

South Atlantic Capital Management Group, Inc.

Investment Management

March 31, 2022 Portfolio Review

COMPOSITE PERFORMANCE SUMMARY

South Atlantic Capital (SACMG) Core Equity Composite¹ versus S&P 500 and Russell 1000 Value
Annualized as of 3/31/2022

	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years	Since Inception (1/1/1992)	Total Return Since Inception
SACMG Core Equity (gross)	12.06%	13.47%	13.11%	11.94%	10.37%	10.34%	13.18%	4117.76%
SACMG Core Equity (Net)	10.95%	12.34%	11.99%	10.84%	9.29%	9.26%	12.07%	3033.07%
S&P 500 ²	15.65%	18.87%	16.00%	14.65%	10.27%	9.26%	10.40%	1888.01%
Russell 1000 Value ³	11.67%	12.99%	10.30%	11.71%	7.36%	8.08%	10.16%	1761.94%

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, 2021, including the GIPS Composite Report for our Core Equity Composite (as well as necessary disclosures).

Performance Including Downside Protection

Our net returns for the quarter ended March 31, 2022, were -0.66%, slightly better than the -0.74% return for the Russell 1000 Value Index and much better than the -4.59% loss for the S&P 500 Index. Returns for the second quarter as everyone knows all too well are much worse, but with regard to our positions, we feel they bear little representation of how the companies are performing and where they will trade once excess fear abates.

Our philosophy is built with risk mitigation at the forefront and embedded in our investment process. We invest in equities to compound capital over time, but we do it in what we consider a risk averse way. Specifically, we seek companies with managements that have the judgement to operate their companies such that during downturns they maintain, in our opinion, significant access to funds relative to their market values. This is an important part of our risk control and fundamental to our investment process.

While we aren't macroeconomic forecasters, we are certainly mindful of the potential effects macro risks might have on the operating profits of our portfolio companies. However, we simply don't try to forecast market downturns even though we know they're inevitable because we firmly believe the odds of successfully compounding capital by attempting to time markets are very low. Rather, by executing our process in a disciplined way, we're pleasantly reminded during these downturns that we have created a situation where the majority of the companies we own have ample funds to take advantage of the more attractive opportunities these downturns create.

We believe this holds true in this year's downturn, with the primary exceptions being the banks whose regulatory capital requirements were recently increased (which limits their ability to buy back stock this year) and our original Discovery Communications position where they leveraged their previously underleveraged balance sheet in order to merge with Warner Brother.

For the portfolios as a whole, we expect to see value-increasing actions utilizing these funds continue to unfold over the next few quarters. In addition, several months ago we felt inflation would not be transitory and felt that it was important to reposition the portfolio somewhat to try to provide more protection against inflation. Recently, we also repositioned portfolios to add more dividend income which will be useful if stock prices continue to decline.

Our defensive bias that we often mention has in fact manifested itself over time, with our holdings generally delivering considerable outperformance during down markets (the 2020 Covid market was an exception) while we have lagged slightly in up markets. Since the inception of our Core Equity Composite, this favorable upside/downside capture ratio has led to considerable outperformance of our benchmarks as outlined below.

	Annualized Performance Since-Inception (1/1/1992 - 3/31/2022)	Rank Among All Large-cap Managers¹
SAC Core Equity Composite – Gross of Fees	13.18%	Top 3% (of 108 firms)
SAC Core Equity Composite – Net of Fees	12.07%	
S&P 500 Index	10.40%	
Russell 1000 Value Index	10.16%	
	<u>Market Capture²</u>	
Upside Capture vs S&P 500 (gross)	91.38%	Top 2% (of 108 firms)
Downside Capture vs S&P 500 (gross)	56.07%	

1. PSN is a global investment manager database of approximately 1,100 investment managers representing more than 8,000 domestic and international investment products, and is a division of Informa Investment Solutions, Inc. Rankings and past performance results are not indicative of future investment performance. This information is provided as a supplement to the attached GIPS Report. An investor should further understand that future results may represent losses for account holders.
2. Market capture measures a manager's performance in up & down markets relative to the performance of the market (index) itself. An "up" market is defined as any quarter where the market's return is greater than zero. Similarly, a "down" market is any declining quarter for the index. According to PSN, over the life of our Composite, we captured almost all of the upside (91%) while limiting our "down" market declines to just 56% of the market's losses.

