Fourth Quarter 2021

January 4, 2022

The Suncoast-Select Growth Portfolio posted a composite return of +27.4% slightly behind the S&P 500 market index of +28.7% for 2021. As we identified in our SEM general Investment Commentary, we observed that dividend-paying safety companies had stronger stock price appreciation in the fourth quarter, and it was a year in which energy was one of the leading sectors of the S&P 500 with a price gain of 48%. During the quarter we added two companies and sold one, which we discuss below. While we are observant of secular business trends as they emerge, we still focus on the investment potential from a bottom-up perspective, one business at a time. We cover how we came to invest in one of our new purchases through this process. Finally, we talk about portfolio turnover as it relates to our investment process.

Portfolio Activity

Our two additional growth portfolios, **Suncoast – Dividend Growth (SEM-DG)** and **Suncoast – Small to Mid-Cap Growth (SEM-SMID)** are great sources of investment ideas for **Suncoast – Select Growth (SEM-SG)**. In this past quarter we cross-fertilized from SEM-DG and initiated a position in **UnitedHealth Group (UNH)** in SEM-SG utilizing the proceeds from the sale of **VMware (VMW)** in September. UNH is experiencing broad based growth at UnitedHealthcare and its higher margin segment Optum, which includes OptumHealth, OptumInsight and OptumRx. Services include data analytics, research, consulting and technology, as well as drug benefit management in 150 countries. Optum Virtual Care recently went live in all 50 states, which integrates physical care, virtual care, home care and behavioral health and as the largest U.S. health insurer, UNH is well-positioned relative to smaller competitors. Margins have improved driven by faster growth at Optum and the repeal of the health insurance tax, which took effect January 1st, 2021. During its third quarter earnings call, management boosted its 2021 targets to 10-12% growth and expects to connect and integrate multiple channels of care which will ultimately lead to higher sales, earnings, and margins in the years to come.

We also initiated a position in **KLA Corporation (KLAC)**, which is the leader in advanced process control and yield management solutions for the semiconductor industry. There are hundreds of steps in the fabrication of silicon wafers and each one must be inspected for defects and proper critical dimensions. As microchips get smaller and smaller, which is the concept of Moore's Law, precise dimensions become more important and increase the need for advanced Process Diagnostic and Control (PDC) tools. With 55% market share and 44,000 PDC tools, KLAC allows its customers to improve productivity, innovate faster and optimize profitability. More than 75% of revenues come from subscription-like service contracts and KLAC is posting significant growth in profit margins. We discuss a bit more about KLAC in the next part of this letter.

We were initially drawn to **Regeneron Pharmaceuticals (REGN)** in late 2020 due to strong growth in its treatments for degenerative eye diseases, inflammatory disorders, and cancer, as well as a healthy pipeline of new compounds. It had also been in the news for its Covid antibody cocktail that former President Trump had been given and responded well to. We did not factor this into our initial analysis, since it was difficult to quantify, and the timing of approvals was uncertain. Little did we know how successful REGN would be with its antibody treatments! Their third quarter earnings release showed that REGN-COV generated $3.5 billion in sales, which represented more than 40% of their total sales through September. While we applaud their success and are grateful for their humanitarian contribution to relieve suffering from the pandemic, REGN may be unlikely to generate revenue and earnings that surpass 2021 levels for the next several years. In fact, current Eikon estimates are for sales to decline 18% and earnings to decline 32% in 2022. As a result, we sold our small position in REGN due to a lack of near-term business momentum, earning 22% in the short run even though our preference is to own our businesses for many years.

Secular Business Trends from the Bottom-Up

Last year we noted that the pandemic had accelerated digital transformation across many corporations, as well as healthcare and education. The secular acceleration is favoring various businesses which we identify from our bottom-up or company specific analysis. Semiconductors are one area of technology, which you can think of as modern-day industrials, benefiting from unprecedented demand due to accelerated digital transformation.

As the building blocks of digital transformation, semiconductors are seeing rising demand from digital healthcare, work from home, remote learning, 5G infrastructure, electric vehicles (EVs) and cloud data centers. Semiconductor manufacturers and suppliers have traditionally been very cyclical. While we are not ready to conclude they are becoming less cyclical, it does seem demand may be robust for several years to come and we will further observe data points as the years unfold.

