South Atlantic Capital

Management Group, INC.

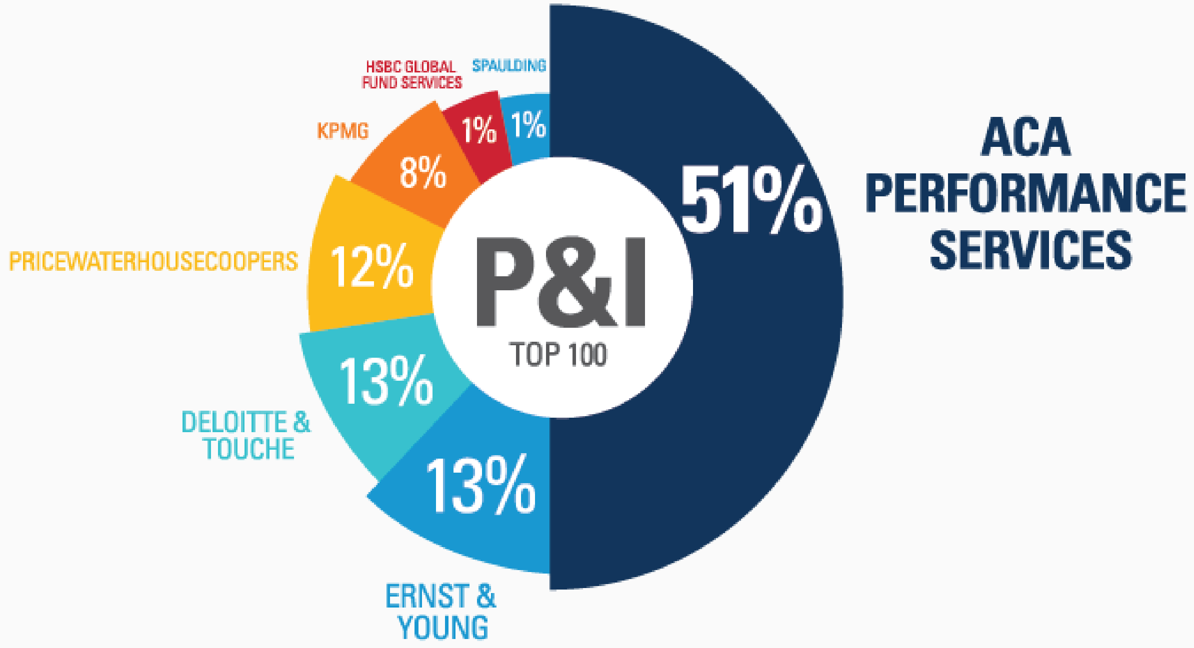
1. Firm Overview

- Research focused money management firm registered with the State of North Carolina and VA.
- Firm started beginning of 1992. Over our 26-year history we have navigated many cycles and market shocks including the emerging market crisis in the late 90’s, the dot-com bust in 2000 and the credit crisis in 2007.
- Our goal is to successfully invest in businesses by making long term investments in 20 -25 companies and outperform the market over a cycle
- Compound client’s capital overtime by investing in equities in a risk averse way
- We also manage balanced accounts with varying amounts of fixed income exposure.
- Most assets custodied at Charles Schwab and Company.
- Low turnover with average holding periods of approximately 3 years means lower taxes and average commission costs

2. ACA Compliance

ACA
COMPLIANCE GROUP
PERFORMANCE SERVICES

We are compliant with the Global Investment Performance Standards, GIPS. Our core equity composite's returns net of fees and commissions have been examined going back to 1992 by a combination of Ashland Partners and ACA Compliance which acquired Ashland in 2017. ACA gives in-depth review of data, methodologies, records, controls and disclosures to support calculating investment performance.



3. PSN Informais

PSN Informias

- After our core equity performance is reviewed and examined by ACA Compliance, the returns are submitted to PSN Informais' database which ranks the returns against more than 250 other Large Cap Core equity managers

- PSN is a global database of approximately 2,000 Investment Managers representing more than 20,000 domestic and international investment products, and is a division of Informa Investment Solutions, Inc.

- Being disciplined about sticking to our investment philosophy has helped our long-term returns through investment cycles compare favorably. Since inception in 1992 and for the last 10 years, our performance gross of fees ranks in the top 1% compared to the Large Cap Core managers on the database. Against Large Cap Value Managers, we rank in the top 1% for the last 1 year, 10 years and since inception.