View Your Investments As A Private Company During Market Turmoil

There is no doubt, we are enduring a painful investment environment due to the multiple threats of higher interest rates, higher inflation, significant chance of a recession, and the uncertainty created by the invasion of Ukraine. Based on historical performance, this bear market will likely continue until there is more of an investor capitulation, resulting in a somewhat intense and high volume move to the downside. According to the *Economist* magazine, since World War II there have been 14 bear markets, averaging 14 months in length and with an average decline of 32%. By comparison, the maximum decline so far during this bear market has been approximately 22.9%. Keep in mind, after all these 14 bear markets there was subsequently a recovery to new highs.

Although it's difficult to watch the decline in your account values due to the stock market decline, we rely on our multi-year outlook for our companies' operating profits to assess how portfolios are faring

and not short-term market prices, especially during periods of market turmoil. We think it's important to consider "the market" as simply a pricing mechanism for the companies we're invested in, but it is not what we are invested in. We are more interested in the current and future operating profit of the companies, which drives their long-term value, than the pricing mechanism which sets the short-term price. We assess their performance just like we would a privately held company, where minute by minute pricing isn't available.

The risks to the economy, corporate earnings and the market from inflation and higher interest rates are real and our positions are not immune, but we feel very good about their prospects. Along with the risks, during times of excessive fear and emotion in the markets, which we think is also the case currently, to reiterate, it's important to maintain focus on how much operating profit and dividend income the companies you are invested in will produce and not day-to-day price changes. Do the operating profits justify the price I paid for the stock and will the companies I'm invested in grow their operating profit and dividends over the next three years, such that the value of my portfolio grows adequately?

While it certainly requires patience, that is what will drive the prices of the companies in your portfolio over time. In the short run, emotion can supersede that, but in the long run, actual corporate profits set the price. Obviously, we'll have to see over the next few quarters whether our companies can control the inflationary pressures on their input costs and concurrently raise price on their products, but we continue to have confidence operating profits of the companies we own are well protected from inflation and will grow sufficiently such that their stock prices will move above where they were at the beginning of the year in a reasonable time frame (thus, adding to January 1, 2022 account values). *The more you view your portfolio as if you're invested in private companies, ignoring market volatility, the less prone you are to making emotional mistakes.*

It's likely that what we consider accurate prices for our positions won't be fully reflected until elevated fear levels subside, but experience makes us cautiously optimistic that a few quarterly earnings reports showing healthy operating performance will start moving prices of our portfolios towards our view of value, as we view the current discounts in their stock price for many positions to be significant. This philosophical rehash is likely pretty redundant for many long-time clients but, unfortunately, it's a difficult mindset to acquire and, in our view, a mindset fundamental to successful investing.

Despite significant stock price declines for many of our positions, which we believe will be relatively short lived, we are pleased with the operating performance of your holdings and we will review this in some detail in our June 30 Newsletter. In the meantime, if you would like more detail on the operating performance of our top positions, please feel free to contact eddie@southatlanticcap.com or philtitzer@southatlanticcap.com.

Also, please contact us if your financial situation has changed significantly and, as a reminder, withdrawals exceeding 6% of your account annually can create a situation where you are forced to sell investments at an inopportune time.

We appreciate your confidence in our firm. As fellow shareholders of the companies in the portfolio with the great majority of my investable funds, you should know we continue to add to our positions personally and look forward to better days. Please feel free to contact us if you have any questions.

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**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. \$11.2 trillion indexed or benchmarked, with indexed assets comprising approximately U.S. \$4.6 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.

³**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.

