Suncoast Equity Management, Inc.

January 4, 2011

Dear Client:

This past year provided positive returns for both SEM clients and the general market indexes. SEM's portfolio appreciation lagged the strong earnings growth for our businesses and we also trailed the market averages in 2010. We believe this is a very good portfolio today and for the long run. At year-end many of our holdings are at unprecedented low valuations compared to their fundamental values and in general, equities are likely to outperform more currently popular assets such as fixed income. We believe our portfolio is poised for further gains in 2011 and beyond.

Unprecedented Value

We believe our portfolio holds substantial value. Our portfolio companies will finish 2010 with an average 10% revenue gain and 15% earnings gain. Furthermore, 2011 forecasts call for nearly a 10% revenue gain and 13.5% earnings advance. Over the long term there is a direct correlation between earnings growth and rising stock price. That did not occur for us in 2010 with our portfolio performance up only 6.8%. Another factor supporting great value in our portfolio is that throughout our thirteen year history we have never had so many of our holdings at such low valuations, as highlighted below:

Company	Price to Earnings Ratio (P/E)	Earnings Yield	% of portfolio	2011 Est. Earnings Growth Rate
Gilead Sciences	9.3	10.8%	2.6%	16.6%
Hewlett Packard	9.4	10.6%	5.7%	12.2%
Harris Corp.*	9.4	10.6%	5.2%	12.1%
General Dynamic	10.0	10.0%	4.4%	5.2%
Abbott Labs	10.3	9.7%	4.1%	12.0%
Microsoft *	11.4	8.7%	6.2%	16.2%
McKesson	13.0	7.7%	4.5%	11.6%
			32.7%	
S&P 500	13.5	7.4%		
AA - 20 Year Corporate Bond		5.1%		

* Projected earnings growth for fiscal year ending 6/30/11

The table above reveals that we have one-third of our portfolio selling meaningfully below the market averages in spite of solid growth expectations for these individual companies. When we invest in our companies we look to benefit from both (1) intrinsic (earnings) growth and (2) improvement in valuation; for example a rising price to earnings ratio from say 10 times to 13 times. We believe that the above companies could benefit from both factors, thereby doubling the source of appreciation potential in 2011 for our portfolio.

It has been our experience that our portfolio should be valued at a higher Price to Earnings Ratio (or inversely, the earnings yield) than the S&P 500 because our portfolio consists of companies that earn high returns on capital and have stronger balance sheets than the typical company in the Standard & Poor's 500. Yet this is not currently the case. Today the SEM portfolio is in-line, with a Price-to-Earnings Ratio (P/E) 14.1 times (earnings yield of 7.1%) versus S&P 500 P/E at 13.5 times (Earnings Yield of 7.4%). This factor combined with the above observations for several individual holdings should point to better relative performance going forward for SEM. Lastly, for both our portfolio and the S&P 500 the earnings yields are substantially higher than 5.1% for AA corporate bonds, lending continued support that stocks are more attractive than bonds.

Portfolio Review and Developments

Our companies continue to deploy accumulated earnings in smart ways. From the table above and in our portfolio for over two years is **McKesson** (MCK). MCK, the U.S. industry leader in drug distribution with a 35% market share, agreed to buy privately held US Oncology for $2.2 billion, which will expand its cancer services business and expand its footprint in the booming specialty distribution arena to 25% from 16%. The acquisition will not be a financial burden at all since MCK boasts net cash of $775 million as of September 30th and is generating approximately $1.3 billion net free cash flow annually. **PepsiCo** (PEP) reached an agreement, still subject to government approval, to acquire Russian dairy and juice maker Wimm-Bill-Dann for $3.8 billion. This will give PEP the largest and most developed food and beverage distribution networks and builds out its noncarbonated portfolio in that country. According to analyst reports, the value-added dairy market in Russia has been growing at more than 20%.

We trimmed our PEP holding late in the quarter so we could make room for an increase in **Accenture** (ACN). ACN reported an excellent fiscal first quarter just before year end, with operating results above expectations and driven by strong demand for management consulting and technology consulting. ACN reported increasing strength in the Systems Integration (SI) business with new bookings at the highest level in nine quarters, and which is about 50% of the consulting business. ACN generates tremendous excess free cash flow that is supporting both business reinvestment and strong return of capital to shareholders through share buybacks and dividend payments.

