SUNCOAST EQUITY MANAGEMENT, LLC

July 2, 2020

Dear Client:

The battle against the Coronavirus pandemic defined the first half of 2020, and with near certainty will be the focal point for the second half of this year and into 2021. A clear picture of and the strategy to fight the virus has been elusive. There is no cure at this point and while it has gone unseen in some it has been unforgiving in others. Governments and corporations worldwide, especially biotechnology and pharmaceutical companies, are racing to develop treatment and vaccine regimens, which we have confidence will be in wide distribution within twelve months. Before that time the economy will expand and contract with the openings and closings ranging from entire countries like the island nation of New Zealand, to the local bars of Tampa, Florida. It is a delicate balance as we take this virus seriously, practice precautions and protect the most vulnerable as much as possible until treatments can be distributed. At the same time, we try to participate as much as possible in commerce, serving each other with the products and services we crave. We may be in the early to mid-innings of the world's encounter with the coronavirus, but we will overcome, as we have with other historic challenges.

The markets rebounded in the second quarter recovering much of the steep decline from February- March. SEM at the half-year mark is positive at +4.9% versus the S&P 500 which is negative at -3.1%. We address the one change made to the portfolio this quarter and share how the balance sheet and cash flow strength for our companies create opportunity and cushion transition. We also cover how Covid-19 has sped up digital transformation at home and the office and how two of our companies are leading the way.

Portfolio Update

The sale of a business from our portfolio is often a relative decision. We compare the current business momentum, long term fundamental competitive advantage and valuation between what we currently own and what is sitting on the bench (a baseball term for new available team members). In this challenging business environment, we are paying even more attention than usual to balance sheet strength and visibility of revenue and earnings. With these factors in mind, we sold our small position in **Starbucks (SBUX).** In June SBUX announced that due to Covid-19, its third quarter same store sales would be down 20-25% in China and down 40-45% in the Americas, due to store closures and fewer customers. Operating income is expected to decline $2+ billion as a result of lower sales and higher expenses tied to employee support programs. As consumers' routines have been disrupted, with fewer people driving to work and school, and fewer stopping at Starbucks along the way, the company is pivoting to smaller-format pick-up stores. From our qualitative viewpoint, at least for the foreseeable future, SBUX now must chase down its customers versus the magic of its original franchise being a great destination to meet your family, friends, or business colleagues. While we are confident SBUX will regain strength at some point, we just don't know how long the weakness will persist. With easy access to other choice businesses, we can make the change and pursue a business with better growth potential.

We used the proceeds to initiate a position in **Tractor Supply (TSCO)**. TSCO is a one stop solution for recreational farmers, those living rural lifestyles, tradesmen and small businesses. The retailer sells livestock and pet supplies, hardware, tools and truck equipment, seasonal gifts and toys, as well as clothing and footwear. Given its product lines, TSCO is benefiting from consumers' willingness to adopt new pets as well as having more time for do-it-yourself projects. The company has been working on its "One Tractor" strategic digital shift for years and began offering curbside pickup in March. As a result, first quarter same store sales were +4.3% and net sales were +7.5% driven by consumables, usable and edible products. Its new CEO, Hal

Lawton, is using his experience from Macy's, Home Depot and eBay to launch a mobile app that includes TSCO's Neighbor's Club loyalty program, personalized shopping and expert advice. Another trend that has been in place for years according to census data, but that will likely accelerate and benefit TSCO in this environment is a greater percentage of the population moving from urban to more suburban/rural areas of the U.S., which is where their stores and customers are located. These investments and trends should help TSCO generate double digit growth this year. As always, we will look for opportunities to increase our position in the coming quarters.