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, 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 and other leading private equity firms. During graduate school, he interned with Merrill Lynch's Institutional 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.

PHILLIP A. TITZER

Mr. Titzer is Chief Operating Officer & Compliance Officer of South Atlantic Capital Management Group, Inc.

Mr. Titzer joined South Atlantic Capital in March 2020, bringing twenty-four years of investing and business operations experience to the firm. As a CFA® charterholder on the advisor's investment committee, he adds additional valuation and investment management experience to the organization. Previously, Mr. Titzer was a portfolio manager and head of investment operations for The Edgar Lomax Company, a large-cap value equity manager in Alexandria, Virginia. There, he directed all research, trading and portfolio administration activities and, along with the firm's founder, managed the Edgar Lomax Value Fund (a mutual fund that earned Morningstar's highest rating of 5 Stars as of December 31, 2019) as well as high-net-worth and institutional separate accounts totaling approximately \$1.6 billion. Prior to that, he was a nuclear-trained submarine officer in the U.S. Navy, serving on the U.S.S. Kentucky (SSBN 737) and, later, as a combat control test & evaluation officer for Naval Sea Systems Command. Mr. Titzer holds a B.S. in Mechanical Engineering from Rose-Hulman Institute of Technology and an M.B.A. in Finance from George Mason University.

**South Atlantic Capital Management Group,
Inc.**

**Verification and Core Equity Composite
Performance Examination Report**

December 31, 2021





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”) has, for the periods from October 1, 2016 through December 31, 2021, established policies and procedures for complying with the Global Investment Performance Standards (GIPS®) related to composite and pooled fund maintenance and the calculation, presentation, and distribution of performance that are designed in compliance with the GIPS standards, as well as whether these policies and procedures have been implemented on a firm-wide basis. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. We have also examined the Firm’s Core Equity Composite for the periods from October 1, 2016 through December 31, 2021.

The Firm’s management is responsible for its claim of compliance with the GIPS standards, the design and implementation of its policies and procedures, and for the accompanying Core Equity Composite’s GIPS composite report. Our responsibilities are to be independent from the Firm and 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, which includes testing performed on a sample basis. We also conducted such other procedures as we considered necessary in the circumstances.

In our opinion, for the periods from October 1, 2016 through December 31, 2021, the Firm’s policies and procedures for complying with the GIPS standards related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been, in all material respects:

- Designed in compliance with the GIPS standards, and
- Implemented on a firm-wide basis.



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, 2021 in compliance with the GIPS standards; and
- Prepared and presented the accompanying Core Equity Composite's GIPS composite report for the periods from October 1, 2016 through December 31, 2021 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 specific performance report of the Firm other than the Firm's accompanying Core Equity Composite's GIPS composite report, or on the operating effectiveness of the Firm's controls or policies and procedures for complying with the GIPS standards.

ACA Group

ACA Group, Performance Services Division

May 4, 2022

SOUTH ATLANTIC CAPITAL MANAGEMENT GROUP, INC.
CORE EQUITY COMPOSITE
GIPS COMPOSITE REPORT

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
2021	66.4	50.1	80	30.19%	28.90%	28.71%	0.95%	21.67%	17.17%
2020	52.8	38.1	71	-2.68%	-3.65%	18.40%	1.84%	22.02%	18.53%
2019	54.9	44.8	82	27.23%	25.96%	31.49%	1.11%	12.57%	11.93%
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%		

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 US 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. The minimum account size for this composite is \$50,000. The composite has an inception date of January 1, 1992. The Core Equity composite was created on March 1, 2011.

South Atlantic Capital Management Group, Inc. (“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, 2021. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis.

The Core Equity Composite has had a performance examination for the periods January 1, 1992 to December 31, 2021. 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 and limited distributed pooled funds, as well as GIPS Reports, which 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. 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 utilize model fees, 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.

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 investments, calculating performance, and preparing GIPS Reports are available upon request, as are GIPS Reports and lists and descriptions of South Atlantic Capital's composites and limited distributed pooled funds, 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.