



## Suncoast Equity Management, Inc.

April 8, 2004

Dear Client,

Listed below are Suncoast Equity Management's performance results versus the Standard & Poor's 500 Index for the period ended March 31, 2004:

	SEM	S&P 500	SEM - Value	S&P 500 - Value
<u>Time Period (Ended 3/31/04)</u>	<u>% Return*</u>	<u>% Return</u>	<u>of \$1,000,000</u>	<u>of \$1,000,000</u>
First Quarter 2004	+3.11%	+1.80%	\$ 1,031,100	\$ 1,018,000
One-Year	+24.20%	+35.12%	\$ 1,242,000	\$ 1,351,200
Three-Years	+6.69%	+0.62%	\$ 1,214,100	\$ 1,018,700
Five-Years	+5.69%	-1.21%	\$ 1,318,400	\$ 940,800
Since Inception (6 1/4 Years)	+ 9.93%	+3.90%	\$ 1,804,200	\$ 1,269,400

\* 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 first quarter include two new additions, **Sherwin-Williams (SHW)** and **Laboratory Corporation of America (LH)**. SHW is the largest producer and retailer of paints and coatings. Key brands in addition to the Sherwin label include Dutch Boy, Pratt & Lambert, Miniwax, and Krylon. Most of their products are sold through their 2,300 company-operated stores and are the products of choice for a large number of paint contractors.

LH is the second-largest clinical lab company in the U.S. processing over 300,000 specimens per day for over 200,000 individual physicians, hospitals, clinics, long-term care facilities and managed-care organizations. Business trends supporting growth for LH include new and improved diagnostic tests, favorable demographics and industry consolidation. We also like that LH aggressively emphasizes higher value, higher profit genomics-based testing.

Both companies pass our test for financial strength and safety measurements, generate a considerable amount of free cash flow and are run by well disciplined management teams. One potential use of free cash flow is to reduce shares outstanding, thereby increasing a stockholders percent ownership and value per share. SHW has reduced its outstanding shares by about 20% over the last decade through share buy-backs and is generating enough free cash flow to shrink shares an additional 3% each year

going forward. LH has also enhanced shareholder value by opportunistically repurchasing shares when making capital allocation decisions.

To make room for our new purchases we adjusted our portfolio weightings in **McGraw-Hill** (MHP) and **Symantec** (SYMC). We also sold our small position in **Johnson & Johnson** (JNJ). We owned JNJ for six years and it served us well. A combination of factors drove the sale of JNJ, including our desire to limit the number of companies in our portfolio (we talk more about this below). We have a fundamental concern with two of their leading products, though JNJ will likely work through this. A key pharmaceutical product that generates in excess of 10% of JNJ's net profits is meeting important new competition from **Amgen** (AMGN), one of our portfolio holdings. Also, JNJ's new medicated stent, an important product, will be facing a formidable challenge from competition soon. JNJ is a solid company that will no doubt survive these business issues, yet we elected to redirect funds in to what we believe to be more attractive holdings.

The two additions increased our portfolio to 19 businesses but you can be sure we will not grow the size of our portfolio much beyond these holdings. We believe that excessive diversification leads to average investment performance. According to Morningstar, mutual funds own on average 150 stocks and consequently diversify to the point that they intentionally or unintentionally mimic the general stock market. We design a portfolio to focus on a selected group of best businesses at good prices. Our goal is top performing results from a targeted selection of holdings. We place our confidence in a focused group of companies we feel we have an above-average understanding about, versus trying to know a little bit about hundreds of companies. Look at it this way - if the stock market did not exist yet we were still looking to invest our savings, would we invest in an equal part of every business in town? Not likely! We would look for and invest in only a few businesses that have favorable economic characteristics, a well-disciplined management team and are available at a fair price. That thought process guides our discipline and generated our above-average results since inception.

Thank you for your confidence and I look forward to speaking with you soon.

Sincerely,

*Donald Jowdy*

President