- Other managers on their database include: Alliance Bernstein, BAM Investments, Capital Group, Deutsche Bank Private Wealth Management, Fidelity Institutional Asset Management, Goldman Sachs, JP Morgan, UBS Asset Management

4. Fee Structure

- Management Fees on Equities - 1% on accounts up to $5,000,000
- Negotiable after $5,000,000
- Management Fees on Fixed Income Assets - .5%
- Average Fee for a Registered Advisor is about .99% in 2016
- Many if not most have breakpoints
- According to Bloomberg News, additional expenses that you can end up paying for mutual / index funds and exchange traded funds within your account at brokerage firms and wealth management firms are outlined below. We avoid those fees by investing directly in companies.
    - actively managed equity mutual funds .89%
    - index mutual equity funds .12%
    - exchange traded funds .5%
- Blended wrap account fee for a $1,000,000 equity account placed with portfolio managers at four of the largest brokerage firms:
    - Firm 1 – 1.57 – 1.87%
    - Firm 2 – 2.75%
    - Firm 3 – 2.8%
    - Firm 4 – 2.5%

5. Investment Philosophy

- Focused on creating durable portfolios by making long term investments in companies with sustainable advantages and strong balance sheets as evidenced by our long term holding periods.

- Looking for a margin of safety by buying quality companies when they are trading for higher free cash flow yield than warranted

- Investment decisions will not be based on economic or market predictions. We manage risk by always assuming economic and market downturns will happen and look to buy durable companies that can withstand or benefit from downturns

- Do our own research. We spend the vast majority of our time trying to thoroughly understand the company and its industry. A disconnect between person doing the research and making the investment decision can lead to less conviction and more emotional mistakes

- Paying too much is a temporary mistake getting the company wrong is a permanent loss of capital

- 100% invested if we can find enough companies that meet our criteria regardless of market valuation. Cash is a residual of whether we can find 20-25 companies that meet criteria and has fluctuated from less than 3% to about 18%.

- Manage to a 10% hurdle rate

6. Downside Protection Is What Differentiates Us

- Avoid mistakes by investing in durable companies reasonably priced
- Strong defensive bias towards investing in companies that can withstand and take advantage of downturns
- Share buybacks lower investment risk on a per share basis
- 10% hurdle rate
- Don’t make relative value investments

7. How We Do In Down Markets

Cumulative Net Returns

	2000-2002	2008-2009
SAC	Gain of 13.2%	Gain of 6.1%
S&P 500	Loss of 37.6%	Loss of 19.7%

