



## First Quarter 2023

April 3, 2023

The **Suncoast - Dividend Growth Portfolio (SEM-DG)** posted subdued results in the quarter compared to the S&P 500, +4.0% versus 7.5%, which was driven by a rebound in technology companies many of which do not pay dividends. We pay little to no attention to short term performance, but rather focus on the **SEM-DIS Disciplined Investment System** that has created enviable long-term results. Our discipline of owning companies with consistent free cash flow, little to no debt, strong returns on capital and business momentum, led us to initiate new positions in **Cisco Systems** and **Eaton Corporation** which we highlight below. We also discuss an increase in **Stryker** and slight reductions in **Merck** and **Apple**.

### Portfolio Activity

We added two new companies to the Dividend Growth strategy in the first quarter, **Cisco Systems (CSCO)** and **Eaton Corporation (ETN)**. CSCO is the worldwide leader in technology that powers the Internet with devices such as routers and switches designed with integrated software to offer security, speed and flexibility to network users. Its segments include 1) Secure, Agile Networks, 2) Internet of the Future, 3) Collaboration, 4) End-to-End Security, and 5) Optimized Applications. The company is transforming its business model to a higher mix of subscription services and has increased its targets two quarters in a row due to a growing stream of recurring revenue and healthy backlog. With higher margin software revenue +10% and subscription revenue +15%, CSCO expects fiscal year 2023 sales to be +9-11% and earnings to grow +11-12%. It increased its dividend again this year and currently yields 3.2%.

Eaton Corporation is a global manufacturer of mission-critical, highly engineered power management products for industrial, vehicle, construction, commercial and aerospace companies. Products include hydraulic motors and generators, fuel systems, backup power, energy storage, filtration solutions and many others. ETN is benefiting from the “electric super cycle” of energy transition from fossil-based products to renewables, electrification of cars and trucks (EVs) and digitization of industries such as healthcare and finance. ETN’s total addressable market is growing as the US Infrastructure and Inflation Reduction Act allocates \$450 billion for grid modernization, climate, and energy programs. The company is also poised to benefit from the €240 billion EU Recovery Plan. Eaton posted broad based growth in all segments last year, but Electrical Americas (60% of sales) was especially strong +20% with a backlog +68% due to utility, data center, commercial and institutional markets.

For 2023 management expects organic sales to grow 7-9% and operating margins to continue to increase. With a 2.0% dividend yield at purchase, we hope to increase our small position in the coming quarters as the company executes.

We also slightly increased our position in **Stryker (SYK)** after it reported 10% organic sales growth in 2022 and increased its dividend +8%. We have owned SYK since the inception of the strategy and as a refresher it designs and markets MedSurg, Neurotechnology and Orthopaedic products for hip, knee, trauma, spinal and other implants. One of the drivers of its recent results is market-leading Mako SmartRobotics, a robotic-arm assisted technique for knee and hip replacement surgery, with spine and shoulder applications expected to launch next year. Patients benefit from minimally invasive surgery with less pain and shorter recovery times, which in turn makes the procedure more cost effective for patients and healthcare providers. SYK expects high single digit organic sales and earnings growth again this year, and as mentioned in our Investment Management Commentary, we will be watching to see how AI impacts its products and services.

We trimmed our positions in **Merck (MRK)** and **Apple (AAPL)** to make room for CSCO, ETN and the SYK increase. Although we continue to believe they are above average businesses with the financial strength to increase their sales, earnings, and dividends over time, we believe CSCO, ETN and SYK may have better business momentum in the upcoming year.

### Outlook

Although we are certain there will be more volatility, we remain grounded in our approach to invest as part-owners of a business, with a margin of safety, using market volatility to our advantage. As always if you would like to discuss our process or the portfolio more in-depth, please do not hesitate to reach out.

Sincerely,

*Amy*

Amy A. Lord, CFA

Senior Vice President/ Co-Portfolio Manager

*Don*

Donald R. Jowdy

CIO



*Suncoast Equity Management, LLC*

Performance results versus the Standard &amp; Poor's 500 Index

<b><u>Time Period</u></b>	<b><u>SEM % Return*</u></b>	<b><u>S&amp;P 500 % Return</u></b>	<b><u>SEM - Growth of \$1,000,000</u></b>	<b><u>S&amp;P 500 - Growth of \$1,000,000</u></b>
First Quarter (2023)	+4.0%	+7.5%	\$1,040,000	\$1,075,000
One-Year	-1.6%	-7.7%	\$ 984,400	\$ 922,700
Three-Year	+20.1%	+18.6%	\$ 1,732,300	\$ 1,668,400
Five-Year	+14.5%	+11.2%	\$ 1,970,000	\$ 1,699,400
<b><i>Inception (6 ¼ Years)</i></b>	<b>+14.7%</b>	<b>+12.2%</b>	<b>\$ 2,357,500</b>	<b>\$ 2,054,600</b>

\* 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



### **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.

