SUNCOAST EQUITY MANAGEMENT, LLC

January 4, 2021

Dear Client:

In this extraordinary year in which events were shaped by a global pandemic, SEM's portfolio gained 26.7% versus the S&P 500's + 18.4%. A few key factors likely contributed to the final print for the year including fundamentally much better earnings growth than originally thought (for our portfolio at least), and the year ended on a note of hope and optimism (since markets are forward looking) towards vaccinations and U.S. election results that may imply gridlock.

Operations for our businesses shined this year as the **SEM-DIS (Disciplined Investment System)** completes its 23rd year of favoring growth companies. Our businesses were in growth mode pre-pandemic, but this event sped up demand for their products and services, ranging from higher needs for workout gear from **Nike** to a greater need for remote cloud services provided by **Amazon** and **Microsoft**. With success comes scrutiny, government opinions regarding market dominance and possibly regulation and antitrust actions. While we believe this requires close attention, we have some experience with the impact these things could have on our portfolio holdings and offer a few thoughts below.

During the quarter we added to our existing **Amazon** position, initiated a new position in **Regeneron**, and because we are nearly fully invested made the relative decision to sell our small position in **Honeywell** and trim our ownership in **Mastercard** to support these purchases.

<u>Leaning into Growth</u>

The SEM-DIS seeks growth businesses because our investment philosophy simply put is that stock prices follow the direction of earnings (intrinsic) growth or lack thereof. Earnings growth, measured against the capital it takes to create that growth, is key. SEM has outperformed the market averages for your portfolio because our earnings growth is much better over time, and in some years materially so, such as in this past year. We accomplished this goal by owning a small collection of growth businesses, typically around 20, as compared to a large basket of 500 companies representing the entire economy, such as the S&P 500.

At Covid-19's early onset the 2020 outlook for the economy and earnings collapsed; earnings estimates' for SEM's portfolio and the S&P 500 according to Reuters/Eikon were in the -5% and -30% range, respectively. For perspective, the lowest earnings growth year we experienced in our twenty-three-year history was +5% range in 2009. Fast forward through to yearend and at this point the earnings outlook for 2020 dramatically improved to +10% for SEM, compared to some improvement but still deep decline of -20% for the S&P 500. An early look into 2021 projections are for growth of +12% for SEM versus the S&P earnings significant recovery from 2020 but still essentially flat compared to 2019.

Companies that exhibit growth characteristics can have long runaways borne out of internally developed innovation and structural shifts within the economy. They can have so much strength that they power through recessions or other economic declines triggered by events such as the pandemic. One structural shift taking place over the last 15+ years is the way a business attracts the attention of buyers of its products and services, in other words advertising. Some 40 years ago Warren Buffett made his first investment in newspapers, one of the more successful conduits of effective advertising at that time. Now, for the first time, the majority of U.S. advertising will be done on digital platforms like **Google (GOOG)**, **Facebook (FB)** and **Amazon (AMZN)**, rather than TV, radio, magazines, and newspapers. Marketers are expected to have spent $110 billion on digital ads in 2020 (not including political ads), which would represent 51% of total ad spend according to GroupM, a division of WPP which is the world's largest advertising company. That's up from 33% in 2017. The growth in the digital ad industry is supported by several advantages over traditional media, like the ability to target very specific audiences and get higher return on investment (ROI) based on quantifiable results. Creative costs are low with ad tools from GOOG, FB, AMZN and **Adobe (ADBE)** to help even small and mid-size businesses create professional content.

Strong revenue growth and increasing profitability are what led us to our initial purchase of GOOG in 2008 and FB in 2016. More recently AMZN began selling digital ads based on its trove of consumer data and is one of the main reasons we initiated a position in 2019, as well as its Amazon Web Services (AWS) and its third-party seller Marketplace. With broad based growth in its most recent quarter in digital ads +51%, AWS +29% and third-party sellers +55%, we increased our AMZN position in the belief that revenues and margins will continue to experience double digit growth for several years.

But with long runways of growth and profitability comes competition and as previously mentioned, regulatory scrutiny. In the last year the U.S. has stepped up its analysis of big technology companies at both the federal and state level regarding antitrust issues and monopolistic behavior. The European Union was an early critic of GOOG, FB, and AMZN claiming the companies abused their market leading positions and requiring them to pay billions of dollars in fines. Yet, the businesses maintain industry leading market share in Europe and continue to grow 15-20% a year.