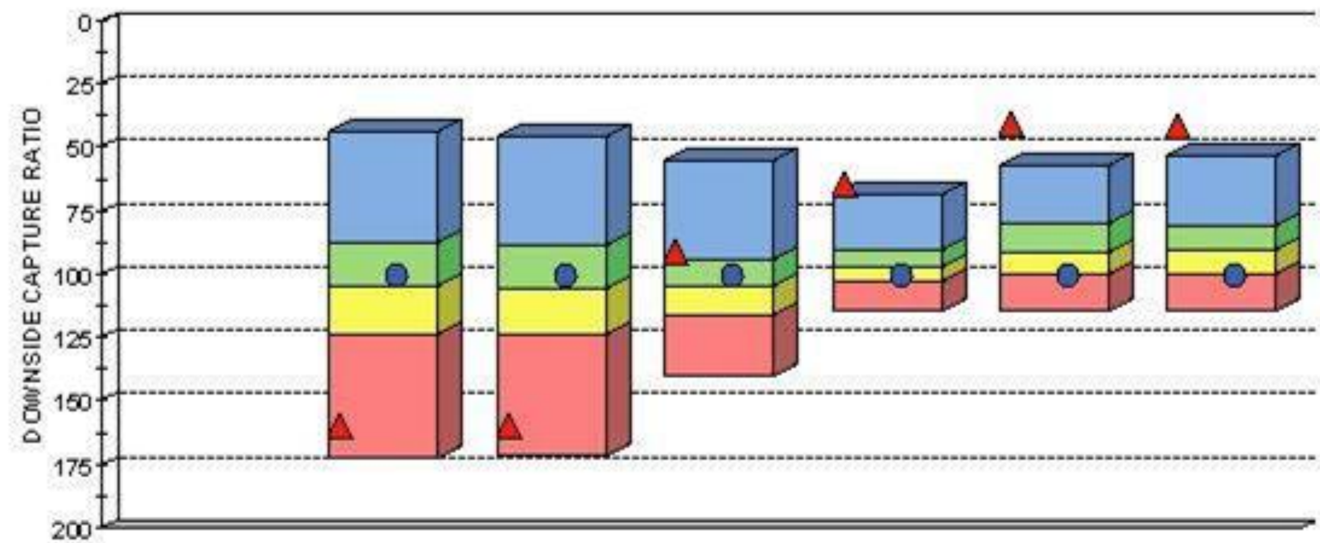
Valuation vs. Price

Margin of Safety

Strong Balance Sheet

PSN

SOUTH ATLANTIC SACM CORE EQUITY
QUARTILE RANKING BAR DOWNSIDE CAPTURE RATIO
PSN LARGE CAP
PERIODS ENDING DECEMBER 31, 2017



	1 Year	3 Years	5 Years	7 Years	10 Years	20 Years	Since Inception
HIGH (0.05)	N/A	49.79	45.80	55.10	63.71	58.94	53.94
FIRST QUARTILE	N/A	88.03	88.28	93.29	90.50	79.37	80.81
MEDIAN	N/A	105.03	105.24	104.59	97.82	91.31	90.09
THIRD QUARTILE	N/A	123.73	123.73	118.79	102.49	99.89	99.79
LOW (0.95)	N/A	172.38	171.29	140.45	114.43	119.39	114.59
MEAN	N/A	108.53	108.30	103.21	95.94	89.49	89.77
VALID COUNT	433	390	345	378	791	943	188

	1 Year		3 Years		5 Years		7 Years		10 Years		20 Years		Since Inception	
	VALUE	RANK	VALUE	RANK	VALUE	RANK	VALUE	RANK	VALUE	RANK	VALUE	RANK	VALUE	RANK
South Atlantic SACM Core Equity	N/A	N/A	180.40	97	180.40	97	91.31	22	65.20	1	40.78	1	41.33	1
Standard & Poor's 500	N/A	N/A	100.00	44	100.00	44	100.00	53	100.00	84	100.00	73	100.00	79

9. Defensive Bias

DEFENSIVE BIAS TENDS TO AVOID PERMANENT LOSSES OF CAPITAL AND PROVIDE LIQUIDITY WHEN STRESSED MARKETS CREATE BETTER OPPORTUNITY…VERY HELPFUL TO RETURNS

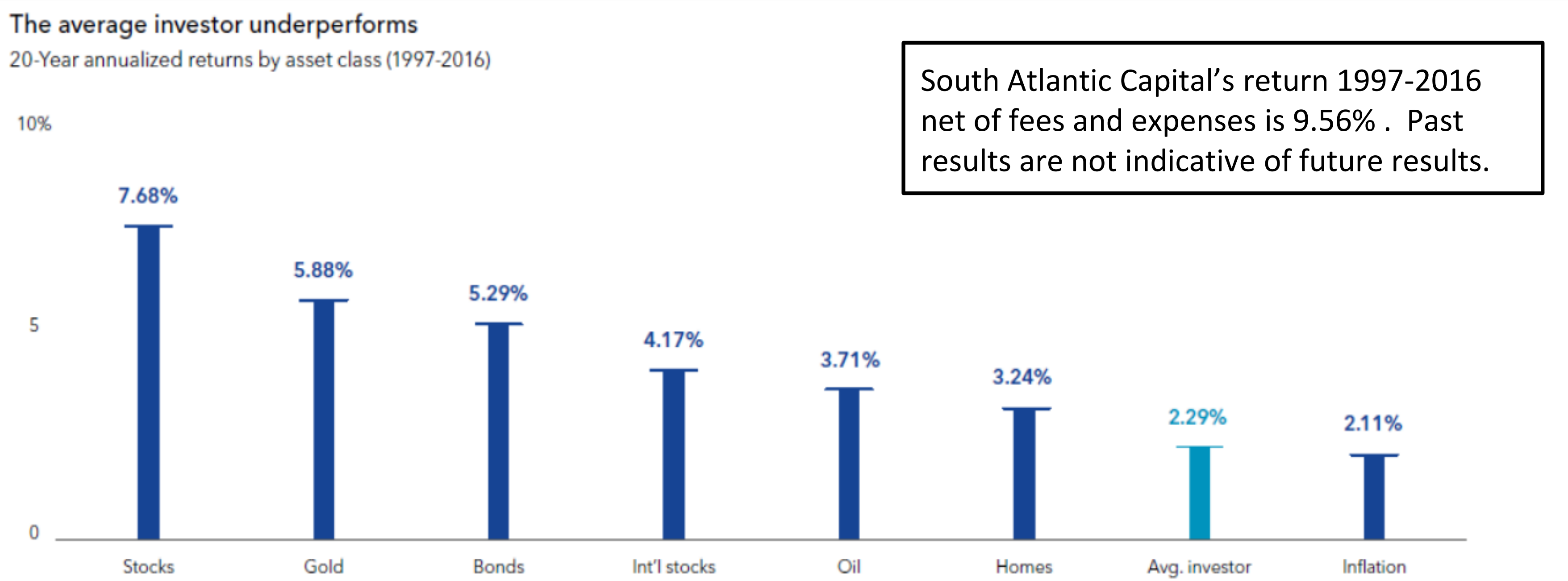
- **Example 1** - If you have funds available during downturns and find a company trading for 70% of its intrinsic value of 15 times earnings of $1 per share which grows its earnings by 7% annually, your 5- year annual return is **14.9%.**
  Year 1 - $10.50
  Year 5- $21.03> 14.9% annual return