The semiconductor industry is set to become more regionalized with companies like Intel (INTC) investing $20 billion over the next 3 years in new chip factories in Arizona, New Mexico, and Oregon to help meet U.S. demand. In another segment of the industry, Texas Instruments (TXN), dominant in analog chips, is also investing heavily in new factories. TXN accounts for nearly 20% of the world market in analog chips, according to Taiwan-based market research firm Trendforce. Analog chips are some of the most basic chips, measuring temperature, sound, and electrical current and can be found in products from the Ford F-150 to Apple iPhones. TXN stated it is doing its best to serve its customers but is well below where it wants to be. New capacity expansion will require tens of billions in investment including construction of two factories in Texas starting in 2022.

Our new position, KLAC should directly benefit as one of INTC's top suppliers. We also expect KLAC to benefit from higher capital spending budgets recently announced at **Meta Platforms (FB)*,** formerly known as **Facebook**. FB will spend $29-$34 billion on capital expenditures like data centers in 2022 and the company announced plans to spend another $10 billion on the metaverse in the fourth quarter. CEO Zuckerberg stated the investments will take years to become profitable, as the company builds out a new communication platform which will allow users to create a digital life using augmented reality (AR) and virtual reality (VR). For example, instead of studying an historic event like World War II, students could be immersed in the event by using a VR headset. FB's shift could be analogous to the period when **Microsoft (MSFT)** transitioned from traditional software licensing to a cloud subscription business model mid last decade. Revenues and earnings flattened out during that time before regaining momentum in 2017. Although it will be fascinating to watch the development of metaverse technology, we trimmed our FB position due to the significant investments which may lead to lower margins and subdued earnings growth for the next year or so.

*Meta Platforms formerly Facebook will change its ticker symbol from FB to MVRS during first quarter 2022

Portfolio Turnover – History and Connection to Process

At the core of the SEM-Disciplined Investment System is to behave like an owner. If we think of ourselves as part owners, then our desire is to own a business for as long as it continues to grow. Portfolio turnover is an industry statistic that measures how quickly stocks are sold by the portfolio managers. We believe low turnover is a key to long term investment success, especially for taxable portfolios. Since the inception of SEM and our flagship **Select Growth** portfolio in 1998 our turnover has been 18%, which equates to an average holding period of 5+ years. In comparison, many investment managers and mutual funds generate annual turnover closer to 100%, which means all the positions were sold during the year and if they had gains, were taxed at a higher rate in a taxable account since they were considered short term. Due to strong results from our businesses our turnover has averaged even lower over the last five years at 11%, which is closer to a 10 year holding period. While we don't know what 2022 will bring, we continue to look for above average businesses we can hold for years to come.

Looking Ahead

We continue to be excited about the businesses in our portfolio and their position within their respective industry. We expect earnings growth to be closer to our long-term average in the low double digits. We hope 2022 will be the year we see Covid-19 shift to a more endemic than pandemic status.

Thank you for your ongoing support and please contact us anytime as we welcome discussion.

Sincerely,

Don	*Amy*
Donald R. Jowdy	Amy Lord, CFA
CIO	Senior Vice President/ 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 - Growth of $1,000,000**	**S&P 500 – Growth of $1,000,000**
One-Year (2021)	+27.4%	+28.7%	$ 1,273,700	$ 1,287,100
Three-Year	+29.9%	+26.1%	$ 2,190,300	$ 2,003,700
Five-Years	+23.7%	+18.5%	$ 2,899,400	$ 2,334,100
Seven-Years	+16.6%	+14.9%	$ 2,922,400	$ 2,649,400
Ten-Years	+18.0%	+16.6%	$ 5,222,600	$ 4,625,700
Inception (24 Years)	***+10.9%***	***+8.9%***	***$ 11,889,100***	***$ 7,689,000***

* 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 creation and inception date of the Suncoast Equity Management composite is 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 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 indices 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 Suncoast Equity Management composite has had a performance examination for the periods 12/31/97 – 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.

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