South Atlantic Capital Management Group, Inc.

Investment Management

June 30, 2017 Portfolio Review

COMPOSITE PERFORMANCE SUMMARY

South Atlantic Capital (SACMG) versus S&P 500
Annualized as of 6/30/2017

	QTD	YTD	1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception*	Total Return Since Inception*
SACMG Core Equity[1] (Net)	(0.63%)**	7.67%**	21.86%	3.53%	9.36%	10.41%	7.48%	11.94%	1668.20%
S&P 500[2]	3.09%	9.34%	17.9%	9.6%	14.64%	15.41%	7.18%	9.35%	875.19%

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

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.

PERFORMANCE

As of June 30, 2017, year to date returns for our Core Equity Composite were 7.67% net of all fees and expenses compared to a total return for the S&P 500 of 9.34%.

Our five best and five worst performing positions for the quarter are outlined below.

Top 5 Performers		Bottom 5 Performers	
Boeing	+11.9%	Arconic	(14.5%)
Moody's	+9.4%	Scripps Network	(12.8%)
JP Morgan	+7.0%	Fox	(11.9%)
Franklin Resources	+6.6%	Tegna	(10.8%)
JP Morgan Warrants	+5.6%	CF Industries	(4.7%)

Since May 31, stock prices for our bank holdings, JP Morgan, Wells Fargo, and Bank of America have appreciated significantly. Recent Federal Reserve stress test results were a strong catalyst forcing investors to finally realize that banks are in great shape and have significant excess capital which they can return to investors:

	Share Buyback Approval	Dividend Increase Approval
JPMorgan	$19.4 billion	$0.49/quarter to $0.56/quarter
Wells Fargo	$11.5 billion	$0.38/quarter to $0.39/quarter
Bank of America	$12.0 billion	$0.075/quarter to $0.12/quarter

These large buybacks mean at today's share price JP Morgan can reduce their share count by 6%, Wells Fargo by 4%, and Bank of America by 5%. Along with further regulatory relief and rising net interest income, these increased buybacks will, in our view, accelerate earnings per share growth for these banks to levels above the broader market.

We expect higher net interest income will result from the Fed having already **raised short term** rates three times since December and we expect additional increases in short term rates. We also anticipate the Fed to begin reversing quantitative easing later this year by selling some of the $4 trillion in long term bonds they hold. This should **increase longer term rates** and further boost bank margins.

OTHER HOLDINGS

In our view, the market is comprised mostly of short-term investors who can create rain clouds over a stock that can last a maddeningly long time. The rain clouds are generally based on superficial news headlines that lead to market perceptions that are often wrong or exaggerated. It can be very frustrating

to have the patience for these fake clouds to be blown away by company fundamentals as finally happened for the bank stocks. But, if the headlines are inaccurate, the clouds can't last forever.

We feel several other large holdings that have been held back for quite a while by off base market perceptions will do well over the next six months **since there are near term catalysts for these perceptions to change.**

OAKTREE CAPITAL is one of the premiere distressed debt managers in the world. Growing acceptance for this investment strategy has generated higher allocations from their customer base of large pension funds and endowments. They are led by Howard Marks and Bruce Karsh, two very highly thought of investors with impressive long-term track records along with a deep bench of talented managers.

- In past cycles, they averaged earning approximately 80 basis points **(0.8%)** on assets under management (AUM) and have grown AUM by 5-10% per year historically. Earnings come from management fees, investment income and performance based incentive fees on certain funds. Incentive fees are paid only after limited partners have received distributions equal to their original investment plus an 8% return, **the distribution waterfall**. Approximately 90% of Oaktree's earnings are paid out as dividends. In the past two years, they earned just **0.53%** on managed assets, well below historical norms.

- The primary reason distributable earnings were only 53 basis points of AUM the last twelve months is where they are in the cycle. Although their funds are generating returns over 8% which creates incentive fees, just 10% of the funds that can earn incentive fees are at the "waterfall' stage where they are paid to the fund manager. **The catalyst for margins to return to normal is that a much higher percentage of their funds will soon be at a point in the cycle where incentive fees are paid.**

- Several recently realized investment gains means by the end of the third quarter a more normal level of performance based funds will start paying incentive fees. Investment realizations include the sale of Pierre Foods, which Oaktree took control of by buying their bonds in bankruptcy, for a profit of $2.2 billion or 23 times their money. Other gains soon to be realized include, assuming regulatory approval, Nexstar's purchase of Tribune Media where Oaktree is a large investor and an initial public offering for their shares in homebuilder Taylor Morrison another company they took control of by buying their bonds in bankruptcy during the credit crisis.