One of our largest positions, **Microsoft (MSFT)** was the center of similar scrutiny for more than two decades. They eventually settled with the Department of Justice and successfully argued that the company didn't need to be split into separate businesses. Management acknowledged later they were distracted by litigation which led to several years of missed innovation and flat profitability and was the reason we sold our position in 2015. MSFT found its way back with tremendous growth in cloud services in the last few years under new CEO, Satya Nadella, and as a result we repurchased it in 2018. The company was just ranked first out of 250 as the best managed company in a survey by the Drucker Institute and we expect MSFT to continue to execute well.

We have had other portfolio companies that have navigated and continue to navigate today the constant change in competitive and regulatory waters, such as **Visa (V)** and **Mastercard (MA).** These two companies have had a long runway of success and are leaders in the transition to a cashless society. We have always believed that excess profits from successful businesses attract competition from peers and new market entrants. We think competition is a greater long-term threat than regulation. More than ever GOOG, FB AMZN, AAPL and MSFT compete against each other, as well as upstarts such as Trade Desk Inc., to attract digital advertising customers. Much in the same way, V and MA battle innovators such as **PayPal (PYPL)**, Square and others. Although no set of government actions are exactly alike, we will watch closely for data points that handcuff our businesses and more importantly impact their competitiveness and profitability; though our experience tells us that innovation always moves faster than the regulatory environment.

Portfolio Update

With our bias for growth, we have followed biotechnology firm **Regeneron Pharmaceuticals (REGN)** for a few years. REGN's most successful product is Eylea, a treatment for retinal eye diseases like wet AMD (age-related macular degeneration) and diabetic eye disease. Eylea sales were +11% in the third quarter as it continues to gain market share. Another core brand is Dupixent for atopic dermatitis and asthma, which grew +69% to generate $1 billion in quarterly sales for the first time. The company has been in the headlines lately with its antibody cocktail for Covid-19 that not only reduces the viral load but also reduces hospitalizations in severe cases (President Trump was given REGN-COV2 when he was diagnosed with Covid). REGN has a broad and diverse pipeline of treatments with 20 compounds under development for degenerative eye diseases, inflammatory disorders, and cancer. Sales should be +8% and earnings +20% in 2020 with slightly better results expected in 2021. We will look for opportunities to increase our position as REGN executes on these goals.

Trading decisions are always relative for us, especially if our cash position is low. In order to increase AMZN and initiate a position in REGN, we sold our small position in Honeywell (HON) after reducing it last quarter due to a slower recovery in their Aerospace and Energy segments. With the drag of these two units, Honeywell may not grow their earnings until 2022. We also trimmed our Mastercard position due to general softness in cross border transactions, an important business segment for both V and MA.

In other portfolio news, our core holding **Home Depot (HD)** acquired its former subsidiary **HD Supply Holdings (HDS)** for $8 billion (HD spun off HDS in 2007 to focus on retail). With a new executive team, Home Depot is reacquiring HD Supply from a position of strength to grow its presence in the highly fragmented $55 billion MRO market (maintenance, repair and operations). HDS fits into Home Depot's emerging digital strategy for B2B (business to business) sales and will allow commercial customers to buy online or in store. The transaction is expected to accelerate sales growth and be accretive to fiscal 2021 earnings as well as create long term shareholder value.

2021, post-election

In our October letter we promised some post-election comments. As discussed in previous letters, we typically do not take a stand on politics and do not allow political events, interesting as they may be, to cloud our investment selection process. However, as we all know this was not a normal year, politically speaking or in any other sense. Regardless of your preference, the Presidential race has been decided to the satisfaction of approximately half the country and the displeasure of the other half; it was a close race. The Democrats held on to a majority of the House, while losing some ground. As of this writing, the Georgia Senate runoff, which will effectively establish control of the chamber, has not been decided. At the end of the day, we don't expect these developments, in and of themselves, to have a major impact on our portfolio companies, though they could impact financial planning for individuals.

Our election comments may not bring any depth, but that is as deep as we will get when it comes to politics. As is frequently done in political commentary on television, we will bring in another expert. How about the Oracle of Omaha, Warren Buffett? Here are two of his old quotes that still give us perspective today: *"We will continue to ignore political and economic forecasts which are an expensive distraction for many investors and businessmen."* and *"Forecasts may tell you a great deal about the forecaster; they tell you nothing about the future."*

Fighting the Covid-19 pandemic has been a global battle this year. Sadly, still more lives will be lost in the fight against the virus as we face what will likely be the final surge this winter. We will continue living with it, albeit with lower prevalence, for quite some time. There is still much to do to help those that were disproportionately impacted, both economically and health-wise. We give our utmost thanks to the dedication of healthcare, first responders and frontline workers that have helped so many in need, and as always, our respect to those that serve to support and fight for freedom and safety.

