Suncoast Equity Management, Inc.

April 4, 2016

Dear Client:

Most of March was spent recovering from the market declines of January and February. After reaching declines in excess of 10%, the SEM composite portfolio finished the quarter -0.4% slightly lagging +1.4 % for the S&P 500. Oil's decline reached a new low mid February in the high $20s and since then snapped backed to nearly $40 causing a bit of a rebound for that sector and supporting the market averages. As you may know, the **SEM Disciplined Investment System** (SEM-DIS) takes a pass on commodity-influenced businesses for long term ownership. As a result, if energy related companies jump in price, SEM can underperform in short time periods. Importantly, working from corporate America's first look into 2016, our growth profile continues to be much stronger than the market. The earnings outlook for 2016 for SEM remains strong at +10% while the S&P 500 forecast is for no growth at all. We had minor portfolio activity in the first quarter and discuss the loss of a great business icon and his contributions to our analysis.

Portfolio Update

During the quarter, we took an initial position in **Lowe's** (LOW). Both LOW and Home Depot are benefiting from the housing market recovery (one of the bright spots in an otherwise low growth economy) and pent up demand for home improvement projects. The next decade will also see the millennials, the largest generation in U.S. history, form households and buy homes. Today most new households are renters and homeownership has fallen to a 48 year low, but this is shifting towards ownership. Saturation in the U.S. home improvement market has slowed new store openings, but on the positive side, the scale both these companies have reached has stabilized competitive dynamics. Both businesses are performing very well and we see greater margin expansion potential at LOW. LOW recently announced a deal to purchase Canadian home improvement retailer RONA for approximately $2.3 billion. With RONA's margins about half of LOW's we believe the combined entity will benefit from cost synergies. RONA has 236 corporate owned and 260 dealer-owned stores, adding to LOW 1800+ base in the U.S.

"Only the Paranoid Survive"

We lost a visionary, technology and manufacturing icon this quarter; Andrew Grove of Intel passed away at age 79. In 1985 he led the company out of memory chips to microprocessors, which is the beating heart of every electronic from smartphones to supercomputers. By many accounts, Grove reshaped the world as we know it today. He also found time to be an author and over twenty years ago contributed one of the most relevant business books of our time, *"Only the Paranoid Survive."* We have always shared with you that businesses are living, breathing organisms whose advantages and disadvantages ebb and flow. Grove labeled the most important moments in business as "Strategic Inflection Points." That is the time when a company and the leadership can face massive change, sometimes virtually overnight, that demands adaptation or innovation or else the company flounders or fails.

At SEM, all of our companies share important characteristics of much better than average financial strength, at both the balance sheet and profitability level. The above average markers from a quantitative standpoint are the foundation of our **SEM-DIS** portfolio and present a distinct advantage versus the overall market which includes below average, average and above average companies.

Importantly, we spend a lot of time observing, and not predicting (which can't be done), the news, data points and information around our companies. "Strategic Inflection Points," whether they are minor or major changes as Andy Grove explains, can come from a seemingly modest change in technology, emerging competition, or regulatory changes. Consider the recent news that **Apple** (AAPL) introduced a new version of its smaller size (4 inch screen) smartphone. The announcement met with some skepticism as most news reports related this new offering from AAPL to the slowdown in global smartphone demand. We believe it is a smart strategic move for AAPL. A common misperception is that a move down the price curve is cheapening the brand or chasing an unprofitable segment of the market. The new iPhone SE, as compared to its older sibling the iPhone 5s, offers AAPL's best processor (same as the iPhone 6), significantly better battery life and camera, and the capability to use services such as Apple Pay. Giving its customers the best technology and shared experience at each level is the best way to serve your customers that may easily upgrade and stay in the ecosystem for years to come. It is an improvement from the prior strategy which was to offer a previous generation handset. There is also a separate fear that iPhone SE would drag down profitability. We view this as unlikely since the smaller size phone makes up less than 15% of AAPL total phone sales and the lower manufacturing cost of this phone, due to the company's expertise and scale, should keep gross margins in the same range as the rest of its line-up. *The Wall Street Journal* personal technology columnist, Geoffrey Fowler, recently noted that "remarkably no other major manufacturer offers a high-end phone at this size in the U.S."

