South Atlantic Capital Management Group, Inc.

Investment Management

March 31, 2018 Portfolio Review

COMPOSITE PERFORMANCE SUMMARY

South Atlantic Capital (SACMG) versus S&P 500
Annualized as of 3/31/2018

	1 Year	3 Years	5 Years	10 Years	15 Years**	20 Years**	Since Inception*	Total Return Since Inception*
SACMG (gross)	23.80%	9.40%	12.46%	10.61%	11.25%	9.92%	13.35%	2462.90%
SACMG Core Equity[1] (Net)	22.57%	8.32%	11.36%	9.53%	10.17%	8.85%	12.24%	1913.31%
S&P 500[2]	21.83%	11.41%	15.79%	8.49%	9.92%	7.19%	9.61%	986.49%
Russell 1000 Value	13.66%	8.65%	14.04%	7.10%	9.56%	7.34%	10.22%	1156.43%

**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, 2016. All returns are net of management fees and include reinvested dividends and interest. Past results are not indicative of future investment results.

Our returns net of fees are outlined below and compared to the total return of the S&P 500. Returns for the quarter ended March 31, 2018 were (1.58%) net of fees, trailing the (.76%) total return for the S&P 500. Our longer term returns, ten year, fifteen year, twenty year, and returns since our inception in 1992, continue to exceed the returns for the S&P 500 by a significant margin. We feel these returns are more important to investors because they represent returns through market cycles and include the market downturns in 2000-2002 and 2008-2009.

Our worst 5 and best 5 performers were as follows:

Worst 5 performers		**Best 5 Performers**	
Arconic	-25.9%	21st Cent Fox	36.1%
JPM wts	-8.8%	Cf Industries	18.5%
Berkshire/B	-6.4%	Carmax	17.6%
Bank America	-5.2%	Enterprise Partners	14.8%
AT&T	-3.1%	Apple	10.8%

Review

While we could be and have been wrong more than once in the past in our assessment of a company's business prospects and value, I can't think of a time where the stock price of one of our holdings remained below our view of value forever when we were generally accurate in our assessment of the company's prospects. In other words, for several companies in the portfolio that we feel remain undervalued, **if** we are right in our analysis of their value, their stock prices should eventually reflect those values. A current, enjoyable example of a portfolio holding rising substantially in price to reflect our view of value is Twenty First Century Fox as Disney and Comcast have both voiced their opinion about the strategic value of Fox's assets by attempting to buy the lion's share of their assets at prices much higher than previously reflected in their stock price.

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While we are happy with how your portfolios are invested, our view is that risk in the investing environment has increased a good bit versus five years ago as stock prices have risen and interest rates (the primary alternative to stocks) have also risen and will likely rise further in our view. **Despite these risks, given our belief that the market is impossible to time, we won't engage in that and run the risk of generating the miserable returns generated over time by the "average investor" trying to do this.**

Rather than trying to time the market, what we try to do was well put in a recent letter to Barrons by Jim Chin.

"I have a long- held belief that good managers can add alpha (returns above the market) and good upside capture while delivering strong downside protection. Index funds deliver the upside and downside fully. Clients who have made money want to lose less in volatile markets. If one loses less on the downside, it's easier to preserve and grow assets. Managers who deliver alpha with downside protection allow clients to stay the course and stay invested. Cost is only a problem in the absence of value."

Risks

Rather than reviewing our portfolios in detail this quarter, we thought we would just highlight some general risks that clients may want to be aware of.

1. Interest rates are likely to rise. The Federal Reserve has indicated that they expect to increase short term rate levels from 1.75%-2% currently to 3% and possibly higher over the next 18 months. In addition, they will let approximately $50 billion per month in longer term mortgage bonds and treasury bonds in their portfolio mature going forward. They purchased vast amounts of bonds over the last few years after the credit crisis to lower rates and stimulate the economy. Private investors will have to refinance these bonds and will probably require a higher interest rate.

