Second Quarter 2023 (July 3, 2023)

The **Suncoast Dividend Growth** portfolio appreciated in line with the S&P 500 during the second quarter, but lags slightly behind year to date, +13.7% versus +16.9%. Performance year to date is in line with earnings prospects and follows our outperformance last year when we held up better than the S&P 500 by a difference of 6%. We highlight **Apple**, a position we've held since inception of the strategy, as well as the purchase of **TJX Companies** and sale of **T. Rowe Price Group**.

Portfolio Highlights

In our Investment Management Commentary, we noted how far technology has come since the invention of cell phones, how we look forward to future advancements and how we hope to participate as owners of innovative companies. No company is a better example of this than **Apple (AAPL)**. As long-term shareholders we have benefited from its powerful global brand and ecosystem, as well as innovative new offerings. We highlighted AAPL in late 2020 in the midst of the pandemic when the company started manufacturing its own M1 MacBook chips, which not only gave management better control over its supply chain and increased efficiency but also increased margins. Since then, it has continued to grow its market share and expand its base of active devices to more than two billion with 935 million paid subscriptions. Last June AAPL notched 50% U. S. market share for the first time and the iPhone hit 52.5% by December, according to a *Wall Street Journal* article by Christopher Mims that cites Counterpoint Research. As AAPL flexes its muscles by raising prices on new premium phones, the market is also growing for those that purchase refurbished handsets, leading to a higher overall market share. Analysts expect this trend to continue as AAPL supports software upgrades for devices as far back as 2017, which means iPhones often have two or three different owners before being recycled or left for backups. So even if a buyer is the third owner and able to buy an iPhone at a lower price point, AAPL makes money on higher margin services like Apple Music, Apple TV and iCloud storage. The impact of this growth in refurbished phone use is huge. Globally, 283 million used or refurbished phones were sold in 2022, representing nearly 20% of all the phones sold that year. Consumer analytics firm IDC projects used phones sold will reach 415 million by 2026, which would be annual growth of 14%, and currently AAPL phones account for more than 80% of the market by value.

Similarly, AAPL has seen tremendous growth in India's market share, albeit off a very small base, from 1% in 2019 to almost 5% today. India just surpassed China as the world's most populous country with 1.4 billion people, yet only about half have smartphones, so it remains a tremendous growth opportunity. In April Apple announced plans to expand its manufacturing, with an annual target of 20 million iPhones, and create 50,000 jobs when CEO Tim Cook met with Indian Prime Minister Narendra Modi. This strategy will allow the company to avoid import tariffs and compete more effectively with the current market-leading Chinese manufacturers. Longer term, it allows AAPL to diversify its manufacturing so that it is less dependent on China.

With its dominant global brand and two billion devices, AAPL is expanding into financial services and healthcare. Security and privacy have always been a high priority at AAPL, which is critical to success in these industries. In financial services, the company is making progress on its integrated digital wallet, with its Apple pay later product, credit card, high-yield savings, and daily cash back. Its current partnership with investment bank Goldman Sachs means it qualifies for FDIC insurance, while at the same time improving customer experiences and money mobility. In healthcare the Apple Watch and Health App include features like an ECG (electrocardiogram) to detect A Fib (atrial fibrillation), emergency alerts if someone has had a hard fall, healthcare record storage, medications, fitness activity and sleep patterns. AAPL is currently working on a non-invasive CGM (continuous glucose monitoring) tool that does not require a finger-prick. We believe these new offerings will resonate with consumers and provide meaningful long-term growth opportunities, and correspondingly good returns for SEM clients as owners of AAPL.

Portfolio Activity

We repurchased **TJX Companies (TJX)** in the DG portfolio after selling it in 2020 due to uncertainty over the timing of store reopenings. TJX is a leading off-price retailer where consumers enjoy the "treasure hunt" at T.J.Maxx, Marshalls, HomeGoods, HomeSense, Sierra and Winners. Two trends in consumer behavior are benefiting TJX, the shift back to more "in-store" shopping rather than almost entirely online during the pandemic and consumers looking for bargains as a result of inflationary pressures. Management is hoping to take advantage of the recent bankruptcy of competitor Bed, Bath and Beyond (BBBY) by acquiring their discounted inventory and also hoping to acquire their customers since most BBBY stores were in close proximity to TJX stores.