Balance Sheet Strength and Cash Flow Creates Opportunity and Cushions Transformation

As we alluded to in our April letter, the pandemic is causing nearly every industry to quickly adapt to changing circumstances as the future has arrived ahead of schedule. Since all our companies, even those with reduced profit levels during the coronavirus, generate an abundance of cash we get to observe how they gain strength during economic declines, and apply that to strengthen their competitive position. Our preference is to own companies that can be strategically proactive versus reactive, which as noted above is the position **Starbucks** now faces. **Accenture (ACN)**, on the other hand, has over $6 billion of net cash on its balance sheet and has applied its financial strength in the past 10 months with the acquisition of five artificial intelligence (AI) related companies, extending its leadership in digital services consulting to the world's top corporations. Market advisory firm Hampleton Partners observed that since 2018 20% of ACN's acquisitions have been AI-related, which compares to 10% for *all* tech companies during that span.

While many of our businesses excel, some of our portfolio holdings are successfully shifting to serve their clients despite suffering temporary profit disruption. **Nike (NKE)** is a great example of the shift occurring amidst the significant downturn in consumption affecting so many businesses. Overall sales in its last fiscal quarter ending May 31st declined 38% and fell 4% for the year, as citizens of the world hunkered down and stayed at home. As we started to adjust to life with Covid-19 by exercising in less densely populated areas such as our home versus a gym, our demand for footwear and sportswear remained. During a period where we could not go shopping at stores, NKE experienced 75% growth in digital sales that became 30% of total revenue for the fourth quarter. For the entire year it was 15% of total sales, up from 10% last year pre-Covid. NKE has been working on its "Triple Double" strategy, which includes doubling the impact of innovation, increasing speed to market and growing digital connections with consumers through the Nike Training Club (NTC) app, SNKRS app, Nike Fit, etc. The results in its Consumer Direct Offense are powerfully clear and lay the groundwork for higher sales and margins in the years to come.

NKE however could not escape the impact on profit levels for the quarter and fiscal year ending May; total net income fell to $2.5 billion from $4.0 billion year over year. If we look back to the financial crisis and recession of 2008/2009, net income for NKE was flat during that time at $1.7 billion. From a percentage basis the profit decline is significant, but unlike many other companies NKE still generated significant cash flow compared to many businesses that may experience net losses for the year. From a long-term perspective NKE's net income is double the level it was back then, and we have confidence in its future growth. From an SEM portfolio perspective, our earnings outlook for 2020 is about flat at this time, by comparison the S&P 500 earnings are expected to decline 20% according to Reuters Eikon. NKE is indeed following its customers as they shift to online purchases, but much like TSCO it has been working on this for several years. As it maintains premium pricing and market share for its products and services, NKE remains a long-term holding, though we always consider its weighting in the portfolio compared to other opportunities.

Life During COVID, #WFH (Work from Home) - Digital Transformations

We are all learning to adapt to this new environment, whether it's using video calls, working remotely or home-schooling our kids (some are doing all three at once!). Corporations are responding and doing the same whether it's setting up secure networks for employees to access data remotely, developing technology for remote collaboration among health care researchers and workers, providing solutions for distance-learning instead of classrooms or using safe social distancing between sales people and their customers to get the deal done.

Several of our businesses are poised to thrive in this environment including **Adobe (ADBE), PayPal (PYPL), Amazon (AMZN)**, and **Accenture (ACN).** Our largest position, **Microsoft (MSFT),** is also benefiting from the acceleration in digital transformation. CEO, Satya Nadella, noted on the last earnings call that they have seen 2 years' worth of digital transformation in 2 months, and demand for MSFT offerings has surged. Organizations need comprehensive solutions that bring together communications, collaboration, and business productivity, with security as a top priority. Windows Virtual Desktop, Power Platform, and Microsoft 365 have seen dramatically higher usage. Companies deploy virtual desktops and apps on Azure with Windows Virtual Desktop. Microsoft Teams has given healthcare providers the ability to deliver first class telehealth, as well as school curriculums in OneNote. In fact, FlipGrid, a MSFT service, provides teachers a complete remote learning solution; and importantly gives young students confidence and creativity tools to share their ideas and voice what they have learned through video interaction.

