



## SEM Small to Mid-Capitalization (SMID) Growth Portfolio Management Commentary

*Third Quarter 2022 (October 3, 2022)*

The **Suncoast-SMID Portfolio** (SEM-SMID) composite was -31.9% versus the S&P 400 Growth benchmark at -25.5% for the first nine months of 2022, slightly below mid-year results. In the third quarter we added **ITT Inc.** to the portfolio and sold **Match Group** and **Yeti**. We also provide an update on portfolio holdings **Fleetcor** and **Edwards Lifesciences**.

### Portfolio Activity

We purchased **ITT Inc. (ITT)** this quarter, whose primary products include brake pads, shock absorbers, pumps, valves, connectors, and switches. Brake pads seem like a fairly mundane albeit critical product. As a Tier 1 supplier, ITT brought innovative copper-free technology to these products in 2012, which are highly engineered to prevent failure and regulated due to environmental concerns. Traditional brake pads have a copper lining, and the frictional powder of copper can contaminate the water supply. The U.S. EPA has signed initiatives with states to reduce the use of copper in brake pads and ban sales of those products if they contain over 0.5% of copper by weight. ITT's copper-free brake pads benefit the company in serving both the Original Equipment Manufacturers (OEMs) and especially in the aftermarket sector, which needs to phase out their old stock by 2025. This product advantage has allowed the company to negotiate and lock-up supplier contracts that prevent competitor imitation. Financially, this has had a positive impact on ITT's operating profit margin which has improved to the 21% level from 13% in 2012. The automotive industry makes up approximately 85% of sales with rail and aerospace filling out the remainder. We believe ITT can continue to bring innovation not just in brake pads but across its portfolio to boost profit margins further and capture additional market share going forward, which is nearly 30% at this time in the brake segment.

We sold **Match Group (MTCH)** and **Yeti Holdings (YETI)** to help fund our ITT purchase, both were small positions. We first purchased MTCH in June of 2018. What originally attracted us to the company was their dominant market share in the online dating market. MTCH thrived during the pandemic even as lockdowns kept everyone inside. During our ownership, the company went through several executive management changes, so we reduced our holding along the way. As of late their business momentum has slowed significantly not only in its primary Tinder brand but other established apps too, like Match.com, OkCupid and Plenty of Fish.



The combination of these events led to our decision to exit what became a smaller holding over our four years of ownership. During our ownership we earned +60% from our original cost basis.

We were optimistic about YETI when we first purchased it in March 2021. We were attracted to YETI's improvement in operating margins, brand strength and its direct-to-consumer (DTC) shift. The **SEM-Disciplined Investment System** (DIS) calls upon us to select businesses for long-term ownership; but it also calls for us to sell when the risk changes and if the positive business momentum of the company fades. As we have mentioned throughout our various commentaries this year, the shift in consumer consumption coming out of the pandemic has been dramatic. It is currently impacting YETI from both a cost perspective and on the demand side. The risk level has risen for the company with inventory up over 50% from year end, well ahead of sales growth of 18%. We made the decision to sell our small position, despite a 35% loss and short holding period, but we continue to keep an eye on YETI as it works through this difficult environment.

### Portfolio Highlights

Following up on our profile of **FleetCor (FLT)** last quarter, the company made what we believe are two strategic allocations of cash by announcing in early September the purchase of Plugsurfing, a leading European electric vehicle (EV) software and network provider and an investment in Zap-Map, the UK's leading EV search and pay mapping service. Plugsurfing has developed a proprietary EV charging network, along with a mobile app in Europe, with over 300,000 charge points, or nearly 80% of all the charge points in Europe. Zap-Map provides EV drivers in the UK with software to locate, plan and pay for charging. It has 350,000 registered users and over 95% of the UK's public charge points on its network.

**Edwards Lifesciences (EW)**, in our portfolio since inception 5 ¼ years ago, recently announced FDA approval on a new heart valve repair device known as Pascal Precision. The recent approval is for the treatment of degenerative mitral regurgitation, a condition in which a valve connecting two chambers of the heart does not fully close, allowing blood to leak backward in the valve and impair blood flow. The significance is that it will be the first competition for **Abbott Laboratories'** MitraClip which has been on the U.S. market since 2013. Wells Fargo analysts believe the total market will reach \$2.8 billion by 2026 with EW market share rising to an estimated 44%.



Outlook

The SEM-SMID portfolio outlook continues to support earnings growth in the 13%+ range for 2022 with an early look into 2023 in the +10% range. We are grateful for your support and are always available to answer your questions.

Sincerely,

*Don*

Donald R. Jowdy

CIO

*Cheeroke*

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&amp;P 400 % Return</u>	<u>SEM - Growth of \$1,000,000</u>	<u>S&amp;P 400 -Growth of \$1,000,000</u>
Year to Date 2022 (Sept. 30 <sup>th</sup> )	-31.9%	-25.5%	\$ 681,200	\$ 745,200
One-Year	-24.4%	-19.5%	\$ 755,800	\$ 804,800
Three-Year	+5.5%	+5.1%	\$ 1,173,500	\$ 1,161,000
Five-Year	+9.6%	+5.7%	\$ 1,583,100	\$ 1,318,900
<b><i>Inception (5 ¼ years)</i></b>	<b>+9.6%</b>	<b>+6.0%</b>	<b>\$ 1,617,300</b>	<b>\$ 1,360,900</b>

\* 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 (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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