Suncoast Equity Management, Inc.

July 3, 2009

Dear Client:

SEM's performance of +3.5% through June 30th is in-line with the +3.2% gain for the S&P 500. The equity markets rebounded from lows hit on March 9th. Our "out-of-favor" healthcare holdings may be stunting our performance near term but we feel confident about their future. Any period, especially economic declines, is fraught with catch phrases promoted by the media. We explore two of the more popular buzz words, "green shoots" and "buy and hold is dead".

Seeking growth – Medical is still a leader

As we make our way out of the deep recession, SEM will own and continue to seek businesses with growth prospects. Healthcare is a hot topic in the U.S. and it has put a damper on most stock prices in this industry. At the same time, this sector is seeing demand for its products and services continue to grow worldwide. The collision of these two trends is creating an attractive investment opportunity.

Lost in the shadow of President Obama's plans to rework healthcare is the fact that the number of U.S. citizens age 65 and older are growing at a rapid clip, so overall need is increasing. Regarding the U.S. government's future plans for healthcare, our companies already sell product in the managed care environment in Europe and have been dealing with it for years. We strongly believe they can address changes by working with U.S. officials and focusing on key elements of future growth such as innovation and productivity enhancements. As leaders in innovation, we also see the long-term potential of foreign expansion. We believe the growing appetites from markets such as China, India and Latin America, are underappreciated and that the percentage contribution to overall revenues from these regions will rise.

Changes in healthcare are on the horizon but they will not have a major impact on the above average returns on capital that our select portfolio holdings currently earn. The below table highlights our medical holdings versus the market and we have included for comparison, their return on capital, price to earning valuation (P/E), 2009 estimated earnings growth (EPS), percent of revenue from operations outside U.S. and Europe, and portfolio weighting.

June 30th, 2009	Return On Capital	P/E Ratio	2009 Est. EPS Growth	% Revenue Outside U.S./Europe	% Portfolio Weighting
Abbott Labs	18.8%	12.8	10.5%	20%	3.7%
Baxter	22.8%	14.1	10.9%	18%	5.4%
Becton Dickenson	19.6%	14.6	9.8%	21%	4.2%
Gilead Sciences	36.5%	18.8	20.9%	7%	4.3%
McKesson*	15.1%	11.1	-7.5%	nil	2.6%
Patterson*	14.5%	12.4	0.0%	nil	2.1%
St. Jude	18.7%	16.4	10.9%	11%	4.5%
Varian	28.1%	14.1	8.7%	22%	1.9%
				Total	28.7%
SEM Medical Average	**21.8%**	**14.3**	**8.0%**		
Standard & Poor's 500	**9.3%**	**15.9**	**-3.8%**		

* - Primary business is and likely remain U.S. based

The comparisons are all favorable versus the general market index of the S&P 500. Return on capital and the 2009 earnings growth rate are higher and the price to earnings (valuation) is lower on average.

<u>Green Shoots?</u>
There is a lot of talk about green shoots. Our take is that the economy is stable but a broad recovery is not yet in the line of sight. GDP declined at an annual rate of 6.3% in the fourth quarter of 2008 and then decreased at 5.5% in the first quarter of 2009. The Federal Reserve managed to steer the financial markets away from the cliff and bring liquidity back, though not without the later consequences of inflation that we will be watchful for. The economy will likely contract at a lower rate over the next few quarters; unemployment will continue to rise, albeit at a slower pace, and will lag the turn up of the economy. One of the reasons it may take longer for the economy to turn up can be seen in the personal savings rate jump to 6.9% from 5.6% in May and April respectively. The May savings rate was at a level not reached since 1993 as consumers remain frugal and clean-up their balance sheets (the savings rate lift in part came from one-time government payments to qualified seniors under the economic stimulus act). Another useful gauge is the consumer sentiment index, which rose to 70.8 in June, up five months in a row and up from the cycle low of 55.3 in November 2008 but well below its peak of 96.9 in January 2007. Prone to move before employment and production indicators is the Institute for Supply Management's (ISM) monthly survey of new orders. This leading indicator (as opposed to employment being a lagging indicator) bottomed in December at 23.1 and came in at 51.1 for May. The ISM signals expansion when it is above 50 and contraction when below.

<u>Buy and hold is dead?</u>
One mantra making its way through the investment grapevine is that "buy and hold is dead." This phrase is commonly attached to those of us that invest within the intellectual framework of value investing (universally established by Ben Graham, Phil Fisher and Warren Buffett). We had a recent personal experience with a local investment manager who remarked that "buy and hold will never work again" and that SEM should change our **Disciplined Investment Strategy** (SEM-DIS). This particular manager, and all those that believe this tactic is dead, misunderstand the core philosophy and will most likely never position themselves to generate above market returns while taking less risk over the long term.

"Buy and hold is eternal, there's no way around it" is how John Bogle of Vanguard put it recently. He is exactly right. For as long as Colgate exists as a business, someone will own it and it will have shareholders whereby each day someone offers their shares for sale to someone else. The only truth, which the naysayers don't realize themselves, is that in the short-run, <u>business (stock) prices</u> are significantly more volatile than <u>business (intrinsic) value,</u> especially today.

In most cases business (intrinsic) value will steadily rise or fall over time, such as with **Colgate,** the former, and **General Motors,** the latter. At SEM, our discipline foremost seeks companies with a strong probability of increasing business (intrinsic) value over time and for business (stock) prices and our investment returns to follow that same path. Business (intrinsic) value is determined through research and not by staring at the ticker tape on CNBC. We also emphasize those companies whose business (stock) price is offered to us at below its business (intrinsic) value.

On occasion, business value can either erode or appreciate meaningfully in a short time span. One example was the fast decline of the printed encyclopedia business which got destroyed by nominal pricing for the same service on CD-ROM and then ultimately became worthless when www.wikepedia.com came to be. Newspapers are another business we have mentioned in the past that have undergone recent significant erosion. Advances in technology accelerate the process (positive or negative) and economic declines can also make secular business change more visible.

The very high volatility that we have today creates an environment in which a business (stock) price can be well below or above business (intrinsic) value during short time periods. If the stock price significantly exceeds or is well below, you act accordingly. In the short-run it can result in higher portfolio turnover but price volatility never changes the SEM-DIS discipline of value investing, which is recognizing the difference between value and price.

The pending economic recovery will take some time but we believe we are well positioned with a portfolio currently priced below (at a discount to) the general market and sporting better than average businesses. Thanks for entrusting us with you capital; it is a responsibility we take very seriously. Please call anytime.

Sincerely,

Donald R. Jowdy
President

Suncoast Equity Management, Inc.

Performance results versus the Standard & Poor's 500 Index

Time Period (Ended 6/30/09)	SEM % Return*	S&P 500 % Return	SEM - Value of $1,000,000	S&P 500 - Value of $1,000,000
One- Year	-15.74%	-26.15%	$ 842,600	$ 738,500
Three-Year	-4.21%	-8.22%	$ 878,800	$ 772,900
Five-Years	-2.05%	-2.24%	$ 901,600	$ 892,700
Seven- Years	+1.57%	+0.92%	$ 1,115,100	$ 1,066,000
Ten- Years	+2.39%	-2.23%	$ 1,266,800	$ 797,800

* 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			
			Relative
Year	**SEM***	**S&P 500**	**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%
1st half of 2009	3.52%	3.20%	.32%
Since Inception (Overall Gain)	69.49%	15.21%	54.28%
Average Annual Gain	4.69%	1.24%	3.45%

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

Highlight denotes years of meaningful underperformance.