Suncoast Equity Management, Inc.

April 2, 2010

Dear Client:

The fog is lifting from one of the worst downturns in the U.S. since the Great Depression. We believe the recovery is sustainable at low growth levels, though we will pay the piper down the road for present actions taken including the recent healthcare legislation. The stock market continues to support the recovery with the S&P 500 up 5.38% and SEM portfolios essentially matching this performance of +5.21% in the first quarter. The downturn made each of our companies stronger and led to improved competitive positions that have them poised for further growth.

<u>Built for Growth *and Style*</u>

SEM-DIS (Disciplined Investment System) invests in companies that grow intrinsic value over time. During an economic decline most companies need to hunker down, weather the storm and fight the erosion of their business. Not so for our collection of outstanding companies. As the downturn played out, they took advantage to further strengthen their industry position and financial strength relative to the competition. Coming out of this recession we share several stories of how our companies gained strength, greater productivity and loyalty from their customers with new services and products.

Nike's (NKE) operations are as first class as its brand. During the past two years NKE has been driving down costs by consolidating its manufacturing base. It reduced its number of factories by 10% in fiscal 2009 and will likely cut another 6% in fiscal 2010 which ends in May. It also has been shifting production away from countries where tight capacity fueled inflation, such as China. The average U.S. footwear manufacturer sources 74% of its products from China, NKE just 36%. As the leading athletic footwear brand globally, with a roughly 33% share, two-thirds of NKE revenues are garnered from non-U.S. customers and because of its powerful global brand, it can price its products at a premium to local rivals. For NKE and for us, the combination of premium-priced products and advantageous operations are driving growth in shareholder value.

In some contrast to NKE but equally strong, is **Grainger** (GWW). GWW, a smaller holding due to relative valuation, does 95% of its business in the U.S. and Canada, and has a much smaller (versus NKE) but leading market share of 7% in the maintenance, repair and operating supplies business (MRO). That market share number will likely rise as a result of GWW's recent investments in product and geographic expansion, as well as from two acquisitions. GWW is positioned to vastly improve its share of wallet with its customers. In one example from last year, GWW helped a large transportation customer shrink the number of its suppliers to 30 from 5,000 and with GWW a clear winner, business with this customer increased in spite of the customer's business being down 30%. GWW also took advantage of a depressed real estate market by purchasing property for a new distribution center in the Bay Area of Northern California, which will by 2011 lower transportation costs "considerably." Finally, GWW spent $123 million on two acquisitions, the most it has spent in many years, to take advantage of good opportunities. One final unique attribute about both NKE and GWW deserves mention. Although both companies experienced sales declines during the recession, both were able to reduce inventory faster and thus did not suffer from overstocking or declining gross margins.

Hewlett Packard (HPQ), one of our largest holdings, had a strong earnings report about 45 days ago which demonstrated that it is executing well in one of the most important industries of our time. In fact, CEO Mark Hurd summed it up best in his recent letter to shareholders. Hurd made the point that every few centuries we harness a new source of power. First it was fire, later electricity and oil, and today it is information. HPQ is at the epicenter and is a global leader in helping its customers create, capture, store, process and share information. As Hurd describes it, HPQ is serving the evolution of a <u>converged infrastructure</u> environment in which traditional technology silos such as servers, storage, networking, and software all meet to optimize customer needs. Converged infrastructure will be *differentiated* with value added software (the tool that transforms the vast sea of digital content into usable information) and *delivered* through services any way the customer wants it – in-house, outsourced, cloud-based, or through a hybrid environment that balances cost, security and performance across multiple models. HPQ is growing intrinsic value through various levers including (1) improving organic business demand (2) gaining share, (3) cost cutting and improved capital allocation and (4) smart acquisitions.

Health Care Legislation 2010 – Setback for the free market…

The health care legislation that recently passed is a bad event for an improving economy. The bill is a detriment to free market economics and will only add to future deficits and unfunded liabilities. Nonetheless we will swallow hard, digest it and move on. We continue to be an optimist in spite of the approval.

No one would dispute that our current healthcare system could benefit from some structural improvement. However, this bill doesn't come close and adds only regulation and taxation. It will also increase an already elevated level of federal spending to the high twenty percent range of GDP, up from the current 25% and 20% level a few years ago.

