SUNCOAST EQUITY MANAGEMENT, LLC

July 5, 2017

Dear Client:

SEM's results for the first half of 2017 are ahead of the general market, as our composite performance of fully invested portfolios is +14.7% versus +9.3% for S&P 500. Portfolio activity was light this quarter and we explain how the longer we own a business the more we gain. At the same time, we acknowledge the only constant in business is change and there are always exciting opportunities.

Portfolio Update

We initiated a position in **Home Depot (HD).** HD and Lowe's (LOW) are the world's two largest home improvement retailers. Both are benefiting from brisk activity in the housing market supported by rising incomes and a 16 year low for unemployment. The housing market currently faces tight supply and rising prices. Home price appreciation makes existing homeowners feel wealthy and more willing to renovate. Looking further out, household formations by 25-39 year olds are picking up and homebuilders are seeking available lots to ramp up production of affordable starter homes. Annual housing starts could increase 25% to 1.9 million by 2021, up from the demographically sustainable level of 1.5 million, and up 73% from the current 1.1 million units pace so far in 2017. HD is also well respected for its business execution and efficient supply chain due to economies of scale, as well as improved merchandising and distribution network. With its acquisition of Interline, HD is expanding even further into the professional market. In fact, HD is the leader in the Pro market but it represents less than 5% of its $50 billion in annual sales, so there is a great opportunity for expansion. If HD can continue its solid 5%+ same store sales growth, then we believe it has additional attributes as well that will support a three+ year outlook for revenue and earnings growth in the mid to high single digits and low teens, respectively.

Longer We Own the More We Gain

To make room for HD, we shaved our position in **C.R. Bard (BCR).** We will likely be taking a shorter victory lap with BCR than we would have preferred. We have owned BCR for less than 15 months and the stock is up in excess of 40%. In April, Becton Dickinson (BDX) announced its intention to buy BCR for approximately $24 billion, including $222.93 in cash and 0.5077 share of BDX for each share of BCR. We expect the merger to be completed before year end and we will evaluate as the year progresses if we want to be owners of BDX. We mention short victory laps because our preference is for a much longer ownership period, in which time allows a company to double or triple its earnings and the stock price to follow that same path. We own several companies today, not to mention throughout our 20 year history, in which we have benefitted from earnings growth over long ownership periods. A few of our current holdings where long ownership yielded significant earnings growth and appreciation (excluding dividends) are below:

Company	Year ownership (Years)	Earnings per share Year of purchase	Current EPS Estimate	% Change	Original purchase Price	Current price	% Appreciation (excl dvds)
Accenture	2009 (9th Year)	$2.68	$5.86	119%	$36.46	$123.68	239%
Berkshire *	2001 (17th Year)	$37.88	$126.55	234%	$43.17	$169.37	292%
Alphabet (Google)	2008 (10th Year)	$8.35	$33.98	307%	$174.37	$929.68	433%
Checkpoint Software	2009 (9th Year)	$1.68	$5.17	208%	$32.34	$109.08	237%
Nike	2006 (12th Year)	$0.66	$2.41	265%	$10.51	$59.00	461%
Visa	2010 (8th Year)	$0.98	$3.37	244%	$18.79	$93.78	399%

* Book Value (Best indicator for growth in intrinsic value for Berkshire is book value)

Optimists Forever! Futurists Not So Much!

Quite simply, if you're an investor then you're an optimist. Some folks may feel that personally they are not an optimist; but we all are by default, as the true opposite would be burying your head (and your money) in the sand, and none of us are doing that. Of course you engage us to manage your optimism (investments) and we carry out this process with great care and discipline. We engage in a rules-based process we refer to as the **SEM-Disciplined Investment System** (SEM-DIS) that over time has proven to earn a better return while taking less risk than the market. But we also know the journey is bumpy and reasonably consistent with the old adage "two steps forward one step back." Part of the rules of our SEM-DIS involves studying the data on the income statement, the direction of the business and the profitability; we prefer that both are expanding. We also examine the balance sheet to understand if it is getting stronger or weaker, as we prefer stronger. We also want to understand the underlying reasons a company is growing, shrinking or staying the same, whether its products or services are in demand, and what the competitive landscape is like.

