%	3.03%	9.31%	7.68%
2006	22.4	12.6	36	12.11%	11.12%	15.80%	2.52%	8.75%	6.82%
2005	12.4	10.8	33	0.78%	(0.16%)	4.91%	3.12%	11.08%	9.04%
2004	12.3	11.1	30	20.38%	19.25%	10.88%	3.37%	12.60%	14.86%
2003	9.2	8.5	23	35.31%	33.93%	28.68%	4.38%	13.67%	18.07%
2002	6.9	6.4	21	(3.21%)	(4.22%)	(22.10%)	6.43%	14.21%	18.55%
2001	7.6	6.7	17	5.18%	4.14%	(11.89%)	2.36%	14.06%	16.71%
2000	7.1	5.9	14	13.89%	12.86%	(9.10%)	3.77%	13.65%	17.42%
1999	6.4	5.4	13	8.94%	7.89%	21.04%	10.61%	12.67%	16.52%
1998	6.5	5.4	13	6.11%	4.93%	28.58%	5.60%	12.07%	16.01%
1997	5.1	4.7	11	41.04%	39.60%	33.36%	5.15%	11.12%	11.14%
1996	3.6	3.3	8	23.65%	22.40%	22.96%	3.34%	11.76%	9.58%
1995	2.9	2.7	6	48.47%	47.05%	37.58%	3.31%	10.46%	8.22%
1994	2.0	1.9	5	7.76%	6.69%	1.32%	8.02%	11.05%	7.95%
1993	1.8	1.7	4	23.26%	22.05%	10.08%	3.33%		
1992	1.3	1.2	3	13.88%	12.87%	7.62%	0.00%		

**Three Year Annualized Ex-Post Standard Deviation, Total Firm Assets and Composite Dispersion provided for full year-end periods only.*

<u>Core Equity Composite</u> 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, 1992 to September 30, 2016 and by ACA Performance Services for the periods September 30, 2016 to December 31, 2018.

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, 1992 to December 31, 2018. 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 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.

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. Effective 12/1/1992 - 7/1/2014, net of fee performance was calculated using actual management fees. In 2014, South Atlantic Capital switched to a new database reporting software and switched our composite fee calculation methodology to using the highest fee in the composite, 1.0%, effective 7/1/2014 - Present. 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. As of December 31, 2014, less than 1% of composite assets represent non-fee paying accounts.

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. 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 were calculated based on net returns prior to 12/31/2014, and gross of fees beginning 1/1/2015. 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 $5,000,000 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.