So how did this all come about? It requires a basic understanding of the general beliefs people have towards free markets and the government. People generally believe that the government will act on behalf of the greater good, and that entrepreneurs and investors seek to profit and to exploit the unfortunate.

At any given moment in time, free markets are hard to appreciate and often the government, especially under the influence of partisanship and special interest groups, does not act in the greater good, as observed by noted Gary Becker, who co-founded the Chicago School of Economics with Milton Friedman. Becker believes we're always up against "suspicion of markets" and often it is too counter-intuitive for people to process that pursuit of profit within free markets which leads to a greater standard of living.

As Becker and others proposed, a productive health care bill would have energized the free market and competition. Good ideas would have included the expansion of Health Savings Accounts (which our company just embraced within the last year), enabling consumers to purchase insurance across state lines and expand tax-deductibility from employers to individuals.

Free markets are still the most efficient means for a productive economy despite the shortcomings from time to time. We have experienced bad legislation in the past and may have to brace for a bit more. We are concerned about this recent trend because partisanship and entrenched interests are bogging down our U.S. institutions. It can evolve into an economic issue if the government can't solve problems and global investors lose confidence. On a positive note, this is a well known issue and it seems to me that the general public does not want further government expansion. With the elections not that far away in November, and in the words of songwriter Sam Cooke…*"A Change is Gonna Come"*.

The long term perspective in our view is very positive. Around the world more countries than ever embrace market economies. As Becker added, since 1990 a billion people have been lifted out of poverty as those nations moved to a more market-based economy and none of those are interested in reverting back to a state-run economy. The companies in our portfolio serve customers in these markets and continue to have a strong growth profile.

Portfolio Activity

The only change to our portfolio in the first quarter was a slight increase in **Apple** (AAPL). As noted above, our current holdings strengthened their business positions during the recession and are poised for growth. In spite of the stock market's solid recovery we are still finding companies of interest available at attractive prices, especially companies in the healthcare industry, which make-up 20%+ of our portfolio. As the year unfolds we will maintain our focus on companies that boast both business strength and relative value.

At SEM we will hold true to our purpose and mission, preserving and growing your wealth while taking less risk. Thanks for your support and as a reminder we eat our own cooking. My family owns only the same companies in our investment portfolio as you do.

Sincerely,

Donald R. Jowdy
President

Suncoast Equity Management, Inc.

Performance results versus the Standard & Poor's 500 Index

Time Period	**SEM % Return***	**S&P 500 % Return**	**SEM - Value of $1,000,000**	**S&P 500 - Value of $1,000,000**
First Quarter 2010	+5.21%	+5.38%	$1,052,100	$1,053,800
One- Year	+44.73%	+49.78%	$ 1,447,300	$ 1,497,800
Three-Year	+0.73%	-4.19%	$ 1,021,900	$ 879,500
Five-Years	+2.05%	+1.90%	$ 1,107,000	$ 1,099,000
Ten- Years	+2.98%	-0.67%	$ 1,341,200	$ 935,000
Inception (12 ¼ Years)	+6.44%	+3.29%	$ 2,149,000	$ 1,487,600

* Composite results of all SEM managed accounts, net of all fees.
Note: Performance results for the three, five, seven and ten year periods represent the annual average rates of return.

SEM Composite Account
vs. the Standard & Poor's 500

Year	**SEM***	**S&P 500**	**Relative Results**
1998	26.19%	28.57%	-2.38%
1999	24.10%	21.03%	3.07%
2000	4.50%	-9.15%	13.65%
2001	0.35%	-11.91%	12.26%
2002	-10.98%	-22.15%	11.17%
2003	20.12%	28.62%	-8.50%
2004	12.52%	10.96%	1.56%
2005	-0.51%	4.86%	-5.37%
2006	8.20%	15.77%	-7.62%
2007	10.13%	5.48%	4.65%
2008	-30.10%	-37.03%	6.93%
2009	24.75%	26.41%	-1.66 %
First Quarter 2010	5.21%	5.38%	-0.17%
Since Inception (Overall Gain)	114.90%	48.76%	66.14%
Average Annual Gain	6.44%	3.29%	3.15%

Suncoast Equity Management's (SEM) performance is Net of All Fees.

Highlight denotes years of meaningful underperformance.