- If assets under management increase to $110 billion in 3 years and they earn a more typical 80 basis points on those assets that would result in approximately $6 per share of distributable earnings. In our opinion, that would justify a stock price of at least $72 versus $47 today plus a dividend of approximately $5.40 which would lead to total annual returns exceeding 20%.

ENTERPRISE PRODUCT PARTNERS is one of best run and one of the most well positioned mid-stream energy companies in the U.S. They provide transportation, processing, storage and export services to oil and gas producers. Though not reflected in their stock price, the management team led by Jim Teague maintained a strong balance sheet during the recent downturn in the oil and gas business enabling them to undertake several projects as well as a large acquisition. Together, this corporate activity has greatly increased long-term company value by enhancing Enterprise's importance to suppliers and consumers of oil and natural gas.

Lower oil prices have placed a cloud over the stock for the last three years. Despite increasing their dividend year and despite several projects, backed by long-term contracts, that will soon come online, short term investors driven by media headlines assume Enterprise's stock price should correlate with world oil prices. Our view is that this is very misguided and ignores what we expect will be strong earnings growth for Enterprise over the next several years despite low current oil prices. Given the quality of the company, we feel it's very cheap at less than 12x our estimate of next year's earnings in a market which trades for 18 times. We are certainly optimistic the stock price will be more reflective of the company's value over the next 6 months for the reasons outlined below.

- **60% of their earnings comes from natural gas liquids services. A 40+% expansion in the U.S. petrochemical industry is coming online regardless of oil prices** starting in the third quarter of 2017 through 2019-2020. The petrochemical industry is one of Enterprise's largest customers. They represent virtually all of U.S. ethane demand. Ethane represents a large portion of a barrel of natural gas liquids and relatively uninformed investors seem to ignore what this petrochemical industry expansion will do for Enterprise's earnings. Even at today's oil prices it's significantly cheaper to produce plastics from ethane than from Naphtha which is an oil derivative. This has driven the expansion in U.S. Petrochemical plants which are now one of the world's lowest cost producers of plastics and are expanding to meet increased world demand which is expected to grow 5% per annum as personal consumption grows in China and India. Many people expect an additional expansion wave for U.S. plastics companies in 2020-2022.

- U.S. ethane demand will increase from about 1.2 million barrels per day to about 2 million barrels per day as plants built by Exxon, Dow Chemical and others come online in addition to an increase in the export of U.S. ethane. Ethane is starting to be exported from the U.S. largely by Enterprise which has a new 200 thousand barrels per day export facility backed by long term contracts which ramps up to full capacity over approximately the next 18 months. **The new petrochemical plants will drive significantly increased volumes for:**
  - Enterprise's natural gas processing facilities to separate the liquids from the gas
  - Their natural gas liquids pipelines to transport the additional NGL's
  - Their fractionation facilities to separate the natural gas liquids into ethane propane, and butane
  - Their pipelines that transport the ethane to the new petrochemical plants

- Propylene is a by-product of petrochemical plants making ethylene. Significantly more propylene is produced as a by-product when these plants run their plants with oil instead of ethane. All the new ethane based production means there's a structural shortage of propylene and Enterprise built a $3 billion plant that should come online in the third quarter to make propylene out of propane. Plant production is backed by long term contacts to sell the propylene to their petrochemical customer base who needs it to make polypropylene. Again, current oil prices will not affect this new earnings stream.

- Oil prices are down primarily because of increased U.S. shale production which is coming largely from the Permian Basin where Enterprise has a strong and growing position. They have a new 450 thousand barrels per day oil pipeline coming online in early 2018 and a natural gas liquids pipeline of comparable size coming online in 2019. **Lower oil prices have created uncertainty over future prices which is causing U.S. shale oil to gain market share over longer-term international oil projects that have much higher upfront costs and much longer lead times. That's a good thing for Enterprise not a bad thing as it increases volumes on their pipelines.**

- Market share gains for U.S. shale could increase considerably in 2019 since 2018 is the last year of major international oil supply additions from the 2010-2014 capital boom in long term projects. After that, the 6% natural declines in production for existing wells should overwhelm reduced gross international supply additions. The oil industry continues to under invest for the third straight year. The International Energy Association estimates the industry is spending 2/3's of the estimated $600 billion per annum required to maintain production. With lower up-front costs and shorter lead times, U.S. shale is in an advantageous position to fill the void.

- The U.S. is now a cost-effective producer of oil and gas. Many international customers also see the U.S. as a more reliable supplier. This has led to large increases in exports which benefits Enterprise since, due to their strong financial position, they were able to further strengthen their industry leading export capabilities during the downturn. They are the largest exporter of crude and refined products exporting 1.032 million barrels per day in the first quarter which does not include the significant amount of natural gas liquids they export. Their export facilities have the capacity to export 4mm barrels per day with no additional capital and they are currently building a 1mm barrel per day facility to export crude from Corpus Christi.