We are living in exciting times as investors. Businesses seek to capture profits and returns on capital by satisfying one primary goal, accelerating consumer satisfaction. I can't recall a time in history in which a few companies grew so large in such a short period of time and are serving such large customer bases so quickly. It has been amazing the rapid interest in the products and services that an **Apple**, **Alphabet (Google), Amazon** and **Facebook** have created and offer, as well as global companies such as **Tencent's** with its WeChat social and services network offering.

At the base of these new products and services are core innovations in technology such as the microchip, the internet and wireless services. Looking back for a moment, the personal computer in the 1980s certainly started the process, but it was Apple's iPhone and then Google's Android operating software for mobile phones that were transformational. The handheld device has spawned new industries and destroyed others. On the destruction side, just one example is digital cameras. Shipments are off 80% since 2010 even though photos are more plentiful than ever before.

Importantly, it may be just getting started. The smartphone is now your personal assistant displacing your alarm clock, AAA triptiks (map), encyclopedia and weatherman as we are just scratching the service. What about the phone itself? The primary usage of this device is not for voice calls like it used to be a decade ago. Accessing Facebook to check in with your social world is one of the highest uses of a smartphone. As of March 31, nearly 2 billion users were logging in at least once a month with the majority on mobile devices. Mark Zuckerberg, Facebook's CEO, self- describes the company as the "world's social infrastructure".

It is amazing that Facebook is one of the five most valuable companies on the stock market, yet it has only been a pubic company for five years. If we take a step beyond optimism we may ask ourselves do we need to be "futurists" to be successful in investing? "Futurists" according to Wikipedia (a free online Encyclopedia), refers to people who attempt to predict the future. Predicting the future is notoriously difficult to do and we are not aware of anyone that has a successful track record here. From an individual business standpoint, the trajectory of what's ahead isn't always obvious. So to be a successful investor you should have a process in which you *observe* (with excitement) rather than *predict* what the future may hold. A discipline based on observing data points as businesses evolve over time is critical. You then layer those observations within your investment process to make the best decisions possible, realizing you will not capture every opportunity and that you can occasionally miss out or wrongly judge the competitive strength of a business.

Warren Buffett at his shareholder meeting this May said he "blew it" and regrets missing out on investing in GOOG, even though he understood the company's growth prospects. But as we know he has done all right for his investors and himself as we noted in the table above in our seventeen year ownership of Berkshire Hathaway.

Full Speed Ahead

As the world and business change, we understand at SEM that our investment process evolves along with it to remain relevant. And like Warren Buffett, we have had our share of missed opportunities but still generate good results over time. As we approach our twentieth anniversary, it is exciting that the **SEM-DIS** is sound and requires no change in the markers that identify above average companies. Our process is always geared towards discovering companies that are leading economic growth.

The accumulated size and scale of the top five companies (those mentioned above sans Microsoft) and the momentum of upstarts feeding off the ecosystems they have created may be just getting going! Just a few of the product and service areas that are changing in the recognizable consumer space include (1) Food consumption from packaged to prepared fresh (2) Transportation from drive yourself to self-driving, (3) Retail products purchasing, including clothing and footwear, from go to the store to never leave your house and (4) Entertainment from traditional cable to a plethora of internet-based service choices. We will keep an eye on the exciting changes ahead and both the positive and challenging impact on our portfolio companies. We look forward to continuing to grow the value of our portfolios through the growth of our businesses. Best wishes to everyone for a terrific summer!

We thank you for your continued confidence.

Sincerely,

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

Suncoast Equity Management, LLC

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
YTD	+14.7%	+9.3%	$ 1,147,400	$1,093,400
Three-Year	+7.9%	+9.6%	$ 1,254,800	$ 1,317,000
Five-Years	+13.3%	+14.6%	$ 1,863,500	$ 1,979,200
Ten-Years	+7.8%	+7.2%	$ 2,116,200	$ 2,000,800
Inception (19 1/2 Years)	***+8.3%***	***+6.8%***	***$4,705,200***	***$ 3,602,000***

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