



Suncoast Equity Management, Inc.

July 2, 2005

Dear Client:

Listed below are Suncoast Equity Management's performance results versus the Standard & Poor's 500 Index for the period ended June 30, 2005:

<u>Time Period (Ended 6/30/05)</u>	<u>SEM % Return</u>	<u>S&P 500 % Return</u>	<u>SEM - Value of \$1,000,000</u>	<u>S&P 500 -Value of \$1,000,000</u>
First Six Months	-2.30%	-0.82%	\$ 977,000	\$ 991,800
One-Year	+2.69%	+6.32%	\$ 1,026,900	\$ 1,063,200
Three-Years	+8.29%	+8.28%	\$ 1,270,010	\$ 1,269,700
Five-Years	+2.58%	-2.39%	\$ 1,135,900	\$ 886,100
Since Inception (7 1/2 Years)	+ 9.17%	+4.31%	\$ 1,930,500	\$ 1,372,200

* Composite results of all SEM managed accounts, net of all fees.

Note: Results for the three-year, five-year and since inception period represent the annual average rates of return.

Our portfolio changes in the second quarter include two new additions, **Becton, Dickinson & Co. (BDX)** and **PepsiCo, Inc. (PEP)**. BDX manufactures and sells a broad range of medical supplies, devices, laboratory equipment and diagnostic products. The company drives sales growth through innovation and attention to industry demand. One important example is answering the need for greater safety-engineered products that include needles, syringes and blood collection systems. The company operates three segments. Notable products in these segments include the *Paradigm Link®* blood glucose monitor and "smart" insulin pump (Medical segment) developed with **Medtronic**; the *BD EpiCenter Microbiology Data Management System* (Diagnostics) that helps, through detection and diagnosis, curtail the spread of drug-resistant "super bugs"- a growing problem for clinics and hospitals; and highly sophisticated instruments including the *BD FACSCanto system* (Biosciences) that enables researches to better understand the HIV/AIDS pandemic and hopefully lead someday to development of an effective vaccine. BD also improves profit margins through an "operational effectiveness" plan that includes lean manufacturing and Six Sigma programs.

All of us are very familiar with PEP. Its products include carbonated beverages such as the Pepsi and Mountain Dew brands and a strong presence in faster growing noncarbonated products including Gatorade, Aquafina and Propel Fitness water. PEP is also a leading snack food company with its largest consumer favorites being Lay's, Ruffles, Doritos, Tostitos and Cheetos. Considering both businesses, PEP owns 16 brands that each generates over \$1 billion of retail sales annually. PEP is well equipped to satisfy customer preferences for healthier beverages and snacks both in the U.S. and abroad, where the potential is greater.

The company has been gaining strength by improving its profit margins and boosting returns through share buybacks.

Reviewing the table on the previous page, you have to look to our "since inception" time frame of seven and one-half years to get a sense for the value of our results. What does this tell us about successful investing? Successful investing requires a solid discipline (as we discussed in our January 2005 letter), patience and a proper temperament. Temperament, though hard to measure, is the key to executing the discipline and consists of several factors, which include;

1) ***Value history and do not be preoccupied with current events*** - History should make optimists of us all yet we do not routinely consult the past. We have experienced such a long list of terrible times including the great depression, WWII, Cuban Missile Crisis, 9/11, serious market declines from 1968-1974 and 2000-2002, and others. Yet investors continually take heed of the talking heads in the media which can make anyone a pessimist on any given day. What we forget is that the long term advance of equity values has been permanent. The last century for America has been one of the most remarkable success stories in the history of the world. Our future is also bright and overall you should be positive, as history has proven.

(2) ***Know your circle of competence*** - For successful investing, knowing where you rank on the intellectual scale is more important than a very high IQ. For sure Wall Street attracts more than just a few high IQ folks yet this group has produced mediocre results. The key to making good investment decisions involves knowing your limits and having that certain temperament to make independent judgments and not be influenced by others. A solid discipline, which you stay within, makes fewer mistakes and minimizes big losses. Experience helps here.

3) ***Understanding that high demand for an investment leads to high prices, the investor's foe*** - As investors, we will buy financial assets, such as stocks, bonds, real estate, etc for as long as we live. At SEM, we recognize that people can lose the concept of value bidding up prices of assets at certain times, including technology stocks a few years ago and perhaps real estate today. Of course, some parts of real estate, especially primary residences, can behave differently if people live there. We have a lot of experience talking with professionals and individuals who know the price of everything and the value of nothing. We take the time and do the work to assess the value of an investment.

We don't know exactly what the future will bring but we are confident it will yield reasonably good results. Making a choice between long-term bonds at around 4.25% and the extraordinary movement in some areas of real estate, equities should do comparatively well over the long run. Thank you for your continued confidence.

Sincerely,
Donald Jowdy
President