- **The vast majority of increased U.S. oil production estimated as high as 4 million barrels per day over the next several years will have to be exported since refineries in the U.S. are configured to refine cheaper heavy crude while world refineries want the light sweet crude produced by U.S. shale companies.** The latest report by the Energy Information Association shows that oil exports to China were up to as much 500,000 barrels per day in April and May which could already be helping Enterprise's export facilities. Most of the growth in petrochemical company's production of plastics will also have to be exported and Enterprise is looking at a project to do that out of their 18-dock export terminal on the Houston ship channel.

- We certainly don't believe weak oil prices will keep Enterprise from significant earnings increases over the next several years. We estimate per share earnings in 2017 of $2.25 and a dividend of $1.72. We place a current value on the company of 15-16 times earnings or $34 to $36 per share versus the current $26 price. As ethane demand and shale oil volumes ramp up further, we estimate earnings will be above $2.75 by 2019.

TWENTY FIRST CENTURY FOX. The shares are considerably undervalued in our view given the quality of their domestic cable networks where they are dominant in news with Fox News the number one network on cable. They also have important sports content in both their broadcast network and various regional sports cable networks as well as the recently launched Fox Sports 1. Fox Sports 1 along with other newer Fox owned cable networks

such as FXX and National Geographic are still building subscribers and audience. Both news and sports are watched live and more valuable to advertisers who clearly prefer to advertise on content that is watched live.

Fox's strong international presence further reduces cord cutting risk. Star India, which they started 25 years ago, has a 25% market share of the pay television market. Pay television in India has substantial room for growth with 1.3 billion people but only 100 million homes that have pay television who currently pay only $3 per month. Fox's 39% interest in SKY Broadcasting, the dominant pay television company in Europe, is another valuable overseas asset much less subject to cord cutting. Sky's board has accepted Fox's roughly $15 billion offer to buy the remaining 61%. Over half of the acquisition will be paid for with existing cash. The offer is currently working its way through the regulatory process. If it closes in the first half of 2018 as expected this would significantly increase their already industry leading international presence.

- The obsession with cord cutting overlooks that Fox had a slight increase in subscribers the last two years because many of their networks are newer and gaining subscribers. Strong ratings allowed them to negotiate high single digit price increases per sub in their 3-5-year cable contracts. This led to cable operating profit growth in the last two years of 10% and 12% and 19% in the last quarter. **We feel these built in price increases along with so many new "skinny bundles" aimed at cord cutters and people that have never had cable, which all include Fox's networks, will help investors realize subscription revenue growth and operating profit will continue to be healthy as these skinny bundles gain traction.**

- Fox has assets with considerable value which currently generate no earnings due to currency headwinds in India and the start-up costs to launch Hulu's live "skinny bundle" offering. We estimate they have $3 per share of excess cash. Based on Time Warner paying $600 million for 10% of Hulu, and Vee, (the second leading media company in India) having a market value of $6.3 billion, we estimate those three assets have a value of $8 per share. Subtracting that from Fox's current $27 share price means you are paying about 9 times our $2.25 per share estimate of next year's earnings in market that sells for 18 times forward earnings. **Currency headwinds in India have abated which along with further operating growth should increase Star's operating profit substantially this year which will help the market start to recognize the value of these assets.**

- **The approval of the SKY Broadcasting acquisition sometime in early 2018 is another potential catalyst. Financed by cash on the balance sheet and debt it should increase earnings per share by about 15%.** It would also mean a higher percentage of the company's value is in assets where cord cutting is not a concern. After the acquisition, Fox's total enterprise value (market value of stock+ debt) would be $79 billion and SKY, their 30% interest in Hulu, and Star India are worth approximately $34 billion or 43% of that.

- Furthermore, as their audience shifts to the internet through the recent launcing of numerous "skinny bundles" and streaming apps, advertisers will pay much more for that audience since they will be able to target the ads. This is huge upside for their advertising revenues.

I'm sure this is more information than almost any client wants, but to avoid being shortchanged, I think it's important for people to realize that the market can put inaccurate stock prices on their investments for a long time. These undervalued prices are not where they should sell their shares even if the market itself becomes overvalued. Regardless, I promise, less detail on your holdings next quarter.

Please let me know if you would like more information or if you would like to schedule a time to come in and 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
6/30/2017	36.3	30.5	70	8.21%	7.67%	9.34%	0.81%	13.30%	10.21%
2016	35.6	29.3	69	10.68%	9.58%	11.96%	1.62%	12.81%	10.59%
2015	42.0	23.1	69	(4.45%)	(5.40%)	1.38%	1.14%	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 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, 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.