First Quarter 2022

April 1, 2022

The Suncoast-Select Growth Portfolio posted a composite return of -11.3% versus the S&P 500 market index modest loss of -4.6% for the first quarter. The continued increase in energy prices boosted the operations and stock prices of those companies. Following up on significant sector market gains last year, energy and utilities were the only sectors with positive returns in the first quarter of 2022. As we cover mostly in our *SEM General Investment Commentary*, commodity-related businesses don't meet our strict wealth building company criteria. During the quarter we added three companies that are thriving in the current U.S. economic environment and sold three, one of which we owned for over a decade that may be facing an increasingly competitive environment. We cover these changes in our discussion below.

Could it be another 2016? It's too soon to tell

Investors may remember 2016 was a year of significant market moves by specific sectors, and a year in which **SEM's Select Growth Portfolio (SEM-SG)** , along with several of our growth investor peers, meaningfully underperformed the S&P 500. At the time we wrote that news, rather than fundamentals, captured investors' attention. In June 2016 when the United Kingdom approved a referendum to leave the EU (aka Brexit) and US interest rates dropped significantly, investors flocked to companies like Proctor & Gamble (PG), whose dividend yield was actually higher than the yield on its corporate bonds, even though PG sales and earnings had been flat for about a decade. Later in the year, when President Trump won the election, investors pivoted to energy, financial, materials and infrastructure companies, while shares of technology companies sold off on the prospect of an unfriendly administration. As a result, the stock prices of our portfolio companies underperformed the return of the S&P 500 in 2016 even though our businesses grew their earnings +13% on top of +14% the prior year. In the following years, the stock prices of our Select Growth companies more than made up for the underperformance in 2016.

Today the news is all about Inflation, how many rate increases there will be and sadly Russia's invasion of Ukraine. Looking at the first quarter of 2022, almost every sector of the S&P 500 fell, including Consumer Discretionary, Information Technology and Communication Services which was down double-digits, while utilities were +4% and energy was +38%. SEM's businesses, generally speaking are asset light and we do our best to monitor their fundamental ability to pass along rising cost inputs on their products and services to customers to maintain strong profitability. We will monitor a rising interest rate environment but it has virtually no impact on our companies' balance sheets since most have strong net cash positions. Rising interest rates will make fixed income more attractive to investors and we will add further thoughts here as we see rates rise. Meanwhile interest rates are still at very low levels.

Circling back to our growth portfolio underperformance in the first quarter, while we never know how our portfolio stock prices will perform in the immediate future, our earnings growth outlook for 2022 remains healthy in the +15% range. We believe when you have portfolio price declines, and at the same time positive earnings trends, , stock prices will reconcile at some point and have the potential to rise quickly to align with intrinsic value growth.

Portfolio Activity

During the first quarter we bought **W.W. Grainger (GWW), Automatic Data Processing (ADP)** and **Advanced Auto Parts (AAP)** with the sale proceeds of **PayPal (PYPL), Meta Platforms** (formerly known as Facebook, **FB**) and **Abbott Laboratories (ABT).** As we have often highlighted our companies meet stringent criteria of high returns on capital, robust free cash flow and strong balance sheets. Our discipline and qualitative analysis frequently leads us to companies with stronger earnings growth regardless of the current economic environment. Our new additions benefit from the current pocket of strengths in the economy be it employment, infrastructure expansion, maintenance and restricted supply of new vehicles.

We initiated a position in **Automatic Data Processing (ADP)** during the quarter. With 920,000 clients in 140 countries, ADP is also the nation's largest provider of business outsourcing solutions, like payroll and tax compliance, servicing 1 out of every 6 US workers. The U.S. is experiencing one of the strongest job markets in decades and ADP is a direct beneficiary. The tight labor market combined with a dispersed workforce (more people working remotely) and increasingly complex regulations for employers are all tailwinds for the global Human Capital Management (HCM) industry that is growing 5-6% a year. As a result of the strong economy and high inflation, the Federal Reserve is expected to raise interest rates several more times this year, which will increase the Interest on Client Funds that ADP earns (payroll companies typically pull funds from the employer 1-2 days before payroll is deposited in the employees' accounts and taxes are paid to the government.

That allows ADP to invest the funds in AAA rated securities and earn overnight interest). The company's scale should allow ADP to benefit more than competitors in a rising interest rate environment. In fact, it moved *$2.3 trillion* in annual US payroll and taxes on behalf of clients in its most recent report. Consequently, earnings should grow double digits and we will look for an opportunity to increase our position as ADP executes.

W. W. Grainger (GWW) is a leader in maintenance, repair and operations (MRO) supplies and services for businesses and institutions. They have long term relationships with most of their 5 million customers, primarily in the U.S., and offer 1.5 million SKUs from 4500 suppliers. Although GWW only has about 6% market share in the highly fragmented MRO industry, it exceeded its internal target of 3-4% additional growth above market growth in the recent quarter. Long term clients may remember that we owned GWW from 2006-2015 and sold our position as the company struggled to maintain pricing in the deflationary environment of the time, which put pressure on margins. In the current inflationary environment, GWW not only has pricing power but also positive mix shift which led to gross margins increasing from 34.9% to 37.3%. We believe GWW is well positioned to continue gaining market share and increasing margins in this economy.

