Fourth Quarter 2022 (January 3, 2023)

The Suncoast-Select Growth portfolio made some improvement in the fourth quarter but still closed -23.4% versus -18.1% for the S&P 500 index for 2022. We celebrate our 25th anniversary amidst this market setback, so we put annual returns expectations in perspective over the past and for the future journey. During the fourth quarter we added one new position, **Activision**, increased our weightings in **ADP** and **Intuit**, and sold **Amazon** and **Advanced Auto Parts.** Despite SEM's and the market's decline in 2022 we have confidence in the **SEM-Disciplined Investment System** and keep learning from our experiences.

Performance in Perspective

As we composed in SEM's investment framework written 25 years ago and revisited in our 2022 year-end *Investment Management Commentary, "Equity in the combined publicly owned corporate America moves forward over time with only a few significant setbacks in terms of time and amount."* Setbacks occur on occasion over a long journey, and this is the 3rd year in our 25-year history reporting a performance loss of some significance, with the other two years 2008 at -30.1% and 2002 at -11%. Since inception, our annualized return and growth of $1 million is in the table below:

	Annualized Return %	**Growth of $ 1 Million**
SEM	9.2%	$9,112,000
S&P 500	7.6%	$6,296,500

Having the value of your account double every 8 years or so is a satisfying return. It would be just as nice to earn those annualized returns each year. Unfortunately, that does not happen. Below is the distribution of annualized returns in two different ranges during the first 25 years of SEM's history for SEM and S&P 500:

	5% to 11%	**7% to 10%**
SEM	4	3
S&P 500	3	0

The table above shows that during the last 25 years there has been only 4 and 3 times respectively that either SEM or the S&P 500 earned an annual return within a range close to our long-term average return of 9% and 7% respectively. If we narrow the range, it shows that in 25 years the S&P has not produced a single calendar year between 7% to 10%. Human nature craves consistency; yet as successful long-term investors we understand, as has happened over past 25 years, that 85% of time the calendar year return was above 11% or below 5%. Some variation of this pattern will likely repeat during the next 25 years.

Portfolio Activity

Activision (ATVI) is a new position in the portfolio. It is one of the world's largest video game and entertainment creators, including console, personal computer (pc) and mobile streaming distribution. ATVI has a strong balance sheet and cash flow, with a current market valuation of approximately $59 billion, with net cash on hand of $4.1 billion (on September 30th) and should generate more than $2.5 billion in free cash flow in 2023. It is well-known for its Call of Duty (mostly console), Candy Crush (mobile) and World of Warcraft (pc) entertainment, among others. We believe ATVI's various franchise games are gaining momentum heading into 2023, six of which have grossed over $1 billion in revenues. One aspect we like of video game content in comparison to sequels of an entertainment series offered by a streaming service such as **Netflix** (which we do not own) is the characters in a video game do not necessarily have agents trying to negotiate higher pay!

Microsoft (MSFT), which we own, made an offer in January of 2022 to purchase ATVI at $95 per share, at a price 25% above where we made our initial purchase. We established our ATVI position based on improving fundamentals and the strong balance sheet and cash flow; notwithstanding, the MSFT deal which, if it were to close, would be ok by us. The U.S. Federal Trade Commission (FTC) recently filed to block the deal on the theory it would allow MSFT to suppress competition and harm consumers. ATVI is a global company, as is MSFT, so other jurisdictions such as the U.K and the European Union are also scrutinizing the deal. Rather than speculate on the outcome, our only insight and our experience is that governments' arguments are usually dated in regard to either, or both, the operating environment, in this case consoles evolving to mobile streaming, or competition, which quickly arrives and can make any action against any company moot. MSFT could withdraw out of frustration or government(s) may still be able to block the deal. In that event, MSFT would have to pay ATVI up to $3 billion and the company would be free to continue to grow its business as it always has. We believe either scenario would represent an acceptable investment outcome.

We slightly increased two existing positions in the fourth quarter after they reported strong results. **Automatic Data Processing (ADP)** is poised to do well and increased its targets for sales, margins, and earnings in November. It is benefiting from the solid labor market where there are nearly two open jobs for every unemployed worker, as well as higher interest rates to invest their float (overnight funds held from the employer before they are sent to the employee or the IRS).

We also increased **Intuit (INTU)** in early November after they preannounced better than expected first quarter results and reaffirmed full year results ending July 31st. Driven by their Small Business and Self-Employed Group, total revenues should be +10-12% with adjusted earnings growth of +15-17%.

