Suncoast Equity Management, Inc.

April 4, 2011

Dear Client:

Set against a backdrop of tragedy in Japan and turmoil in North Africa and the Middle East, returns were positive in the first quarter for both SEM clients and the general market indexes. As the economy shifts from recovery to expansion our investment discipline will continue to focus on growth businesses with above average return on capital that can simultaneously thwart increasing costs from higher commodity prices.

Growth (and Owners Capital)

Owning growth businesses is a key part of our discipline. Growth can be wonderful but if it comes at a significant cost it will not add to shareholder value. Let's pretend that you and I bought a business together last year at a fair value for $1 million. Each year we would measure our profitability against our invested capital to determine if we earned an acceptable return. This important measure is known as Return on Capital (ROC). If we earn $100,000 that translates into a 10% ROC ($100,000 divided into our $1 million of capital). Coincidently, that 10% ROC is about the average for publicly traded companies in the S&P 500.

Two factors are critical in the current and future valuation of our business; growth and invested capital. The first look will be at growth. If this business over the next 10 years earns approximately the same amount ($100,000) each year then a rational future buyer of the business would pay the same we paid for it, $1 million, if interest rates are at similar levels. If the buyer has to borrow at a higher percentage rate than we did, they would pay less and alternatively would pay more for our business if interest rates on borrowed money declined after we bought it. Now consider if our business on average grew its profits at 7.5%, whereby the bottom-line would double to $206,103 in 10 years. A new buyer would pay $2 million, or twice what we bought it for even if the profits were not expected to grow from the $206,102 level, and again assuming interest rates were at similar levels.

We should go back and talk about the importance of return on invested capital. What if I told you that we need to add $50,000 more capital each year just to keep our annual profits steady at the $100,000 level? You could understand that this might detract from the value of our investment. In ten years our investment would have grown to $1.5 mm and our ROC would drop to 6.7% ($100,000/$1,500,000) from our original 10%. A future buyer would only be willing to purchase the business at the original $1,000,000 so they could generate a 10% acceptable ROC in line and would likely pay less if they determined they would need to still put $50,000 in annually going forward.

The conclusion from the above is that it is preferable to own growth businesses that don't necessarily require additional invested capital. In the above example if profits grew to $206,103 and we did not have to invest additional capital, our ROC would increase to 20.6% ($206,103 divided into $1,000,000). Additional or new capital can be worthwhile to commit to a business but it should earn at least the same or higher return. In the below table we share a few of our current holdings profiling profit levels today and 10 years ago and current ROC figures:

	Net Profits (in $ millions)		**Annualized**	
Company	**2001**	**2010**	**Profit Growth**	**Return on Total Capital**
Accenture	$869	$1,781	8.3%	62.8%
Becton Dickinson	$438	$1,185	11.7%	17.5%
Nike	$590	$1,907	13.9%	18.7%
Pepsico	$3,004	$5,946	7.9%	17.0%
Varian Medical	$94	$368	16.4%	25.5%

As a reminder, the average ROC for a publicly traded company is about 10%. What has worked for us over the long term and what we continue to believe in is that the ownership of a small collection of higher ROC growth companies, bought at reasonable prices, is the key to earning satisfying investment returns over the long run.

Technology – Current Heavy Focus

Our chat above focused on growth businesses and many of the businesses that fit those characteristics today are in technology. As you know, we own quite a few in this group. Technology is thriving on a global scale with new product cycles and increasing and widespread broadband availability. This is being driven at both the consumer and corporate level. One recent example of technology's popularity is the annual Consumer Electronics show held in Las Vegas in January. Conference attendance was up 14% to over 140,000 attendees, 30,000 of which had come from 80 foreign countries. Tech goods and services top all other types of consumer discretionary goods. Consumers want greater connectivity and corporations are picking up the pace of reinvestment to increase worker productivity and efficiency, which includes spending on cloud computing and energy saving functions.

We own businesses at the frontier of satisfying insatiable demand for global connectivity and information such as **Apple** (AAPL), **Google (GOOG)** and **Qualcomm** (QCOM). QCOM is a new addition to our portfolio. The company holds more than 10,000 patents which essentially demand that any mobile phone connecting to the advanced 3G and 4G networks globally must pay the company a royalty. QCOM will benefit from the migration to smart phone handsets for years to come as only 1 billion of the 5 billion global cell phones run on these networks. The company is expecting there to be 2.8 billion 3G handsets users by 2014. China alone has significant potential for QCOM. China Mobile Ltd is the country's leading, and also the world's largest, wireless operator with 584 million accounts, of which only 3.5% or 20.7 million are 3G subscribers. In India the smart phone has a ways to go but will be a big hit since less than 1% of the population has access to broadband connections.

