SUNCOAST EQUITY MANAGEMENT, LLC

April 2, 2020

Dear Client:

Our planet is battling the Coronavirus (COVID-19) and it is having an astonishing impact on daily life, the global economy and the financial markets. In our 30+ years in the financial industry we've been through many events, each with their own characteristics. The global pandemic came upon us very quickly and is perhaps one of the most far-reaching events yet. Governments around the world are engaging in preventative actions to slow and combat the spread, stopping all unnecessary travel and consequently economic activity. As a result, the S&P 500 ended the first quarter down 19.6% and the SEM growth portfolio was -17.0%.

We all know that the most important thing is to minimize the human toll and work together on treatments, a vaccine, and ultimately eliminating this virus. We are encouraged by recent developments in China as well as the United States. The volatility will continue however, since financial markets are driven by human emotion in the short run. For some levity, one anecdotal data point to look for to know when emotions might subside, is perhaps once everyone in the U.S. feels as though they have enough toilet paper.

From an economic aid perspective, the U.S. signed a $2 trillion stimulus package, the largest in its history, and cut interest rates to near zero. Businesses in our portfolio will be impacted by COVID-19 but their balance sheet and cash flow strength will be a stand-out. During market declines, the **SEM-Disciplined Investment System (SEM-DIS)** will take advantage of relative opportunities and in the first quarter it led to the purchase of two new businesses, a slight increase in a long term holding, and the sale of three of our smaller positions.

Silver lining data point

During major events we keep a close look-out for positive data points. China seems to be in the early stages of recovery and that is beneficial for several of our portfolio companies. COVID-19 was first identified in Wuhan, China in December. As the illness began to spread, the government stepped in and quarantined millions of people to their homes. Now three months later it appears to have worked and the virus seems to be contained there with little new cases to speak of.

The Chinese economy is getting back to work based on pollution levels and traffic congestion, though it will be uneven as backlog from the shutdown gets cleared out and global demand slows. After shutting down manufacturing for weeks Foxconn, the world's largest electronics manufacturer which counts **Apple (AAPL)** as its top client, stated it had exceeded production expectations in mainland China and AAPL reopened all its stores there on March 13th. At the same time **Starbucks (SBUX)** CEO Kevin Johnson has reopened 95% of SBUX's Chinese stores after being closed for 6 weeks. When **Nike (NKE)** announced its earnings for its fiscal third quarter in late March, it reported that despite the closures in China, its high margin digital sales in Greater China grew 30% and 80%+ of their stores have reopened. Like many others NKE decided to withdraw its prior financial targets, but positively said they now have an "operational playbook" to follow in Europe and the U.S. after their experience in China, Japan and South Korea. We will continue to watch the trends in China as it remains an important market for AAPL, SBUX, and NKE, representing 15-20% of their revenues.

Portfolio Update

We welcomed back **Abbott Labs (ABT)** to our growth portfolio, which is a global healthcare company that specializes in Established Pharmaceuticals, Nutritionals, Diagnostics and Medical Devices. ABT's world-leading glucose monitoring system FreeStyle Libre generated organic sales +62% in its most recent quarter and it expects to launch Libre 2 sometime later this year. MitraClip, another one of its market leading devices designed for heart valve repair, grew +29%. In March ABT received emergency authorization from the FDA to manufacture two molecular tests for COVID-19 and is rapidly scaling production. The company expects to produce five million tests a month with results in as little as five minutes. Long term clients may remember we owned ABT for many years and sold our position in 2016 when the company's debt spiked due to the acquisitions of St. Jude Medical and Alere. Since that time ABT has reduced its debt by 40%, while significantly increasing its margins, returns on capital and dividend. Most of ABT's products should do well despite the current economic environment. We sold our small position in **Checkpoint Software (CHKP)** to fund our purchase of ABT. Revenue growth has been below industry rates and net profit has stagnated due to management's hesitation to reinvest back into the business. It appears CHKP is losing market share to its competitors in corporate cybersecurity. While it remains a very profitable business with a strong balance sheet, we believe ABT has more business momentum.

