

South Atlantic Capital Management Group, Inc.

Investment Management

June 30, 2025 Portfolio Review

COMPOSITE PERFORMANCE SUMMARY

South Atlantic Capital (SACMG) Core Equity Composite¹ versus Russell 1000 Value and S&P 500
Annualized as of 9/30/2024

	1 Year	3 Years	5 Years	10 Years	Since Inception (1/1/1992)	Total Return Since Inception
SACMG Core Equity (Gross)	29.05%	14.21%	14.68%	10.09%	12.59%	5,221.17%
SACMG Core Equity (Net)	27.78%	13.07%	13.54%	8.99%	11.48%	3,817.15%
Russell 1000 Value ²	13.70%	12.83%	13.98%	9.21%	9.98%	2,258.21%
S&P 500 ³	15.16%	19.82%	16.70%	13.67%	10.54%	2,873.74%

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® Reports, which are available upon request by calling (910) 763-4113, or emailing info@southatlanticcap.com. All returns include reinvested dividends and interest. Past results are not indicative of future performance.

Attached is our most recent GIPS verification through December 31, 2023, including the GIPS Composite Report for our Core Equity Composite (as well as necessary disclosures).

Recent Performance

Our performance over the past year was well ahead of the market. Our one-year net returns were 27.78% versus 13.70% for the Russell 1000 Value and 15.16% for the S&P 500.

Certainly, part of the large excess return was due to a rebound in price for two positions that had performed poorly in the past two years in addition to continued strong returns for several other positions as their stock price now more accurately reflects our view of their business prospects,

Our top 5 and bottom 5 performing stocks for the period January 1, 2025, through June 30, 2025, are outlined below.

	<u>Top 5</u>		<u>Bottom 5</u>
Ardagh	70.4%	Enterprise	2.1%
Phillip Morris	54.4%	Warner Bros	5.1%
Vinci	47.1%	Berkshire	7.2%
Oracle	31.6%	Prudential	7.8%
Cf Industries	21.5%	Brookfield	7.8%

We believe many companies in the portfolio still have very good prospects, but we are holding higher cash levels than normal due to a lack of sufficient options to fully diversify the portfolio with companies that meet our investment criteria as discussed below. We think it would be a big mistake to extrapolate recent returns into the future and be in a hurry to buy anything. In fact, we believe it's a time when investors will be better rewarded in the long term by patience than rapid activity.

Peer Comparisons

As mentioned above, (below the performance table), we claim compliance with the Global Investment Performance Standards (GIPS). Our Core Equity Composite performance has also been independently verified since its inception January 1, 1992 through December 31, 2023, with 2024's verification underway. GIPS exists to create a standardized way of presenting investment performance so that current and prospective clients can make fair comparisons between firms. It also provides more transparency and trust in past performance than firms who aren't GIPS compliant.

We then submit our composite performance to PSN Informais for peer comparisons and analytics. PSN Informais has been well known for its extensive financial database since 1984 and focuses on separate account managers such as ourselves. It allows peer comparisons among more than 2,800 firms and over 2,200 products. Our strategy is placed in the category of Large Cap Domestic managers and more specifically Large Cap Value.

Our performance for the past year, again, partly due to two poorly performing stocks that have rebounded, ranked in the first percentile both gross and net of fees compared to 685 Large Cap managers on the database for that period and in the top 1% compared to the 217 Large Cap Value managers on the database. Since the inception of our strategy January 1, 1992, we rank in the top 6% of the 108 managers focused on Large Cap who have been on the database for that entire period and in the top 5% of the 39 Large Cap Value managers. Much of that is due to our downside capture ratio which measures how we compare to the S & P 500 during quarters when the index has negative returns. Since inception we rank in the 2nd percentile versus the 108 Large Cap managers on the database with an average downside capture of 56.79%. What that means is that in any down quarter for the S&P 500 since January 1, 1992, our average downturn during those quarters has been only 56.79% of the decline for the S&P 500.

We are pleased to have outperformed the market since our inception as the clear majority of active managers haven't been able to do that over the long term. Other Large Cap managers on the database include those at Goldman Sachs, JPMorgan, Alliance Bernstein, UBS, Morgan Stanley, T. Rowe Price, Brown Advisory, Brown Brothers Harriman, and Lazard Asset Management.

From Warren Buffett's 1997 Shareholder Letter:

In his book "The Science of Hitting", Ted Williams, who is widely recognized as one of the greatest hitters in baseball history, wrote that he carved the strike zone plate into 77 baseball

sized cells. He strongly believed if he only swung at balls in his best zones, he would hit 400 and enter the Hall of Fame. If he swung at his worst balls, the low and away fast ball, he would hit .230 and get a ticket to the minors.

Buffett went on to say in his 1997 Shareholder Letter, "If they are in the strike zone at all, the business "pitches" we now see are just catching the lower outside corner. If we swing, we will be locked into lower returns. But, if we let all of today's balls go by, there can be no assurance that the next ones we see will be more to our liking".

Much like Buffett in 1997, which was not long before the dotcom bust caused significant declines in the S&P 500, **we consider a great deal of the pitches being thrown at us today to be low and away fast balls.** Recently, we have been happy to add to our existing cash position by selling some investments that no longer met our criteria and are waiting for better opportunities.

