SEM Dividend Growth Portfolio Management Commentary

Fourth Quarter 2022 (January 3, 2023)

The **Dividend Growth Portfolio (SEM-DG)** appreciated during the quarter and ended the year meaningfully ahead of the S&P 500, although still posted negative returns in 2022. The portfolio's return for the year was -11.8% compared to -18.1% for the S&P 500. As noted in our *Investment Management Commentary* we expect Dividend Growth to grow earnings at a faster rate than the S&P 500, which gives our companies the financial flexibility to invest internally, make acquisitions, buy back shares or increase dividends. Oftentimes our companies do all four in any given year. After +14% growth in the average dividend in 2022, the DG portfolio is forecasted to boost 2023 dividends by another +8% consistent with expected earnings growth of at least mid-single digits. With a unique balance of growth and safety, supported by consistently growing dividends, the portfolio has performed as we had hoped when we created the strategy in 2016 and held up well in a down market. We discuss two increases in existing positions, one sale and highlight **Hershey (HSY),** which we've owned since the beginning of SEM-DG.

Portfolio Activity

Business momentum is a vital component of our discipline, and the DG portfolio has several companies that are executing well and raising their sales and earnings targets. We took the opportunity to increase two positions to a core weighting of 5-6%. **Tractor Supply (TSCO)** is gaining market share in the rural lifestyle industry boosted by its acquisition of Orscheln Farm and Home that closed in October. The company has almost 2300 stores and increased its 2022 sales targets to +10% or $14 billion+. Earnings estimates were also increased and should be +12%. TSCO's rewards program, Neighbor's Club, has been a true differentiator with 27 million members, +23% compared to last year with the ability to order pet medications and earn free pet washes and grooming.

We increased **Automatic Data Processing (ADP)** once again this quarter after initiating a position in May and adding to it in August**.** ADP continues to benefit from a very tight labor market and rising interest rates on funds held for clients (float). Revenues should be +8-9% for its fiscal year ending June 30th, margin targets were increased, and earnings should be +15-17% despite the economic uncertainty. We will monitor their upcoming earnings release to confirm they remain on track.

After a year's ownership we sold **Advanced Auto Parts (AAP).** We were first drawn to AAP when they quadrupled their dividend in September 2021 which led it to qualify for our Dividend Growth strategy. The company was benefiting from industry tailwinds of an aging fleet of cars being driven, consumers driving more after the pandemic and strong consumer spending. AAP seemed to be executing well with higher margins, 40% earnings growth and another dividend increase of +50%. But as the year progressed consumers started to pull back on discretionary Do-It-Yourself (DIY) purchases and sales growth flattened out for AAP, while their competitors were growing mid-single digits. Management acknowledged operating margins would be affected by higher inventory, labor and fuel costs and subsequently cut estimates the last two quarters. As a result, we exited our small position despite its 4.0% dividend yield. This speaks to the **SEM-DIS (SEM – Disciplined Investment System)** that prioritizes consistent business momentum over the dividend yield and payout.

Company Highlight

Hershey (HSY) is an original holding of the Dividend Growth portfolio dating back to its inception in 2016. At the time of purchase HSY had just named Michele Buck as CEO and she hit the ground running with a plan on day one. Her vision was to reduce the company's exposure to international markets and focus even more on North America where HSY has 46% share of the U.S. chocolate market. That strategy was counterintuitive at the time since international expansion was typically seen as a sign of success. But HSY is benefiting today with 92% of sales from North America in 2021, up from 88% when Buck took over, especially given the global supply chain issues the last several years. In addition to building upon the company's strength in North America early on, Buck is also credited with promoting the Hershey brand as a snack company, not just chocolate and candy. We discussed the acquisitions of SkinnyPop, Pirate's Booty and Dot's Pretzels in last year's fourth quarter letter that broaden the portfolio of treats to popcorn, cheese puffs and pretzels. HSY is leveraging its long-term relationships with retailers and its expertise in consumer behavior to market new offerings according to *The Wall Street Journal's* Ben Cohen. With several innovative snacks in testing like Reese's popcorn and Reese's stuffed with potato chips, we believe the best may be yet to come!

5550 W.Executive Drive, Suite 320 • Tampa, FL 33609 • 813-963-0502 • www.suncoastequity.com

Outlook

We are grateful to be celebrating a long-term partnership with many of our clients and look forward to building upon it in the years to come. Please do not hesitate to reach out with any questions or comments. The Suncoast team wishes you and your loved ones a healthy and happy 2023!

Sincerely,

Amy	*Don*
Amy A. Lord, CFA	Donald R. Jowdy
Senior Vice President/ Co-Portfolio Manager	CIO

5550 W.Executive Drive, Suite 320 • Tampa, FL 33609 • 813-963-0502 • www.suncoastequity.com

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 (2022)	-11.8%	-18.1%	$ 882,000	$ 818,900
Three-Year	+11.6%	+7.7%	$ 1,391,400	$ 1,247,900
Five-Year	+13.1%	+9.4%	$ 1,846,400	$ 1,568,800
Inception (6 Years)	***+14.6%***	***+11.4%***	***$ 2,266,800***	***$ 1,911,300***

* 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

5550 W. Executive Drive, Suite 320 • Tampa, FL 33609 • 813-963-0502 • www.suncoastequity.com

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.

5550 W. Executive Drive, Suite 320 • Tampa, FL 33609 • 813-963-0502 • www.suncoastequity.com