After reducing our position last fall due to slowing growth and again in early March due to the pandemic, we exited **Bookings (BKNG)** entirely in late March. While most industries will be affected, travel companies are some of the hardest hit due to the global shutdown. Understandably, management has no visibility into the next few months or quarters and pulled their previous financial targets. We redeployed a portion of the funds into **Alphabet/Google (GOOG),** which we've owned since 2008. Although GOOG is the global leader in search with 80%+ market share, its fastest growing businesses are YouTube and the Cloud, which were +36% and 53% respectively last year. YouTube has 1.3 billion users that watch almost 5 billion videos every single day and it is a preferred channel for 18-49-year-olds with 80% usage. These data points are from February, so it will be interesting to see how they change in the coming months. Likewise, the industry tailwinds of businesses moving to the cloud from storing and managing their data on premise are gaining momentum and the worldwide public cloud is expected to grow 17% in 2020 to $264 billion, according to Gartner. Given the current environment that necessitates the ability to work remotely wherever possible, GOOG as well as **Amazon (AMZN)** and **Microsoft (MSFT)** should benefit from this fast growing, high margin business.

We took advantage of the volatility in March to initiate a position in **Intuit (INTU),** a business we have admired for many years. INTU provides financial management solutions to businesses, consumers and accounting professionals with products such as QuickBooks, TurboTax and Mint. INTU has a network of more than a million CPAs, tax professionals and financial experts in its ecosystem that offer guidance to its 200 million users as needed. The company recently announced plans to acquire Credit Karma for $7.1 billion, which provides business and consumer credit reports to 106 million users. The deal should close before year end and strengthen INTU's economic moat. To fund our purchase, we sold our small position in **CBRE Group (CBRE)** due to its slightly more levered, capital intensive business model. CBRE was increasing its recurring, fee-based revenue and that was one of the attractions for SEM. However, with the increased possibility of defaults in commercial real estate as well as less liquidity in the commercial mortgage-backed securities market to provide funding for deals, we would prefer to own more asset light businesses like INTU.

Time Heals the Wounds (and your savings)

It is easy to lose sight of the long-term perspective during difficult short-term economic declines. The illustration below starts at a high point, the beginning of 2008 just before the last major financial crisis. We end with the first quarter of this year to include the impact of two declines, though we do not yet know if this is the low point. It shows the progress of $1 million invested in SEM growth. If you became a client at the beginning of 2008 it was certainly a painful year, your account declined 30%. You needed to hang in there for another three years to breakeven. The reward came if you stayed the course, as your total would have grown from $1 million to $3.1 million as of 2019. At the end of the first quarter including the COVID-19 impact, the value drops to $2.6 million, down from a recent peak but still more than double the value of your original investment. The annualized rate of return is 8.2% after fees compared to the S&P 500 rate of 7%.

Start date	**Starting Value**
January 1, 2008	$1,000,000

Year End	**Year End Value**	**Return %**	**Cumulative Return**
2008	$699,000	-30.1%	-30.1%
2009	$872,000	24.8%	-12.8%
2010	$931,600	6.8%	-6.8%
2011	$971,800	4.3%	-2.8%
2012	$1,158,800	19.2%	15.9%
2013	$1,578,100	36.2%	57.8%
2014	$1,736,700	10.1%	73.7%
2015	$1,803,800	3.9%	80.4%
2016	$1,750,500	-3.0%	75.1%
2017	$2,291,100	30.9%	129.1%
2018	$2,317,200	1.1%	131.7%
2019	$3,144,300	35.7%	214.4%
3/31/2020	$2,610,700	-17.0%	161.1%

From an investment perspective, you guarantee losses if you liquidate during a market decline. The message is to stay the course through the ups and downs, even if takes a little while to recoup. This is especially important for new clients and less experienced investors to contemplate.

Although market events are different in each case, often the short-term pain is swift and yes, the recovery can take a little time. However, you don’t want to change your long-term goals based on short-term results. Panic is not a sound investment strategy. Don’t make the mistake of only comparing your account value today to the value at the end of 2019, which may cause your emotions to get the best of you. You gain a better perspective and result when you think in terms of 10 years or more versus just three months. Rest assured that as the economy returns to more normal activity, the portfolio has the potential to not only achieve its prior highs but exceed them as stock prices follow business profitability over the long run.

Stay Healthy and Strong

The news about the impact from COVID-19 in the U.S. is likely to get worse before it gets better. This will be true for both the scale of the virus at home and the impact of job losses on the economy due to the shutdown. Put into positive perspective, the number of deaths in the 49,000 range are still well below the global annual loss from Influenza between 250,000 to 500,000 (as we noted in our February 28th update). In the U.S. we are pleased to see the Trump administration, Congress, the Federal Reserve, corporations and the American people working towards a common goal of minimizing the spread of COVID-19 and the economic disruption. We believe this solidarity will have a very powerful impact going forward.