With the quickening pace of innovation, we believe the list of companies in corporate America not impacted have continually narrowed. Successful upstarts challenging global brands are rare but do exist, and when they push, they drive the overall industry to better serve its clients. Born in 1996, **Under Armour** (UA) founder Kevin Plank developed moisture wicking performance fibers to replace sweat-soaked cotton t-shirts worn by athletes. Fast forward twenty years later and the footwear and sports apparel market are led by **Nike** (NKE), Adidas and UA. NKE is considerably larger than UA with sales expectation $35+ billion versus $5 billion respectively, and NKE's net profit margin in excess of 10%, is twice UA's. As long term owners of NKE (10+ years), it is important that the company combats this great competition from UA not just with scale and size but by leading in innovation. This past month NKE introduced several advances including "adaptive lacing", anti-clog traction soccer cleats and a new Nike+ app. When you step into it a sensor engages the NKE HyperAdapt 1.0 and it will automatically tighten the shoe, then you have two buttons to tighten further or loosen. Mud slows down your speed, creates excess weight and can further impede necessary traction. NKE's new adaptive polymer helps prevent mud from sticking to the bottom of the shoe. This technology for sure will be extended to other high performance sports such as baseball, softball and American football as we have seen with NKE Flyknit technology. This four year old innovation of yarns and digital knitting technique was first developed for marathoners but has now expanded to all sports. Direct communication with the customer (and direct sales) is a fast growing trend in the digital age. In fact, online sales have been steadily increasing as a percentage of revenue and rose 56% in its most recent release. The new Nike+ app deepens both the personal relationship between NKE and its customers, as well as connects fellow users to the NKE network and community of events, competition and experiences. On the personal level, the "my store" and "services" tab allows you to showcase and customize your preferences and connect directly with a Nike representative. The app also drives quick access to Nike training groups in your area or nationwide as you travel. NKE also created an inbox and a way to communicate one on one with other users, strengthening the NKE community.

"The future so bright, we gotta wear shades"

Innovation, like we have above with AAPL and NKE, breeds growth. So in spite of a low forecast of just +2% global Gross Domestic Product, SEM can identify and own businesses growing well above the overall economy. We live in exciting times. If you are not aware, you can buy a 3-D printer for your home at around $400, showcase the future and stimulate your kids' endless imaginations. We may be printing our own Tupperware containers soon! Combine 3-D printing technology with material sciences and the man-made material of carbon fiber, which ounce for ounce is stronger than steel or aluminum, and you might just be unlocking manufacturing of the future.

While the latest consumer technology gadget is "virtual reality" viewing devices, the more likely practical application is known as AR or "augmented reality". The upstart of AR, **Google** Glass, has fallen flat so far yet it is a simple concept of projecting a virtual screen on any surface. Applications are already in the works to let nurses see the location of a vein as if it were painted on a patient's arm. Another example of AR is imagining looking at your wrist and seeing a smartwatch – only you are not wearing one. Of course the societal stigma of wearing an AR device in public will need to be overcome, but applications in the workplace may be the primary place it starts.

Inevitably, each and every day one of us at SEM gets asked "What is the market doing today?" Our focus will never be on that. We also know that we will experience markets in various stages of mood swings and economic cycles, and that a sharp temporary decline in stock prices can come anytime with no warning whatsoever. Instead, we pay attention to the offering price and to the earnings progress of our portfolio businesses and those which we don't own but may have interest in. We thank you and are grateful for your confidence.

Sincerely,

Don	*Amy*
Donald R. Jowdy President	Amy Lord, CFA Senior Vice President

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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 2016	-0.4%	+1.4%	$ 996,500	$ 1,013,500
One-Year	+1.6%	+1.8%	$1,015,600	$1,017,800
Three-Year	+12.2%	+11.8%	$ 1,411,400	$ 1,398,200
Five-Years	+13.4%	+11.6%	$ 1,879,000	$ 1,729,500
Ten-Years	+8.0%	+7.0%	$ 2,153,800	$ 1,968,700
Fifteen-Years	+7.2%	+6.0%	$ 2,827,700	$ 2,391,500
Inception (18 1/4 Years)	***+8.2%***	***+6.2%***	***$4,210,600***	***$ 2,982,000***

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