- **Example 2-** To achieve 5-year annual return of 8% if you suffer a 20% permanent loss in year 1 requires a return on the remaining 70% of your capital over the next 4 years of **20.4%** which is way above historical returns --- *Good Luck.*

- Under the same 30% permanent loss in year 1 scenario, to achieve the 14.9% five- year return in example 1 requires a **30.5%** return in years 2-5 to offset the first year loss-----*Good Luck.*

10. Thorough in house research leads to fewer emotional mistakes

- Conviction in our Investments leads to fewer emotional mistakes and has helped us outperform the market over a full cycle.



South Atlantic Capital's return 1997-2016 net of fees and expenses is 9.56% . Past results are not indicative of future results.

Sources: Blackrock, Dalbar

11. Returns a few points higher can lead to significanty higher nest egg

- $100,000 grows to $157,276 over 20 years if your earn the average investor's average return according to Dalbar and Associates

- $100,000 grows to $429,552 and $357,025 after deducting the average advisor fee of .99 % if you earn the market return assuming an average operating cost of 12 bps for an index fund

- We think our investment philosophy works and staying disciplined about implementing it has allowed us to grow $100,000 to $620,926 net of fees and commissions based on our returns which have been examined by ACA Compliance from 1997-2016.

- Since inception in 1992 through 2017, $100,000 invested with South Atlantic Capital's Core Equity Composite would be worth **$2,017,646** net of fees and expenses while $100,000 invested in the S & P 500 assuming .12% expense rate for an index fund would be worth **$1,058,685,** while $100,000 would be worth **$836,015** assuming a .12% expense for an index fund and the average .99% fee for a financial advisor.

12. Current Investment Environment

- Investors are moving to passive investing which is definitely lower cost if you stay truly passive but most investors don’t realize passive investment vehicles provide no downside protection
- Threat of higher interest rates
- Significant percentage of S and P 500 returns coming from a few highflying stocks
- Late in the cycle and years of low rates has caused a deterioration in credit standards as people reach for yield

13. Current Portfolio Holdings and Recent Transactions

- Current Portfolio Holdings and Recent Transactions

- Selling:
  - Wells Fargo
  - Franklin Resources
  - Scripps Networks

- Buying:
  - Enterprise Product Partners
  - Oaktree Capital
  - JP Morgan

14. Current Portfolio Holdings and Recent Transactions

- DURABLE PORTFOLIO HOLDINGS THAT HAVE BEEN ABLE TO BENEFIT FROM STRESSFUL PERIODS IN THE PAST:
    - Berkshire Hathaway
    - 21st Century Fox
    - Enterprise
- WHICH ONES MIGHT BENEFIT THE MOST FROM STRESS IN THE FUTURE:
    - Oaktree
    - Berkshire
    - JP Morgan

15. Durable holdings that have benefitted from stressful periods

- **Berkshire Hathaway**

- In August of 2011 when investors worried about the bank's capital needs, Berkshire bought $5 billion of 6% preferred stock from Bank of America. The transaction included warrants to purchase 700 million shares at $7.14/ share. After funding the purchase of 700 million shares with proceeds from the preferreds being called, the original $5 billion investment is now worth $24.5 billion including dividends and interest for a **27.2%** annual return.