Saving lives is in the spirit of our country and major events like this only strengthen our ability to handle a future occurrence and can speed up progress. As they say, "necessity is the mother of invention." *The Wall Street Journal* recently covered a series of articles including Dr. Amy Compton-Phillips, the chief clinical officer of Providence's 51 health systems and hospitals, which got their first case in Everett, Washington on January 20th. She wrote a recent article highlighting that the virus has "fueled a sudden leap toward the future of medicine across the country…driving changes that will bring better care to everyone." Examples include the ramping of telehealth, with waivers approved for cross state licensing of medical professionals which had been previously held up for years. Telehealth not only includes an online video visit with your physician, but also includes the use of teleICU command centers. Treating people at home through telehealth services allows healthcare systems to leverage those they monitor while saving hospital beds for those with severe symptoms. For COVID-19, Providence keeps a virtual eye on patients via a pulse oximeter (a simple oxygen sensor placed on a finger) and a digital thermometer. Likewise noted author Walter Isaacson also opined, and we agree, that the third great innovation revolution is underway in life sciences. Artificial intelligence will speed up large-scale experimentation for biotechnology and leads to faster solutions for addressing viruses and cancer. This unfortunate event has highlighted the complexity of our global supply chain for medical necessities. The U.S. government may eventually take action to strengthen its readiness and increase the stockpile of ventilators from the current 12,700, in addition to other supplies.

Eric Schmidt, former CEO of GOOG, said this event signals the U.S. is long overdue for a "real" digital infrastructure and we should start treating data as a strategic asset. Of course, this may come with more personal privacy changes for monitoring the health of our nation and citizens. David Byrne, leader of the rock band the Talking Heads, said at first the changes required may seem intrusive. But allowing ourselves to be tracked for health reasons may in fact lead us back to our lives and jobs…that is freedom. As it went in Vo' Italy, all 3,300 people were tested and 89 came back positive. After a nine-day town-wide isolation only a handful tested positive. Since then the town has become virus free. Byrne added "we're not a bucket of crabs, we're a community" believing in the collective good. When privacy policy is well-managed it leads to a higher standard of living.

While the financial implications of the pandemic can't be quantified yet, we continue to support putting excess savings into our portfolio. We don't know the peak to recovery timetable in the U.S. or Europe, but China is on its way back to business and life as usual. It is just a matter of *when* not *if* for the U.S and we respect the collective efforts to fight it and the difficult debate of the cost-benefit analysis. In our January letter we stated our businesses were slightly ahead of fair value versus our 22-year history of executing the **SEM-DIS** based on their free cash flow yield, which incorporates earnings, capital expenditures, cash, debt, and dividend payments. Now we believe many of our businesses are below their long-term intrinsic value. Although we never try to time the market and haven't seen that done successfully, above average businesses with little to no debt that generate high returns should fare very well as the economy stabilizes and returns to more normal growth.

Market declines as a result of short-term economic dislocations are a good time for introspection, not panic. You never fully eliminate risk. If you could it would come at a very high price, as everyone would want it. Importantly, you can be very effective at managing risk long-term by having a solid investment plan that includes the ownership of high-quality companies as an important component.

We are here for you now and in the future. We believe in the collective good these difficult events eventually bring us. Best wishes to you and your loved ones for healthy living. Let's keep up our daily activity and get outside to enjoy the spring as it will build our resilience. As always, thanks for your confidence. Our thoughts remain with those impacted by COVID-19 and our gratitude goes out to the world's healthcare workers and first responders combating the disease.

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 Quarter (2020)	-17.0%	-19.6%	$ 830,300	$ 804,000
One-Year	-4.1%	-7.0%	$ 958,600	$ 930,200
Three-Year	+11.1%	+5.1%	$ 1,369,500	$ 1,161,100
Five-Years	+8.1%	+6.7%	$ 1,475,100	$ 1,384,700
Seven-Years	+10.8%	+9.6%	$ 2,049,900	$ 1,902,200
Ten-Years	+11.0%	+10.5%	$ 2,845,800	$ 2,721,000
Inception (22 1/4 Years)	***+8.5%***	***+6.5%***	***$ 6,115,600***	***$ 4,056,900***

* 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