



First Quarter 2022

April 1, 2022

The Suncoast-SMID Portfolio experienced a volatile market in the first quarter of 2022, posting a drawdown of -16.8% versus the comparable benchmark of the S&P 400 Growth which was down -9.0%. Much of the volatility can be attributed to a few of our holdings reacting largely to Russia's invasion of Ukraine. Notwithstanding the higher level of volatility inherent to smaller to mid-capitalization companies, we have consistently outperformed our benchmarks while taking, in our estimation, less risk. This has been the case since inception of the portfolio, which is approaching five years. We sold two positions from the portfolio in the first quarter and discuss those below.

Russia's Impact

As Russia invaded Ukraine, many publicly traded companies dialed back or ceased operations in that part of the world. As the invasion escalated, stock prices became very volatile for at least two of our businesses and resembled Mr. Toad's Wild Ride. Those two businesses are **EPAM Systems (EPAM)** and **Fortinet (FTNT)**.

EPAM's stock price is down 57% since year end and hit a low point in the quarter when it was down 74%. When the invasion occurred, EPAM's ability to fully provide for clients' needs was severely interrupted, as the company has 14,000 team members in Ukraine. EPAM, as a digital transformation services and software engineering company, has a 24/7 business model where the firm can work around the clock and hand off work from one global location to another at the end of the workday, which multiplies capacity 2-3x. They also have operation centers in India, Poland, and the U.S. and are accelerating hiring in Central Europe, Latin America as well as other locations. EPAM's revenues have benefited from this business model and have grown from \$300 million to \$3.7 billion in the last ten years. We have owned the company since 2019 and one example of its work is UnitedHealthcare's Advocate4Me, which it created to enhance the call center experience when ACA (Obamacare) rolled out.

Epic Games is another long term client. EPAM uses its big data, software engineering and Amazon Web Services expertise to help push the boundaries of online gaming. When serving its customers EPAM partners with companies we own in **our SEM – Select Growth Portfolio** including Amazon, Adobe, Microsoft and Alphabet/Google.

Although operations will be impacted, we don't know to what degree, yet. EPAM's management has committed \$100 million to support its employees and their families in Ukraine and has the capacity to do since it has cash net of debt of \$1.4 billion.

FTNT stock fell as much as 25% in the quarter but has since recovered most of that decline. FTNT announced in early March that it has suspended all operations in Russia and further explained that they are "working with customers and governments worldwide to help defend against Russian cyber-attacks." We highlighted FTNT's strengths in our January letter and welcome you to revisit those highlights.

We will continue to hold our position in both EPAM and FTNT and to evaluate new business data points and developments in the region as they unfold. Above all, we hope for the safety of the personnel these companies have in the Ukraine, as well as peace and safety for all the good people of the region.

SEM SMID risk reward volatility profile

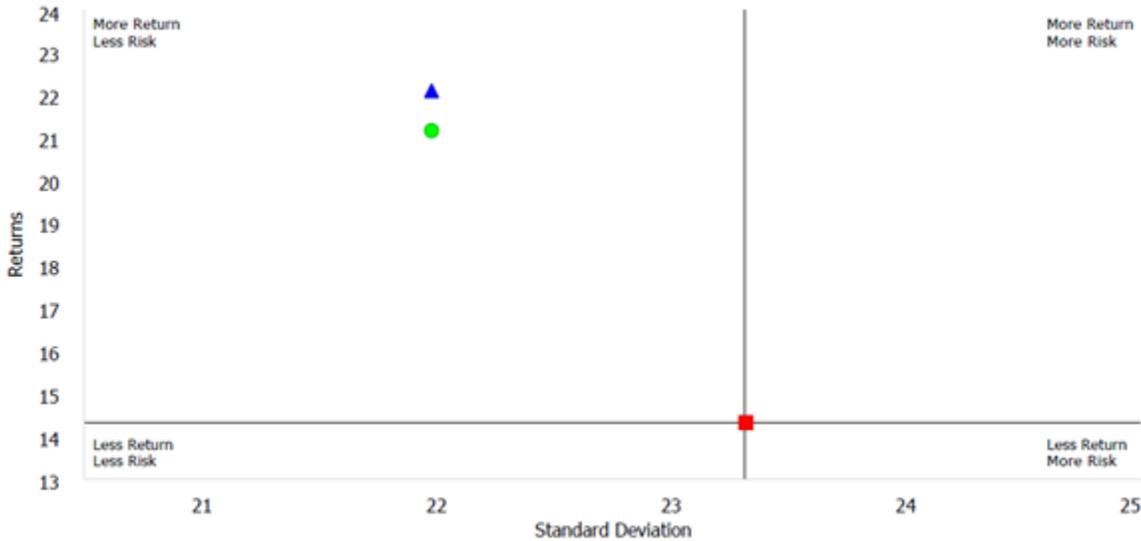
One of the tenets of investing is that small and mid-size capitalization companies tend to be more volatile than large cap companies, especially in difficult markets. The first quarter was no exception. While several companies in the SEM-SMID portfolio saw substantial moves in their stock price, such as EPAM noted above, our portfolio has historically been less volatile than the market and its peers.

