



First Quarter 2023

April 3, 2023

The **Suncoast-SMID Portfolio** posted a composite return of 8.6% versus the comparable benchmark of the S&P 400 Growth of 5.0% for the first quarter. We purchased **Agilent Technologies (A)** and **Eaton Corporation (ETN)** and discuss long term holdings **Fleetcor (FLT)** and **Roper Technologies (ROP)**.

Portfolio Activity

We initiated a position in **Agilent Technologies (A)**. In 1999 Hewlett-Packard spun out Agilent Technologies and the company has since evolved into a leading life sciences and diagnostics firm with measurement technologies serving a broad customer base. From a quantitative basis Agilent meets the metrics of our **SEM-DIS (Disciplined Investment System)** with a strong balance sheet, free cash flow and high returns on capital. Agilent's total addressable market (TAM) is around \$52 billion and is expanding 5%+ annually. Management recently highlighted growing demand for one of Agilent's products that can detect the presence of per- and poly-fluoroalkyl substances (PFAS) in drinking water, which can lead to serious health conditions. The company will benefit from President Biden's infrastructure bill since it includes \$10 billion for PFAS testing. In the most recent quarter, all the strongest divisions grew double digits and even the slower growing divisions grew mid to high single digits. Operating margins have consistently grown from 19.5% in 2013 to a little over 30% in 2022 and Agilent is using its free cash flow to buy back stock, both of which are propelling earnings. Given its long track record of resiliency despite the macro environment, we expect these trends to continue.

Eaton Corporation (ETN) 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. Much like Agilent, 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 should also 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. We hope to increase our small position in the coming quarters as the company executes.

We slightly reduced our positions in **EPAM Systems (EPAM)** and **Pool Corporation (POOL)** to raise cash for the purchases of **A** and **ETN**. Our two new additions to the portfolio seem to have good business momentum at this time and their businesses will benefit from infrastructure spending.

Portfolio Updates

During the quarter **Fleetcor (FLT)** struck a board agreement with activist shareholder D.E. Shaw to refresh its board and consider separating parts of its business. Fleetcor plans to do a strategic review of its business, which could include, but is not limited to, the separation of one or more of its segments, with an expected completion by year end. FLT appointed Rahul Gupta, a veteran executive and expert in the digital services and payments industry, to the company's Board of Directors. Per the agreement with D.E. Shaw they will add another mutually agreed on director to the Board, enhancing the diversity and deepening its skill set in technology and financial oversight.

Another one of our holdings **Roper Technologies (ROP)** held their 2023 Investor Day on March 21st. Roper has over 80% of the business benefitting from recurring or highly recurring revenue, reducing the cyclicity of their revenue. During the presentation Roper highlighted the competitive dynamics and advantages of several of their portfolio businesses, Deltek, Aderant, Verathon, and Vertafore. All are a part of the Application Software Segment with its moat source being switching costs. As a result of making significant improvements in its operating model over time, it has driven additional organic growth from low single digits to mid-single digits and margin gains of 31%-40% over the last 10 years.

Outlook

After reporting mid teen earnings growth in 2022, we believe the SMID portfolio should grow its earnings high single digits this year. We will watch for execution and keep working hard to preserve and grow our clients' capital.

Sincerely,

Don

Donald R. Jowdy
CIO

Cheeroke

Cheeroke Townsend
Co-Portfolio Manager, Analyst



Suncoast Equity Management, LLC

Performance results versus the Standard & Poor's 400 Growth Index

<u>Time Period</u>	<u>SEM % Return*</u>	<u>S&P 400 % Return</u>	<u>SEM - Growth of \$1,000,000</u>	<u>S&P 400 -Growth of \$1,000,000</u>
First Quarter (2023)	+8.6%	+5.0%	\$1,086,300	\$1,050,400
One-Year	-2.5%	-6.4%	\$ 975,000	\$ 935,900
Three-Year	+18.2%	+18.2%	\$1,649,500	\$1,650,700
Five-Year	+11.9%	+6.8%	\$1,755,800	\$1,388,200
<i>Inception (5 3/4 years)</i>	+12.1%	+ 8.0%	\$1,925,800	\$1,554,600

* Composite results of all SEM Small-Mid Capitalization 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 June 2017, SEM also offers a Small to Mid Cap (SMID) Growth Composite. The SMID Composite includes all discretionary, fee-paying portfolios managed within this strategy. The creation and inception date of the SMID composite is 6/30/2017.

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. As of 1/1/2021 we retroactively changed the index used for comparison to the Standard and Poor's 400 Growth Total Return Index is an unmanaged index with no expenses, which covers growth stocks within the S&P 400 index. It is a float adjusted market capitalization-weighted index calculated on a total return basis with dividends reinvested. Prior to this change, the index used for comparison was the Russell 2000 Growth index.

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 SMID composite has had a performance examination for the periods 6/30/17 – 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.