2. Artificially low interest rates induced by central banks around the world were intended to promote risk taking and help funds flow to riskier assets to promote growth. As that money and promotion of risk taking is withdrawn by central banks, risk assets should suffer as evidenced by the recent sell-off in emerging equity markets and in emerging debt. In addition, rising rates in the US strengthened the dollar putting pressure on emerging market countries that borrow in dollars at the same time the US government is increasing their debt issuance and further reducing the availability of dollars required by many emerging market countries.

3. Rising rates will, in our view, put more pressure on the finances of small cap companies than large cap companies since half of their debt is floating rate while just 11% of the debt of large cap companies excluding financials is floating. Furthermore, the average maturity of the fixed rate debt for large cap companies is approximately 11 years.

4. Artificially low interest rates have enabled a great deal of low quality debt to be issued in the US as investors searched for higher yields. UBS estimates there is over $2 trillion in junk rated loans that could be hurt by higher interest rates. They are primarily concerned with the estimated $1.1 trillion extended to issuers rated below bb.

5. We believe the rise in passive investing has led to inflated prices for a handful of companies. According to the Los Angeles Times April 9, 2017:

Conventional U.S. stock mutual funds that invest passively without regard to price or earnings prospects now hold $1.9 trillion in assets, triple what they had in 2007. Add in $1.7 trillion in U. S. equity exchange traded funds, another type of index portfolio and passively managed funds account for 42% of all U. S. stock fund assets up dramatically from 24% in 2010 and just 12% in 2000.

According to data from Morningstar, roughly similar amounts went into active and passive equity mutual funds from 2005 through 2011 but the flows into passive accelerated in 2012 while the flows into active funds began to decline and in 2015 turned into outflows. We feel this has created a very crowded trade in the large tech-oriented names which are more widely held by the ETF's and index funds who mechanically buy more as the prices of these companies rise and more money flows into passive funds.

With the amount of money flowing into momentum- based investing, not surprisingly, the market leaders, the 10 % of the companies with the highest p/e ratios, trade at a higher premium to the median p/e for the market than they have 95% of the time, according to Satya Prodhuman of Cirrus Research. It's not unlikely and in fact reasonable, in our view, that a bear market which most of this passively invested money has never seen will cause what's gone up a lot to go down a lot.

6. One of the primary tools to value a company is discounting future cash flows. In addition to the risks we see in the overvaluation of the high p/e stocks widely held by passive investors described above, discounting future cash flows at a higher rate for these growth stocks whose values are based so much on cash flows far in the future will theoretically have a much larger negative affect on the net present value of these stocks than it will on the high current free cash flow stocks that we focus on. In other words, the present value of cash flows for a growth stock is hurt much more by higher interest rates than the present value of cash flows for a value stock.

7. Similarly, we feel the growth in passively managed bond funds has caused distortions investors should bear in mind. The Bank of International Settlements has found that there is a link between the most highly leveraged companies and those firms weight in bond ETF's. The largest borrowers tend to be the most indebted. A bond issuer's weight in the Bank of America Corporate Index has a much closer relationship with that company's indebtedness than their size which is adverse selection in our view. As passive bond funds mechanically replicate the index weights in their portfolios of these highly indebted company's growth in the passive bond funds has generated demand for the debt of the more leveraged issuers. Demand for the debt of these companies won't stop defaults if they aren't able to service their debt.

Again, we try to be mindful of general risks to help us invest in the right securities, but we think it would be a big mistake for these risks to compel us to attempt to time the market.

Please feel free to contact us if you would like further information or if you would like to schedule a time to discuss our services.

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.

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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
2018*	N/A	38.4	76	5.97%	5.44%	2.65%	N/A	N/A	N/A
2017	41.6	36.9	76	23.79%	22.57%	21.83%	1.20%	13.42%	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%		

**Performance is for a partial year beginning January 1, 2018 and ending June 30, 2018.*

N/A – Total Firm Assets, Three Year Annualized Ex-Post Standard Deviation, and Composite Dispersion are provided for full year-end periods only.

***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, 1992 to September 30, 2016 and by ACA Performance Services for the periods September 30, 2016 to December 31, 2016.

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, 2016. 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. 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 account, 1.0%, effective 7/1/2014. 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.