The need to reduce our federal deficit has shined a negative light on the defense budget and the public companies that supply our safety. Two of our companies, **General Dynamics** (GD), with a backlog that represents nearly two years worth of sales, and **Harris** (HRS) will steer through the assault and prosper. Without digging too deep into the debate, defense spending, despite current activity, is about 4.9% of gross domestic product, down from 6.5% since World War II and 6.2% in the Reagan-era peak. Our ships, tanks, and air defense equipment are declining in numbers and are decades old so replacement is inevitable. Also, both GD and HRS are at the forefront of technology that often times are applied in commercial applications. Cyber security is a critical issue and complex corporate networks are often referred to as the "weak underbelly of the U.S." GD in the not too distant past helped TJX, parent company of T.J Maxx and Marshall's retail stores, identify how a breach occurred that led to the theft of millions of customer records. We believe these two holdings in our portfolio offer reasonable growth potential at very good value.

Contrary to popular (and the market's) belief, **Microsoft's** (MSFT) core business of Windows, Server Software and Office Software is doing very well. We had written about MSFT in our last letter but it is worthy again as the share price was mysteriously down 6.7% in 2010. For the quarter ended September 30th, MSFT bookings grew 24%. For the first time in several years prices for personal computers are on the rise, increasing in six of the past eight months. Software and hardware companies, including **Hewlett-Packard (**HPQ), are focusing on premium machines and seeing profit margins expand. MSFT's next step is to execute a successful expansion to a more open architecture on the cloud (internet) which some believe is a bigger opportunity than its Windows and Office divisions currently. HPQ gained share in its high margin networking and server business last quarter but the focus has been on a recent CEO resignation. With the new CEO, Leo Apotheker (formerly with SAP), gaining acceptance and solid commercial business momentum, we should see the stock price close the gap toward its higher intrinsic value in 2011.

Our healthcare holdings continue to demonstrate solid growth yet weak price appreciation. **Becton Dickinson** (BDX) reported a robust earnings growth in the final quarter of its fiscal year ending September 30th and boosted its cash dividend by 11%, slightly trailing its amazing 15% compounded annual dividend payout rate over the past decade. Emerging market revenue at 19%, the highest among its peers, is growing 2-3 times the developed world rate.

In 2010 our companies leveraged their financial strength by taking advantage of record low interest rates by rolling over or issuing new debt. One recent example is **Colgate**'s 5 year debt issued at 1.5% and 10 year debt at 3.15%.

Marching On

We are in the early days of an economic recovery that is shaping up at a slow but steady pace in spite of a few key challenges. One obvious issue is high unemployment levels in the U.S. If China volunteered to de-link its currency from the U.S. dollar it could structurally improve our employment imbalance and increase the attractiveness of U.S. exports. Another key concern includes the budget deficits and current debt levels of U.S. government, municipalities and various mature European nations. On the opposite and positive side is the general strength of corporate balance sheets, especially our companies. Housing will likely remain weak in 2011 and the new healthcare plan is not a better path, but we can live with it if we have to. Good news includes strong corporate earnings and the extension of the lower tax rates for two years.

At SEM we don't reach for making the most money but we seek a good return while taking the least amount of risk. We continue to believe that ownership of a small collection of businesses with competitive advantages and great financial strength will generate gratifying investment results. For 2011 we believe on a relative basis stocks are far more attractive than bonds. We look forward to the opportunities and challenges in 2011 and believe it will be a very good year for our portfolio companies. We welcome your call at anytime. Thanks for your support and Happy New Year!

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**
One- Year	+6.83%	+15.06%	$ 1,068,300	$ 1,150,600
Three-Year	-2.33%	-2.86%	$ 931,600	$ 916,700
Five-Years	+2.11%	+2.28%	$ 1,110,000	$ 1,119,500
Ten- Years	+2.92%	+1.40%	$ 1,333,500	$ 1,149,000
Inception (13 Years)	+6.19%	+3.80%	$ 2,182,200	$ 1,624,300

* 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.