On a similar level, **VMware (VMW)** is at the forefront with its remote-first (workplace) strategy to help organizations create a productive and secure environment for employees to thrive and be productive from anywhere. Its robust "Digital Workspace" service is available on partner platforms run by MSFT, AMZN and GOOG. We recognized early on in our ownership of VMW, which began more than three years ago, that it was transforming from legacy on premise server business services to forward thinking software solutions for hybrid clouds, hyperconverged infrastructure and network virtualization. Dell Technologies is an 81% owner of VMW, and the recent news is that Dell is evaluating options including the possibility of spinning out (selling) part or all of its remaining shares. Dell may consider other options including doing nothing or buying the 19% it does not own, which would force us to sell our shares. The spin option would give VMW greater freedom and strengthen Dell's balance sheet, but for tax reasons would not be accomplished until September 2021. We will watch for any further announcements but are content with our position for now.

This may take some time; but "*Don't stop thinking about tomorrow*"

The pandemic, economic disruption and civil unrest are important challenges that are likely to be with us over the next twelve months or more. We will have to learn to cope with the virus and engage in various trial and error efforts as it relates to reopening the economy. This pandemic will leave a trail of folks who gave their lives and those impacted that include the families and friends that lost them, healthcare workers that served them, and also those that will learn later if they will suffer lifelong lung, vascular or other medical complications. As a member of the human species we suffer from inherent biases which we need to continually work to overcome and push through the obstacles. We need to recognize as Rene Descartes did "we do not describe the world we see; we see the world we can describe." We need to lead with a smile and see that a world in which being kind and fair is the best path. We can't let the few bad actors, who don't see the benefits of kindness and disrupt the overall good we strive for, get in the way. However, they will always be there. As we fight for beneficial change, technology is mostly a blessing, but can be a bit of a curse to be handled in the short-term. It can bring those of us at a distance closer together, as well as offer opportunities for small and large businesses. At the same time, a small percentage will instigate efforts to drive us further apart. **Facebook's (FB)** social communication network and platform has experienced both, but in our view the good outweighs the bad. FB's community of citizens and understandably its corporate advertising customers are expressing recent concerns by temporarily withdrawing their business. Some companies are cutting their social media budgets due to the difficult economic environment, since advertising is more discretionary and not a fixed cost. FB has been working on the removal of hateful content and misinformation for several years now and advances in artificial intelligence have helped. Per their reports, it finds and removes nearly 90% of hate speech before any users see it, up from 23% removed three years ago. FB recognizes more work needs to be done; but we support CEO Zuckerberg's efforts to encourage free thought and speech, since without them deliberation and mutual learning will suffocate. At SEM we recognize that newer technologies always need to be scrubbed over time to better serve users, especially as the technologies gain wide adoption. We are hard pressed to think of another company with 2.6 billion users or a third of the world's population on its network.

"*Don't stop thinking about tomorrow….It'll be, better than before*", the lyrics from Fleetwood Mac, highlight how we feel during challenging periods. We are optimistic we will improve, with history as our ultimate guide. We have the technology today to develop workable therapeutics and vaccines versus less than even 20 years ago. For example, geneticists were able to decode the coronavirus in about a month when it took closer to 6 months to decode SARS. Overall many of our companies are excelling through this challenging period. We are part-owners of a select group of high-quality businesses, rather than the entire market as represented by an index fund. We have often seen the average investor over-diversify by holding as many mutual funds or exchange-traded funds as we own individual companies. As we journey through these volatile and difficult conditions, we are here to steer the ship of your wealth and ours together, since we own the same portfolio in our company retirement plan and personal assets. Thanks 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
First Half (2020)	+4.9%	-3.1%	$ 1,049,100	$ 969,200
One-Year	+15.0%	+7.5%	$ 1,149,600	$ 1,075,100
Three-Year	+18.0%	+10.7%	$ 1,642,500	$ 1,357,700
Five-Years	+12.7%	+10.7%	$ 1,817,400	$ 1,664,500
Ten-Years	+15.1%	+14.0%	$ 4,070,400	$ 3,703,100
Inception (22 1/2 Years)	***+9.5%***	***+7.3%***	***$ 7,727,100***	***$ 4,890,300***

* Composite results of all SEM 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

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 12/31/97-12/31/18. 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 12/31/18. 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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