Back in March, it was very difficult to envision a light at end of the tunnel. But that light is starting to beam through the cracks in the Covid-19 foundation. It is a modern miracle and has truly been amazing to watch the short development time for vaccines and treatments by the pharmaceutical industry. In 2021 we have an important year ahead, the vaccine and Covid-19 therapy distribution will be the largest global program ever conducted, and as expected the roll-out is already facing some logistical bumps.

Our focus remains, as always, on the fundamentals of individual businesses, and the ever-evolving economic landscape shaped by both natural and unnatural circumstances, advances in innovation, science and technology. We also keep a close eye on changes in trade, antitrust, patent law and tax policies, but are of the opinion that businesses with competitive advantages survive, adjust and excel.

We are grateful to our clients for allowing us to guide them on the path of investment management and building wealth over decades. Warren Buffett said it best 25 years ago in his 1996 annual report that there are "few thoughts worth remembering." To paraphrase: "Intelligent investing is not complex, though that is far from saying that it is easy….your goal…should simply be to purchase at a rational price a part interest …in a business whose earnings….will be materially higher five, ten and twenty years from now…." This is precisely what SEM has strived to do with solid success during the first 23 years and will continue to work on for the next two decades and beyond. We included the complete quote in a separate page that we hope will find its place in your regular or home office, much like it has for every colleague at SEM. Best wishes to all for a healthy and successful 2021. Thank you for your confidence and trust and as always, we will keep working hard at it.

Sincerely,

Don	*Amy*
Donald R. Jowdy	Amy Lord, CFA
CEO/CIO	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**
One-Year (2020)	+26.7%	+18.4%	$ 1,267,300	$ 1,184,000
Three-Year	+20.3%	+14.2%	$ 1,739,300	$ 1,488,500
Five-Years	+17.2%	+15.2%	$ 2,209,100	$ 2,030,400
Seven-Years	+14.2%	+12.9%	$ 2,525,100	$ 2,340,300
Ten-Years	+15.6%	+13.9%	$ 4,277,500	$ 3,670,000
Inception (23 Years)	***+10.2%***	***+8.1%***	***$ 9,334,500***	***$ 5,974,100***

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

Performance Disclosure

Suncoast Equity Management, LLC (SEM) is an independent investment management firm established in 1997. Suncoast Equity Management is primarily an equity investment manager that invests in U.S.-based securities. SEM also invests in high-grade fixed income. The Suncoast Equity Management Composite includes all discretionary, fee-paying portfolios managed within this strategy. The equity composite was created on 12/31/1997.

Bundled fees include management consultant fees, custodial, trading, and advisor fees. Performance is calculated gross of all foreign withholding taxes. Additional information regarding policies for valuing portfolios, calculating performance, and preparing compliant presentations, as well as a complete list and description of composites, is available upon request.

For the non-bundle fee accounts, the performance results presented are net of actual investment advisory fee and net of all transaction costs. For the bundle fee accounts, the performance results presented are net of actual investment advisory fee and net of all transaction costs and expenses. Investment advisory fees are described in Part II of Suncoast Equity Management, LLC's Form ADV. The management fee schedule is as follows: 1.00% fee on assets managed. The Firm does not assess performance-based fees.

It is impossible to invest directly in an index. The performance of an index does not reflect any transaction costs, management fees, or taxes. The index used for comparison is the Standard and Poor's 500 Total Return. It is an unmanaged index with no expenses, which covers 500 industrial, utility, transportation, and financial companies in the U.S. markets. It is a capitalization-weighted index calculated on a total return basis with dividends reinvested.

Valuations and returns are computed and stated in U.S. Dollars. The Firm does not use leverage or derivatives to implement the intended strategies.

Beginning in June 2002, accounts that experience cash flows in excess of 10% of the account's market value are temporarily removed from the composite. These accounts are added back to the composite when they are considered fully invested. The minimum account value for inclusion in the composite is $100,000. Additional information regarding the treatment of significant cash flows is available upon request.

Past performance does not guarantee future results. Investment returns and principal value will fluctuate. Investments may be worth more or less than their original cost when sold. It should not be assumed that investment decisions we make in the future will be profitable. Current performance may be lower or higher than the performance data shown. Returns include the reinvestment of all income.

Suncoast Equity Management claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Suncoast Equity Management has been independently verified for the periods 12/31/97-12/31/19. Verification assesses whether: (1) the Firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the Firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The SEM Equity composite has been examined for the period of 12/31/97 to 12/31/19. The verification and performance examination reports are available upon request. Suncoast Equity Management adheres to the GIPS valuation hierarchy Principles. For any additional information, please contact the Chief Compliance Officer at (813) 963-0502.

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