As noted last quarter we use our two additional growth portfolios, **Suncoast – Dividend Growth (SEM-DG)** and **Suncoast – Small to Mid-Cap Growth (SEM-SMID),** as a source of investment ideas for our **Suncoast – Select Growth (SEM-SG).** Our recent purchase of **Advanced Auto Parts (AAP)** in Select Growth is a good example, since we first purchased it in **SEM-DG** last fall. AAP is one of the nation's largest auto parts and accessories retailers that serves professionals as well as the DIY (do-it-yourself) market. The company has almost 4800 stores that operate under brands Advance Auto Parts, Advance Discount Auto Parts, Discount Auto Parts, Western Auto and Worldpac. The company also serve 1325 independently owned Carquest stores. Management has been executing well by investing in inventory management to accelerate restocking and offering higher levels of availability, as well as more effective marketing and advertising. Furthermore, reduced new car inventories due to a shortage of microchips has escalated the trend of an aging fleet of cars on the road (average age is 12.1 years per IHS Markit) and allowed AAP to increase its revenue and margin targets once again. Same store sales could be +9.5-10% in 2022 and with a renewed focus on optimizing store profitability, earnings should grow more than 12% in 2022. Longer term AAP should continue to do well as it takes market share from smaller independent operators in the highly fragmented auto parts industry.

We sold our **PayPal (PYPL)** position after a decade of ownership due to increasing competition and reduced expectations. CEO Dan Schulman noted PYPL's 2022 results will be affected by fewer online and more in store purchases (vast majority of PYPL revenue comes from online transactions), as well as inflation and lack of stimulus checks. In addition, management removed 4.5 million "illegitimate" accounts from their Net New Active (NNA) estimates and walked back their medium-term target of 775 million NNAs by 2025 compared to 426 million as of yearend. It appears PYPL not only mistook growth in NNAs as sustainable long term rather than a pull forward due to the pandemic, but also has been relying on low quality accounts to meet its targets. Despite the negative report in February, we earned a 395% cumulative return on our PYPL investment. As with our recent GWW purchase, will watch to see if PYPL regains business momentum in the years to come and becomes a candidate for re-deployment in our portfolio.

After trimming our position in **Meta Platforms (FB)** during the fourth quarter due to its planned $29-$34 billion in capital expenditures in 2022 as well as $10+ billion investments in the metaverse, which could take many years to become profitable, we sold our remaining position. For the first time in its history FB reported in February that its daily active users (DAUs) declined by 500,000 due to increasing competition for people's time, especially from TikTok. Although 500,000 is not a material decline relative to its user base of 1.93 billion DAUs, FB also quantified it expects a $10 billion revenue headwind this year from Apple's iOS change that allows users to block advertisers from tracking them. With reduced sales and earnings, and significant capital investment ahead, we prefer to watch from the sidelines as FB builds out its metaverse platform and navigates competitive threats.

We initiated a position in **Abbott (ABT)** in March of 2020 due to strong organic growth in its FreeStyle Libre franchise for glucose monitoring and MitraClip for heart valve repair, as well as it globally diversified portfolio of Nutritionals, Medical Devices, Established Pharmaceuticals and Diagnostics. Shortly after our purchase, ABT announced it had received emergency use authorization from the FDA for two molecular COVID tests and was ramping production. Since then, ABT has distributed 1.4 billion COVID tests. But with $7.7 billion in COVID related sales in 2021 or 18% of total revenue, it may take several years for ABT to return to last year's sales and earnings level. While we are grateful for the company's contribution to help minimize the global pandemic, we sold our small position in ABT since our discipline requires that we own businesses that are growing their intrinsic value year in and year out. ABT is a well-run company, however, and we will continue to monitor it.

Looking Ahead

Our first hope is for a quick and peaceful end to Russia's invasion of Ukraine. We will continue to watch the changes in cost inputs for our businesses and their impact on profitability; and our companies have a history of solving tough business challenges with new innovations. 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
First Quarter (2022)	-11.3%	-4.6%	$ 887,400	$ 954,000
One-Year	+9.6%	+15.7%	$ 1,096,200	$ 1,156,500
Three-Year	+18.3%	+18.9%	$ 1,653,900	$ 1,682,000
Five-Years	+18.8%	+16.0%	$ 2,362,700	$ 2,099,400
Ten-Years	+14.8%	+14.6%	$ 3,958,000	$ 3,919,700
Inception (24 ¼ Years)	***+10.2%***	***+8.6%***	***$ 10,550,800***	***$ 7,335,500***

* Composite results of all SEM Select Growth managed accounts, net of all fees.
Note: Performance for the three, five, 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.

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.