While patiently waiting for better opportunities, Buffett also recommends ignoring anyone in the stands yelling swing you bum. His returns have benefited from not feeling the need to always be fully invested. We think this has also helped our returns outperform the market since the inception of our strategy on January 1, 1992, more than thirty years ago.*

In large part, finding companies in your circle of competence, so you can assess future earnings with confidence, which also trade at a discount to their fair value is what constitutes fat pitch investing. **Investing in popular stocks whose prices have benefited from excessive hype, which we feel exists today regarding AI investing, is the opposite of waiting for a fat pitch.** However, we don't believe today's environment suffers from overvaluation to the same degree as the 1998-1999 period just prior to the dot-com bust of 2000-2002.

Massive policy uncertainty is another element in today's difficult investing environment. One thing that made Ted Williams such a great hitter, besides his great discipline, was his uncanny ability to "see the ball". In our view, widespread high valuations have created a difficult investment environment which isn't helped by the great policy uncertainty. We think investors are fooling themselves if they think they can clearly see where the ball is going in this environment, especially considering that even in more normal times forecasting has low odds of success.

We don't believe in trying to time markets and don't believe that it's a wise idea for individual investors. We would happily invest in a situation that met our criteria, but we do believe in being disciplined and patiently waiting for those criteria to be met. Our goal is to generate attractive long-term returns by investing in common stocks in a risk-averse way. Index funds don't have that option. They are constrained in that they must be fully invested all the time, regardless of the pitches being thrown at them. Something we think investors should be mindful of in today's environment. No one has to yell "Swing you bum!" They are always swinging.

Although we are approximately 75% invested, the chart below illustrates that stock prices of large cap U. S. stocks have increased much faster than their underlying earnings growth for the last **ten** years making it more difficult to find attractive investments. We hope and expect that our cash equivalents will serve as an option for better opportunities.

The analysis, shown in Figure 1, highlights that the increase in the P/E ratio for U.S. large-cap stocks has been **driven much more by large-cap growth stocks than value stocks**. Over the period, while both categories are more expensive, the P/E ratio for large-cap growth stocks increased by 69% versus only 23% for large value stocks. Since growth stocks dominate the S&P 500, investors need to understand this buildup in valuations is similar to the period prior to the dot-com bust of 2000-2002.

Figure 1 | U.S. Large-Cap and Large Growth Prices Have Risen Much Faster Than Their Earnings Over the Last 10 Years

	US LARGE GROWTH Russell 1000 Growth	US LARGE CAPS S&P 500	US LARGE VALUE Russell 1000 Value
Change in PRICE (P)	+300%	+186%	+86%
Change in EARNINGS (E)	+137%	+94%	+51%
Change in PRICE-TO-EARNINGS (P/E)	+69%	+48%	+23%
P/E as of 9/30/2024	36.5	27.5	20.6

Data from 10/2014 - 9/2024. Source: Morningstar, Bloomberg. Past performance is no guarantee of future results. The S & P 500 index includes the leading companies representing all major industries in the U. S. economy and is market cap weighted. The Russell 1000 Value index is also market cap weighted and measures the large-cap “value” segment of the U. S. equity universe.

Forward market returns are typically lower than historical averages when the market reaches elevated levels like today’s. In our view, at a minimum, investors need to adjust their expectations of future returns for stocks whose price increases have outrun their earnings growth for such a long period.

We thank you for your support, and please let us know if you have any questions or if your financial situation has changed.

Best regards,

Eddie Nowell

DISCLOSURES

¹**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 generally large cap value-oriented U.S. equities. 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 are invested in approximately 20-25 positions but have held fewer than 15 positions in the past.

²**Russell Value 1000 Index** is also market-cap weighted and measures the performance of the large-cap “value” segment of the US equity universe. This index originated in 1987.

³**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 market-capitalization-weighted index has over U.S. \$15.6 trillion indexed or benchmarked, with indexed assets comprising approximately U.S. \$7.1 trillion of this total. The index includes 500 leading companies representing all major industries of the U.S. economy and captures approximately 80% of all U.S. equities. Returns include the reinvestment of dividends.

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 are GIPS Reports 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 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 performance. An investor should further understand that future results may represent losses for account holders.

EDWARD D. NOWELL

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

Mr. Nowell has forty years of experience in the finance business. Since founding South Atlantic Capital in 1991, he has been the sole portfolio manager of our Core Equity Composite, which has outperformed the S&P 500 since its inception on January 1, 1992, and ranks highly among its peers in performance and downside protection during that time period. Recently, he was named a top 10 performing manager by PSN Informa among Large Cap Value managers for the 3rd quarter of 2021 and was named a top 10 Manager of the Decade among all Large Cap Managers at year-end 2012. Previously, he was an Assistant Vice President at Bankers Trust Company in New York. His primary responsibility was arranging bank financing for leveraged buyouts led by Kohlberg Kravis and Roberts, Forstmann Little, and other leading private equity firms. During business school he interned with Merrill Lynch’s Capital Markets Group in New York. Later, he served as an Institutional Fixed-Income salesman with Carolina Securities/ Prudential Bache and worked with Fox, Graham, and Mintz, Securities. He graduated from the University of North Carolina at Chapel Hill and received his M. B. A. from the Darden Graduate School of Business Administration at the University of Virginia.