With supply chains normalizing TJX is benefiting from lower freight and shipping costs, which led the company to report higher than expected pre-tax profit. As a result, TJX increased its fiscal year 2024 earnings targets to +12-15%. The Board increased its dividend by 13% and TJX currently yields 1.6%. Our goal is to increase our 2% position as TJX executes in the coming quarters. Similarly, we increased our position in **Eaton Corporation (ETN)** after the company reported broad-based organic sales growth +15% as well as higher margins in the first quarter. With the backlog of its largest and higher margin segment, Electrical Americas +51% ETN should generate at least 10% earnings growth this year.

After two years of ownership, we sold our small position in **T. Rowe Price (TROW)**. TROW is known for its platform of mutual funds, ETFs and managed accounts with solid long-term track records across equity, fixed income and balanced portfolios. Since the company generates revenue by charging a fee on its AUM (assets under management), 2022 was a very difficult year due to the selloff in almost every asset class except Treasury bills and cash equivalents. Although TROW has managed through many market selloffs before and should be fine in the long run, it will likely take several years to get back to its previous peak in revenues and earnings. Despite its 4.5% dividend yield, we sold our position and reinvested the proceeds in ETN. We also slightly reduced our **Home Depot (HD)** position as consumer behavior shifts from larger home improvement projects, patios and grills to travel and experiences as we noted in our **Select Growth** commentary. We reinvested the proceeds in TJX, which has better business momentum at this time.

<u>Portfolio Updates</u>

In mid-June portfolio holding **UnitedHealth Group (UNH)** stated that elective health procedures, such as knees and hips which are especially desired by seniors, are making a comeback following the pandemic. As demand for healthcare services picks up, UNH said it will impact profitability in the insurance segment of its business. On the other hand, UNH's Optum Health business, which in part provides services through local medical groups including primary, specialty, urgent and surgical care, may benefit from increasing medical utilization. Overall, UNH is still expected to grow in earnings in the low teens in 2023. **Stryker (SYK),** also a portfolio holding, will see a positive impact since knee and hip implants are the bread-n-butter of its business. Both companies have steadily grown their intrinsic value over the last decade, with UNH and SYK growing net income to $21+ and $3.8 billion, up from $5.6 and $1 billion, respectively. We expect both will continue to grow based on their market positions and competitive advantages.

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Outlook

The dividends of our companies are on track to grow 9% this year, due to their strong balance sheets, cash flow and profitability. We will be watching for confirmation of that growth as we head into the second half of 2023 and get some early glimpses of 2024. We are grateful for your support and welcome your thoughts.

Sincerely,

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

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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**
First-Half (2023)	+13.7%	+16.9%	$ 1,136,800	$ 1,168,900
One-Year	+19.6%	+19.6%	$ 1,195,700	$ 1,195,900
Three-Year	+16.9%	+14.6%	$ 1,596,000	$ 1,505,100
Five-Year	+15.9%	+12.3%	$ 2,093,800	$ 1,786,600
Inception (6 ½ Years)	***+15.7%***	***+13.2%***	***$ 2,576,800***	***$ 2,234,300***

* 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.

The Dividend Growth composite is an equity composite employing the principles of Benjamin Graham & Warren Buffett. The discipline is a bottom-up fundamental approach and blends value and growth parameters. The portfolio consists of between 15-25 stocks and its benchmark is S&P 500 Total Return Index. This strategy is built to provide additional dividend income on par with the S&P 500 but improved dividend growth prospects.

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 are as follows:
The Standard and Poor's 500 Total Return Index is 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.

Suncoast Equity Management adheres to the GIPS valuation hierarchy principles.

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 – 12/31/21. 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 – 12/31/21. The verification and performance examination reports are available upon request. For any additional information, please contact the Chief Compliance Officer at (813) 963-0502.

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