- In September of 2008, again as investors worried about Goldman's balance sheet, Berkshire was able to invest $5 billion in 10% Goldman preferred, which included warrants to purchase common stock at $115/ share. With the stock now trading for $261/ share the total return on this investment is over 14% annually

16. Durable holdings that benefitted from stressful periods

- **Twenty First Century Fox**

- We have thought Fox's shares have been cheap since the third quarter of 2015 because the fear of chord cutting was overdone and Fox had valuable assets such as Sky B in Europe , Hulu, and Star India which were unappreciated by the market. Recently Disney made a firm offer for assets comprising about 75% of Fox's value which values the whole company at about $39 a share.

- If AT&T's offer to buy Time Warner is approved by the anti-Trust court, Comcast could enter an offer valuing Fox at about $45 / share. In 2016 and 2017, Fox's strong balance sheet and cash flow allowed them to take advantage of the weakness in their shares and buy back 9.5% of the company for $26/ share.

17. Durable holdings that benefitted from stressful periods

- **Enterprise**

- Enterprise has one of the strongest balance sheets of the oil and gas midstream companies with a BBB+ credit rating. Once they recognized the US was going to produce more oil, condensate, and natural gas liquids than they could consume it became obvious to them that you need to be positioned to export to help oil and gas producing customers. Prior to 2014, they had been using a company called Oiltanking Partners and their 12 marine terminals on the Gulf Coast and their storage capacity of 24 million barrels of crude and petroleum to load and unload ships.

- The sharp drop in oil prices in late 2014 forced many mid-stream companies to cut their dividend and issue cheap stock to shore up their troubled balance sheets. Since Enterprise's business was more fee based and they took less commodity risk and managed their balance sheet more conservatively, they were able to acquire Oiltankers for roughly $6 billion in October of 2014 on terms that added to Enterprises distributable cash flow by 2016.

18. Durable holdings that benefitted from stressful periods

- **Enterprise**

Enterprise's interest in being positioned for exports was on the money. Since 2013, their exports of propylene have gone from approximately 320 million pounds per year to 1.8 billion pounds in 2017. Their exports of liquefied petroleum gas (lpg) has gone from roughly 250,000 barrels per day in 2013 to about 508,000 in 2017 representing 46% of the roughly 1 million barrels exported from the US. By 2022, LPG demand in India and China is expected to increase by 600,000 barrels per day. Lastly their oil exports have gone from nothing in 2013 when it wasn't allowed to 274,000 barrels per day in March, 20% of US exports. By 2022, US oil exports are expected to increase by approximately 3 million barrels per day, from 800,000 per day in 2017.

19. Holdings That We Expect to Benefit from Stress in the Future

- **Berkshire Hathaway** has a market value of approximately $505 billion. With cash balances of $116 billion about $100 billion of which is excess and annual free cash flow of about $25 billion, they will have ample liquidity to take good advantage of better opportunities that present themselves during times of stress and add long term value.

  Mr. Buffett has said, "<u>Every decade or so, dark economic clouds will fill the economic skies and they will briefly rain gold. When downpours of that sort occur, its imperative that we rush outdoors carrying wash tubs, not teaspoons and that we will do."</u>

- **Oaktree Capital** is an alternative asset money manager managing many types of funds, but their specialty is distressed debt. Their closed end distressed debt funds where clients commit their capital for up to ten years have generated very high returns over time, 22% annually before fees and 16.2% after fees. Distressed debt is primarily debt issued by companies that later enter bankruptcy. With interest rates having been so low for so long a great deal of low quality bonds with little covenant protection have been issued funded by investors pressing for higher yields in this low rate environment.

20. Holdings That We Expect to Benefit from Stress in the Future

- **Oaktree Capital continued**

- As rates rise, this should increase distressed debt opportunities for Oaktree. Currently they have approximately $100 billion in assets under management with roughly $20 billion in dry powder not yet invested. Furthermore, they try to limit their closed end fund commitments to the opportunity set in the near to medium term. In 2007, when distressed debt increased greatly, they received substantial commitments for new funds mostly distressed debt and were able to grow their assets under management by 38% from 2007-2009. Being a counter cyclical company, they should be a valuable portfolio holding if defaults increase which typically creates excess fear in the markets. They could for example go up 25% providing liquidity to buy companies that are oversold.

- **JP Morgan** has excess capital even under the severe regulatory environment that the current administration might lighten somewhat. JP Morgan's goal is to reduce their Tier 1 Common Equity levels from over 12% currently to 10% of risk based assets. That means all their approximately $32 billion in earnings is available for dividends and share buyback authorization of $19.4 billion, which we expect to be higher in 2018, would allow them to buyback over 6% of shares outstanding.