After initiating and maintaining a small position in **Amazon (AMZN)** over the last three years, we sold it. AMZN is best known for its world class eCommerce business, but we purchased it for its higher margin digital advertising and AWS cloud businesses. The company invested heavily during the pandemic to try and keep up with unprecedented demand by building out capacity and increasing its workforce by 75%. Now those trends are reversing due to slower enterprise and consumer spending, and it is canceling plans for warehouses, delaying fulfillment sites, and announcing layoffs. At some point AMZN will reconcile its cost structure and generate earnings growth again. But for now, we believe we have plenty of exposure to the faster growing, higher margin cloud computing industry through our investments in **Microsoft (MSFT)** and **Alphabet/Google (GOOG)** and prefer to watch AMZN from the sidelines.

We sold our small position in **Advanced Auto Parts (AAP).** At purchase in the first quarter, AAP was forecasting double digit earnings growth and higher margins for 2022 due an aging fleet of cars on the road, consumers driving more miles after the pandemic and strong consumer spending. We trusted management had a strong belief in their growth prospects since they had increased their dividend ten-fold in two years (we bought AAP for our Dividend Growth portfolio in the fall of 2021). But as the year unfolded AAP noted slower consumer spending in discretionary Do-It-Yourself (DIY) projects largely due to inflationary pressures in energy, food, and housing. The company also announced it will fall short of its 2023 operating margin targets as an increase in both inventory costs and general expenses, such as labor and fuel inflation, cannot be offset enough by price increases. After two quarters of reducing their earnings targets and little to no sales growth, we thought it was prudent to move on despite our unusually short-term ownership of eight months.

Portfolio Highlight

Visa (V) has been a core position in the portfolio since 2010 and continues to generate solid growth in revenues, margins, and earnings. Given the current economic environment we thought it would be a good time to highlight some of the drivers of their business momentum. V finished fiscal year 2022 in September with $29.3 billion in revenue, +22%, led by one of its most profitable segments, cross-border volume +38%. The company processed 192.5 billion transactions during the year, +17%, and generated $15.0 billion in net income. That equates to an industry leading and very profitable 51% margin. The majority of Visa's revenues come from outside the United States. But with a low penetration rate of 35% of purchases done over card networks in Latin America and the Middle East/Africa, there is still plenty of room for growth. V just pledged to invest $1 billion in Africa by 2027 to accelerate digital transformation and to further scale its operations on the continent. In the last 10 years total purchases over card networks have risen from 27% to 45% and both Visa and **Mastercard (MA),** which we also own**,** have benefited. As a result, earnings for both companies are expected to grow double digits in the years to come despite the possibility of a U.S. recession. As always, we will watch for data points that could alter their growth rates, but for now we are pleased with their execution.

Moving Forward into 2023

Can you imagine stock markets that would always earn the same return each year? We debunked that above, but if it were true then CNBC TV ratings would be very low, as audiences would have little reason to tune in as financial news would be boring and not worth your attention. At SEM we try to explain that we will experience market volatility, including meaningful setbacks over one-to-two-year periods, but we should not necessarily act upon it. While annual calendar returns may be volatile our businesses' intrinsic values progress over time and stock prices eventually follow. We encourage all investors to avoid trying to time the market's up and downs, as in 25+ years we have yet to witness a single successful experience.

It is guesswork as to what the economy will precisely do in 2023, let alone if an economic slowdown would be "soft" or "hard." At SEM, our collection of businesses will do their best to fight higher cost inputs from inflationary factors with increased productivity or price increases and, we believe, will advance their overall intrinsic value in 2023 and beyond. With the market decline in 2022, we believe our portfolio is currently undervalued relative to its prospects; though that is not to say we have crystal ball telling us the portfolio will rise in the near term.

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As always, we remain confident in our process and with eyes wide open we are eager to keep learning from our experiences. Thank you for your ongoing support and we wish you a peaceful and successful 2023. Please contact us anytime as we welcome discussion. We look forward to the next 25 years!

Sincerely,

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

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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)	-23.4%	-18.1%	$ 766,400	$ 818,900
Three-Year	+7.4%	+7.7%	$ 1,237,200	$ 1,247,900
Five-Years	+11.2%	+9.4%	$ 1,697,900	$ 1,568,800
Ten-Years	+12.9%	+12.6%	$ 3,356,900	$ 3,265,400
Fifteen-Years	+9.4%	+8.8%	$ 3,847,800	$ 3,521,500
Inception (25 Years)	***+9.2%***	***+7.6%***	***$ 9,112,000***	***$ 6,296,500***

* Composite results of all SEM Select Growth managed accounts, net of all fees.
Note: Performance for the three, five, ten, fifteen and since inception year periods represent the annual average rates of return

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.

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.

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