AAPL continues to get innovation right. The company just released the second version of its iPad while others are getting out their first version. AAPL was not the first to offer a tablet but it was the first to get it right with great design yielding a simpler and smarter product for consumers and professionals in areas such as healthcare, education and sales. The ecosystem supports over 350,000 software applications (or apps) which AAPL collects 30% of the revenue. Lest we forget the iPhone kicked-off the apps wave and is still doing very well by meaningfully increasing its potential market expanding into the Verizon network.

From Recovery to Expansion mixed with Global Turmoil = Cost Pressures (Increases) and Inflation

The skies are indeed clearing from the worst economic storm in modern history. All the world's major economies grew last year and global GDP is growing at roughly 4.5% per year. During the recession, businesses slashed costs to get in line with revenue declines. Now that many businesses have recovered, in some cases from deep sales troughs, the key will be to create new business growth and manage cost increases that surface as a result.

The turmoil in North Africa and the Middle East, along with the tragedy in Japan (world's 3rd largest economy) has been impacting commodity costs. Consumers across the globe find their shopping bills higher and gas tanks costlier to fill. Ultimately Japan will rebuild, though this will take some time. The pursuit of freedom and dignity in places such as Libya, Egypt and Tunisia though unsettling near term, will be liberating for those citizens.

The dual impact of the road to expansion and global turmoil is cost pressure and profit margin compression for many businesses. One of our core businesses, **Nike** (NKE) recently experienced materials cost pressure and reported a gross margin decline of 1.1% in its most recent quarterly report. Some portion of the costs increases we are experiencing could be temporary because of the global turmoil. When you look at the demand for oil it is basically not grown more than 1%-2% a year over the past decade. Combine this with the desire for energy security and green technology and we would not expect demand for oil to spike or be responsible for per barrel price increases. NKE is a fine company (as confirmed in the table above which shows its ten year profit history) and good value following the stock's negative reaction. NKE is not having any issues with new growth as future orders for the company remains solid and in a range of +10% and we would expect with the brand pricing power they have to pass along at least in part the higher costs over the coming quarters. We carefully seek companies that have longer term pricing power and advantages of scale that can fend off a blend of temporary and structural cost increases.

Skillful Capital Allocation
Each and every one of our companies generates cash in excess of its needs to run their business. That is a good situation to be in and enhances the margins of safety for our portfolio. Since our companies are in this position, they have options to drive future growth. One option outside of investing back in the core business is to pursue acquisitions. Pursuing acquisitions outside your core business to enhance shareholder value is tricky unless of course you have one of the best mindsets for it and have been doing it for 45 years. That brings us to Warren Buffett at **Berkshire Hathaway** (BRKB). SEM has held an above normal weighting in BRKB precisely because of Buffett's ability to make opportunistic purchases of good operating businesses, especially during a distressed environment. He has not disappointed in the last few years and is still finding good values that will consequently increase the long term value of our shares. In 2010 BRKB purchased Burlington Northern and as Buffett reported in his annual letter it is "*working out even better than I expected…it now appears that owning this railroad will increase Berkshire's "normal" earning power by nearly 40% pre-tax and by well over 30% after-tax. Making this purchase increased our share count by 6% and used $22 billion of cash. Since we've quickly replenished the cash, the economics of this transaction have turned out very well.*" Buffett had $38 billion in cash and cash equivalents at year end 2010 and could realize another $10+ billion inflow in 2011.

Skin in the game
Research firm Morningstar has done numerous studies that report when an investment or fund manager is also an investor in the same portfolio they tend to be a better steward for the client's assets. As you may already know, we own the same portfolio as you so we eat our own cooking. We have great confidence in our process and less risk approach to achieving satisfying long term returns. We welcome your call at any time and continued thanks for your support.

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 2011	+2.69%	+5.76%	$ 1,026,900	$ 1,057,600
Three-Year	+0.63%	+2.26%	$ 1,018,900	$ 1,069,300
Five-Years	+2.77%	+2.54%	$ 1,146,300	$ 1,133,800
Ten- Years	+4.17%	+3.25%	$ 1,504,900	$ 1,376,300
Inception (13 ¼ Years)	+6.28%	+4.16%	$ 2,240,900	$ 1,715,100

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