



First Quarter 2022

April 1, 2022

After a strong fourth quarter, the **Suncoast - Dividend Growth Portfolio (SEM-DG)** underperformed the index, -6.8% compared to the S&P 500 -4.6%. As noted in our other commentaries, the energy sector was +38%, while almost all other industries declined. While many energy companies pay dividends, several of their other metrics do not qualify for our **SEM - Disciplined Investment System (DIS)** and as such we have never owned them in Dividend Growth. We discuss a recent sale and an exclusive club of dividend payers.

Portfolio Activity

We reduced our position in **Abbott Laboratories (ABT)** in the fourth quarter and sold the remaining position this quarter. ABT was first purchased in 2017, shortly after the inception of Dividend Growth and several years before we bought it in Select Growth at a smaller initial weighting. Earnings growth was picking up with the acquisition of St. Jude Medical and ABT had grown its dividend 10%+ over the previous five years. As a global healthcare company, ABT has been a leader during the pandemic and has distributed 1.4 billion COVID tests. We applaud their success at ramping production and distribution during this critical time. But with \$7.7 billion in COVID related sales in 2021, which represent 18% of total revenue, it may take several years for ABT to return to last year's sales and earnings level after a projected decline in earnings in 2022. We used the proceeds of the ABT sale to slightly increase our position in **Hershey Foods (HSY)** and **Advanced Auto Parts (AAP)** both of which we highlighted in our fourth quarter DG letter for their solid execution. HSY expects 8-10% sales growth this year due to higher demand for sweets as well as recent price increases and appears to be navigating supply shortages better than some competitors. We discuss AAP more below.

It's the growth not the yield...

There is an elite group of companies known as the S&P 500 Dividend Aristocrats. To qualify a company must have increased their dividends consecutively for at least the last 25 years. Several of our companies are members of this illustrious group, including **Pepsico (PEP)** and **Sherwin Williams (SHW)**. These Aristocrats are on track to increase their dividends +5% and +18%, respectively this year, supported by the strength in their underlying earnings.

AT&T (T) was also a long-standing member of the Aristocrats having increased its dividend 35 years in a row up until 2021, when the board decided to maintain it at its current rate rather than increase it. In February 2022 AT&T cut its annual dividend from an unsustainable 8.5% yield or \$2.08 to \$1.11 a share as part of its \$43 billion spinoff of WarnerMedia assets to Discovery Communications (DISCA). Given the company's lack of earnings growth and high debt levels, we believe AT&T will struggle to increase it going forward. Exxon (XOM) and Chevron (CVX) are also members. But due to the cyclical nature of the energy industry that we discussed in depth in our general Investment Commentary, these companies may struggle to increase their dividends during economic downturns without borrowing to do so. We prefer to own businesses with ample free cash flow like **Tractor Supply (TSCO)** that announced a 77% increase to its quarterly dividend due to a "robust 2022 financial outlook" (management's words not ours). **Advanced Auto Parts (AAP)** also increased its dividend 60% this quarter, after increasing it 150% last year, which is a good sign that management has confidence about its future growth prospects. The current yield on our Dividend portfolio is 1.7% and on average should grow +16% in 2022, supported by these large increases.

Outlook

The companies of our **Dividend Growth Portfolio** are on track to deliver solid growth in revenues and earnings, with the resources and confidence to increase their dividends. As always, we will be on the lookout for data points that reaffirm their growth prospects. We are grateful for your continued support.

Sincerely,

Amy

Amy A. Lord, CFA

Senior Vice President/ Co-Portfolio Manager

Don

Donald R. Jowdy

CIO



Suncoast Equity Management, LLC

Performance results versus the Standard & Poor's 500 Index

<u>Time Period</u>	<u>SEM % Return*</u>	<u>S&P 500 % Return</u>	<u>SEM - Growth of \$1,000,000</u>	<u>S&P 500 - Growth of \$1,000,000</u>
First Quarter (2022)	-6.8%	-4.6%	\$ 931,800	\$ 954,000
One-Year	+21.1%	+15.7%	\$ 1,210,700	\$ 1,156,500
Three-Year	+19.7%	+18.9%	\$ 1,715,400	\$ 1,682,000
Five-Year	+17.4%	+16.0%	\$ 2,226,700	\$ 2,099,400
<i>Inception (5 ¼ Years)</i>	<i>+18.1%</i>	<i>+16.5%</i>	<i>\$ 2,394,800</i>	<i>\$ 2,226,700</i>

* Composite results of all SEM Dividend Growth managed accounts, net of all fees.

Note: Performance for the three and since inception year periods represent the annual average rates of return



Performance Disclosure

Suncoast Equity Management, LLC 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. As of December 2016, SEM also offers a Dividend Growth Composite. The Dividend Growth Composite includes all discretionary, fee-paying portfolios managed within this strategy. The creation and inception date of the Dividend Growth composite is 12/31/2016.

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 investments, calculating performance, and preparing GIPS Reports, 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 Index; 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. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. Suncoast Equity Management has been independently verified for the periods 12/31/97 – 12/31/20. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The Dividend Growth composite has had a performance examination for the periods 12/31/16 – 12/31/20. The verification and performance examination reports are available upon request.

For any additional information, please contact the Chief Compliance Officer at (813) 963-0502.

This is not a solicitation or recommendation to purchase the securities mentioned herein. An actual portfolio may not hold some or any of these securities. These securities may or may not be purchased by Suncoast Equity Management LLC in the future. This piece is solely the opinion of Suncoast Equity Management LLC. The information presented here is believed to be accurate as of the time of this writing.