The chart below illustrates the risk and return profile of our **SEM-Small-Mid Cap Portfolio**, showing that based on standard deviation the portfolio has taken less risk than the S&P 400 Growth index since inception (4 ½ years). At the same time, we have outperformed the index, which puts us in the best category for achieving more return with less risk. In fact, we rank in the Top 5% for the lowest standard deviation (lower risk) compared to a group of our peers according to eVestment, a database for institutional money managers. We attribute this to our **SEM-Disciplined Investment System (SEM-DIS)**, which keeps us focused on those businesses with large amounts of free cash flow, consistently above average returns on capital and little to no debt. Those characteristics combined with intrinsic value growth should help us continue to navigate difficult markets.



Suncoast Equity Management | Total Risk / Reward – Gross/Net of Fees

June 30, 2017 to December 31, 2021



	ROR	Std Dev	Alpha	Beta	R2	Up Cap Ratio	Down Cap Ratio
▲ Suncoast Equity SMID Growth (Gross)	22.11	21.98	8.88	0.87	0.86	117.55	78.08
● Suncoast Equity SMID Growth (Net)	21.17	21.98	8.03	0.87	0.86	114.58	79.42
■ Standard & Poor's S&P 400 Growth	14.32	23.32	0.00	1.00	1.00	100.00	100.00

Source: eVestment Analytics

Portfolio Activity

We sold two positions this quarter, **Booz Allen Hamilton (BAH)** and **CoStar Group (CSGP)**. BAH was purchased in June 2020 and is a leading provider in consulting, analysis and engineering services for public and private sector organizations as well as nonprofits. With the unexpected duration of COVID it has lost momentum due to cuts in government spending, which has affected demand for its solutions. The defense sector is roughly 50% of the business and largely comprised of cost reimbursable (CR) work. There are a few factors at play here.



CR contracts have been a headwind for the business driven by funding issues, a slowdown in getting funding for contracts, COVID PTO (paid time off) and a high number of more recent omicron cases have led to deteriorating momentum and lackluster earnings growth, so we sold it. As always, we look for high levels of free cash flow, high return on capital, low debt and increasing margins. We will monitor it for positive data points, including defense spending trends, going forward.

Moving on, in August 2019 we purchased CSGP based on their strength as a leading provider of commercial real estate data and marketplace listing platforms. On their 4th quarter earnings call we learned they would be ramping up investments in the residential segment in 2022, as they prepare to compete with companies like Redfin and Zillow, that already have established platforms with high traffic. This investment will not only pressure near term margins but margins for many years to come. CSGP also forecast negative earnings growth for 2022 and our discipline requires that we own growing businesses. With these two headwinds affecting margins and earnings we saw fit to exit the position.

Outlook

Business results for the companies in our **Suncoast-SMID Portfolio** continue to do well even though their stock prices had a rough quarter. We will closely monitor inflation's impact and the effect of global events on our companies. Please contact us with any questions and thanks for your continued support.

Sincerely,

Don

Donald R. Jowdy

CIO

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Cheeroke Townsend

Co-Portfolio Manager, Analyst



Suncoast Equity Management, LLC

Performance results versus the Standard & Poor's 400 Growth Index

<u>Time Period</u>	<u>SEM % Return*</u>	<u>S&P 400 % Return</u>	<u>SEM - Growth of \$1,000,000</u>	<u>S&P 400 -Growth of \$1,000,000</u>
First Quarter (2022)	-16.8%	-9.0%	\$ 832,000	\$ 909,600
One-Year	+6.5%	-0.4%	\$ 1,065,000	\$ 996,200
Three-Year	+16.8%	+13.4%	\$ 1,593,200	\$ 1,458,700
<i>Inception (4 3/4 years)</i>	<i>+15.4%</i>	<i>+11.3%</i>	<i>\$ 1,975,100</i>	<i>\$ 1,661,200</i>

* Composite results of all SEM Small-Mid Capitalization 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 June 2017, SEM also offers a Small to Mid Cap (SMID) Growth Composite. The SMID Composite includes all discretionary, fee-paying portfolios managed within this strategy. The creation and inception date of the SMID composite is 6/30/2017.

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. As of 1/1/2021 we retroactively changed the index used for comparison to the Standard and Poor's 400 Growth Total Return Index is an unmanaged index with no expenses, which covers growth stocks within the S&P 400 index. It is a float adjusted market capitalization-weighted index calculated on a total return basis with dividends reinvested. Prior to this change, the index used for comparison was the Russell 2000 Growth index.

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 SMID composite has had a performance examination for the periods 6/30/17 – 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.

