



First Quarter 2023

April 3, 2023

The Suncoast-Select Growth Portfolio posted a composite return of 9.1% versus the S&P 500 market index of 7.5% for the first quarter. We added one new position, **Booking Holdings** to the portfolio which we discuss below. Innovation and competition are ultimately better equalizers than government regulation, we tie that into our update on **Microsoft's** proposed acquisition of **Activision**. We highlight portfolio holding **Stryker**, which we have owned over six years and anticipate benefiting from its growth for many years to come.

Portfolio Activity

We initiated a position in **Booking Holdings (BKNG)** during the quarter in our Select Growth strategy. Clients may remember our previous ownership of BKNG from 2014 to March of 2020. We sold it in the initial stages of the global travel pandemic as we were uncertain how it would manage its fixed operating costs in an environment of evaporating revenue. BKNG survived this exceedingly difficult period and is a leader in OTA (online travel agency) with 2.7 million properties, 28 million accommodations in 220 countries and 40 languages. Booking.com is ranked as a Top 10 travel site in 153 worldwide markets, almost twice as many as Airbnb (ABNB) at 79 and six times more than Expedia (EXPE) at 25, per analytics platform App Annie. After several years of recovery, BKNG's business momentum returned in 2022 with gross bookings +26% and revenues +13% compared to the prior peak in 2019. The company is benefiting from tailwinds such as the ongoing shift to mobile app bookings, consumers spending more on travel instead of home projects and the lengthening of stays for "bleisure" trips (ability to work remotely and combine business and leisure travel). Moreover, China has finally emerged from Covid lockdowns and consumers there are eager to travel, though it may take some time to reach pre-pandemic levels. Management is investing for growth through its Connected Trip offering which includes rentals, attractions, and flights as well as payment solutions to deliver a more seamless and frictionless experience. At the same time, BKNG's financial strength allowed it to repurchase 8% of its outstanding shares last year. We look forward to increasing our small position as the company executes on its growth strategy. As our portfolio decisions often favor those companies with better business momentum, we trimmed our positions in **Merck (MRK)** and **KLA Corporation (KLAC)** to make room for our BKNG purchase.

Portfolio Developments

For as long as we have been managing portfolios, we believe that regulatory oversight of major companies by global government agencies is mostly backward looking and rear-view mirror thinking. Competition is ever-present and forward looking, and innovation is the disruptor. A few of our portfolio holdings face a continuous regulatory battle, even as they have successfully reinvented themselves. In the 1990s, the U.S. government sued **Microsoft (MSFT)**, utilizing sections of the Sherman Antitrust Act, for trying to monopolize the personal computer market with its Windows and Office suite of software. After reinventing themselves by developing and offering cloud computing services, MSFT is recently facing another global regulatory battle in its quest to acquire video game developer and current portfolio holding **Activision (ATVI)**. The Federal Trade Commission (FTC) in the U.S. filed a lawsuit to block the deal. Across the pond, the European Commission is reviewing the deal and extended its deadline to May 22nd. The U.K regulator will issue an opinion on April 26th. That regulatory body has narrowed its focus to the *cloud* gaming market and has communicated that it is accepting of MSFT's direction in the *console* gaming market. The U.S. FTC remains the most significant hurdle. Globally, regulators seem to be ignoring the *mobile* gaming market, which "generates the most revenue... is the fastest growing...and where MSFT has no meaningful presence" per Brad Smith, vice chair and president. Apple and Google to a large degree lead the mobile gaming market through their mobile devices and the app-store fees they earn.

The U.K. regulator's comments in late March resulted in ATVI's stock price rising 5% to \$85, above our initial purchase price last November in the mid-\$70 and narrowing the gap towards MSFT's \$95 offer price. We will continue to purchase ATVI for new accounts and deposits and may opportunistically increase our weighting should good business results for ATVI continue. It is a rare occurrence for a portfolio holding of ours to have both good business momentum and the possibility of merger arbitrage. At SEM our primary focus is on the former while also following progress towards the latter.

Free market capitalism is the energy that drives the heart and soul of innovation and steady generational improvements in our standard of living. While most regulatory actions are backward looking, they are also a corporate distraction that requires monitoring. Over time excess profits earned from business advantages may erode from competition; innovation disrupts the market and new leaders replace the former. Innovations in Artificial Intelligence and the recent introduction by **OpenAI** of ChatGPT is a stunning example. We cover our thoughts on the early introduction of this innovation in our **Investment Management Commentary** this quarter.



Portfolio Highlight

We own **Stryker (SYK)** in both our **SEM Select Growth Portfolio** and our **SEM Dividend Growth Portfolio**. SYK reported 10% organic sales growth in 2022 and increased its dividend +8%. 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. During our ownership, SYK's operating margin has improved to the 30% level from the mid 23% range. SYK expects high single digit organic sales and earnings growth again this year and as mentioned in our Investment Commentary letter, we will be watching to see how AI impacts its products and services.

Spring Ahead

We believe SEM Select Growth is well positioned for solid earnings growth in absolute terms and relative to the entire stock market, despite this challenging economy. Thank you for your ongoing support and please contact us anytime as we welcome discussion.

Sincerely,

Don

Donald R. Jowdy
CIO

Amy

Amy Lord, CFA
Senior Vice President/ Co-Portfolio Manager



Suncoast Equity Management, LLC

Performance results versus the Standard & Poor's 500 Index

<u>Time Period</u>	<u>SEM % Return*</u>	<u>S&P 500 % Return</u>	<u>SEM - Growth of \$1,000,000</u>	<u>S&P 500 – Growth of \$1,000,000</u>
First Quarter (2023)	+9.1%	+7.5%	\$1,091,200	\$1,075,000
One-Year	-5.8%	-7.7%	\$ 942,400	\$ 922,700
Three-Year	+17.6%	+18.6%	\$ 1,625,900	\$ 1,668,400
Five-Years	+12.5%	+11.2%	\$ 1,805,100	\$ 1,699,400
Ten-Years	+12.8%	+12.2%	\$ 3,332,900	\$ 3,173,600
<i>Inception (25 ¼ Years)</i>	+ 9.5%	+ 7.9%	\$ 9,942,600	\$ 6,768,500

* 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



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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.

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