First Quarter 2021

April 1, 2021

Earnings growth for the SEM Select Growth portfolio in 2020 finished much higher than originally anticipated and substantially higher than the overall market as represented by the S&P 500. Despite superior growth, Select Growth lagged the index by returning +3.1% compared to the S&P 500 +6.2%. Looking forward several of our companies have pointed to strong business results and market share gains. During the quarter we did not have any new entrants or exits in terms of our individual holdings.

Temporary portfolio lag set against a backdrop of SEM's superior Earnings Growth

During the investment journey together (this is our 24th year) SEM earnings growth has been consistently higher than that of the market averages, while temporarily SEM's portfolio performance has and will at times underperform relative to the S&P 500. As mentioned in our **Investment Commentary**, we believe the stock prices follow the intrinsic (earnings) growth of the business over time. We finished 2020 posting 17% total earnings growth, versus our observation in our January letter that it might come in at +12%. Comparatively, the S&P 500, while still not final, is tracking for an 19% *decline*. Looking to 2021 the Select Growth portfolio is expected to grow earnings 14%, compared to the S&P's higher growth forecast of 27%. But if you consider the cumulative earnings growth outlook for both years, our portfolio could grow its earnings 33% (+17% 2020, followed by +14% estimates for 2021) while the index is closer to breakeven at +3% (- 19% followed by + 27%). This significant superiority of earnings growth can't be understated as it supports our portfolio performance and brings into some question the gains the market achieved last year, and so far this year, against what may be no earnings progress for the S&P 500.

SEM's performance lag in the first quarter is mainly attributable to market emotions driving stock prices in certain sectors and companies that we have not historically invested in because they have not typically been long-term wealth builders. So far this year the market has been led by a rebound in some of these industry groups. For example, energy as tracked by Standard & Poor's was + 33% in the first quarter, financials +17%, agricultural machinery +38%, heavy trucks +20% and airlines +29%. Businesses in the energy, airlines, heavy machinery and most financial businesses do not qualify for **SEM-DIS** consideration due to low returns on capital, negative free cash flow, high debt levels, and inconsistent business results (often all the above). These groups have periodically done better than SEM but have not outperformed SEM in the long-term. Past periods include 2005/2006 when SEM trailed the benchmark for two full years as energy, utilities, commodities, materials and real estate led the market.

The most recent period was five years ago, in 2016, when the global economy faced considerable weakness for most of the year. Early in that year energy prices reached a low but then rebounded swiftly, as did the stocks in that group. At mid-year, interest rates dropped as Brexit occurred and investors flocked to the highest dividend paying companies, including non-growth businesses such as AT&T and Procter & Gamble. Then in the final weeks of that year immediately following President Trump's election in November, optimism poured into the areas that supported his proposed agenda - infrastructure, machinery and financial companies. While it's human nature to desire outperformance every quarter or each single year, it is not realistic to expect this. Markets will always be driven by emotions in the short run, but ultimately reconcile with the long-term direction of intrinsic (earnings) growth, as SEM's process has proven over time.

<u>Portfolio Activity and Highlights</u>

A highlight came from one of our largest positions, **Accenture (ACN),** which reported strong results in March. ACN is a leader in digital, cloud and security and provides consulting as well as outsourcing services to its global clients across all major industry groups. The Accenture Cloud First initiative is investing $3 billion in new capabilities, solutions and partnerships, like the Accenture VMWare Business Group, to accelerate migration to the cloud (**VMWare (VMW)** is also a Select Growth position). One goal of the partnership is to help telecommunication companies expedite the rollout of 5G and edge computing. Similarly, Accenture's Industry X.0 strategy is driving good business results, which refers to the 5th Industrial Revolution and uses Applied Intelligence, like artificial intelligence (AI) and machine learning, to enhance digital transformation (digital transformation was the 4th Industrial Revolution or Industry 4.0). Organizations worldwide are using Applied Intelligence technology to collect massive amounts of information from thousands of sources to find connections among seemingly random data points. A case in point and one that could alleviate tremendous human suffering is ACN's partnership with the Global Emancipation Network (GEN) to create a platform for the world's first human trafficking content classifier. Investigating trafficking is very labor intensive and usually reactive rather than proactive for the estimated 25 million victims worldwide. With the use of Applied Intelligence, data is gathered and analyzed across industries, such as hospitality, transportation and banking, to rank suspected activity. ACN was gaining significant market share before the pandemic, but with emerging technologies like Cloud First and Industry X.0 management stated they are gaining share at an even faster pace now. As a result, the company increased its 2021 fiscal year revenue targets to high single digit growth and earnings should grow +12-14%.

Tractor Supply (TSCO) is a holding in all three of our equity portfolios. TSCO, as well as our portfolio holding **Home Depot (HD)**, had stellar growth in 2020. It will be interesting to watch how 2021 shapes up for these two suppliers of home and outdoor living products, as they may face some inevitable tougher comparisons due to outsized "stay at home" demand. Importantly we will observe TSCO's business momentum rather than try to predict it and have some experience with businesses that find new avenues of growth. One lever for companies with strong balance sheets is complementary acquisitions. TSCO announced the tuck in acquisition of Orscheln Farm and Home, which has 167 stores in the Midwest. The deal should be accretive to earnings this year and should complement TSCO's "Life Out Here" strategy with similar sized stores and inventory.

PayPal (PYPL) is another portfolio holding that had stellar results last year despite the pandemic, with active users +24%, net revenues +22%, and earnings +31%. The company offered 5-year targets at its Investor Day in February and expects to double its active users to 750 million by 2025. Organic sales should grow 20% annually to $50 billion, up from 18% annually over the last five years. CEO Dan Schulman plans to turn the PYPL app into a hub for financial tools like bill pay, high yield savings and other investments, as well as a shopping hub with rewards, price monitoring and personalized offers from merchants. Management sees significant opportunity to expand internationally with its acquisition of GoPay in China and its partnership with MercadoLibre (MELI) in South America. Furthermore, with scanned payments gaining traction in physical stores due to the pandemic, PYPL's QR codes are now accepted at 600,000 retail locations, like CVS and Macy's. This form of payment is more profitable for PYPL and should help drive annualized earnings growth of 22% over the next five years.

Outlook

The strength of our businesses surprised us in 2020, given the difficult year for many, and we are eager to get further into this year to see how they do as the global economy begins to break the shackles of the pandemic. Please contact us at any time as we welcome the discussion of our concentrated portfolio and thank you for your continued support.

Sincerely,

Don *Amy*

Donald R. Jowdy
CEO/CIO

Amy Lord, CFA
SVP/ Co-Portfolio Manager

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 (2021)	+3.1%	+6.2%	$1,031,100	$ 1,061,700
One-Year	+57.4%	+56.4%	$ 1,573,800	$ 1,563,500
Three-Year	+20.4%	+16.8%	$ 1,747,300	$ 1,592,500
Five-Years	+18.0%	+16.3%	$ 2,285,800	$ 2,127,100
Seven-Years	+14.8%	+13.6%	$ 2,620,500	$ 2,440,700
Ten-Years	+15.7%	+13.9%	$ 4,294,900	$ 3,678,800
Inception (23 1/4 Years)	***+10.2%***	***+8.3%***	***$ 9,624,600***	***$ 6,343,000***

* Composite results of all SEM Select Growth 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

Performance Disclosure

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 12/31/97-12/31/19. 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 12/31/19. 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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