Second Quarter 2023 (July 3, 2023)

The second quarter saw a continued recovery from last year's equity market declines, with the **SEM Select Growth** portfolio up 19.0% versus the S&P 500 market index up 16.9% year to date. The recovery is supported by robust earnings growth in 2022 and some improvement in the outlook for growth in 2023 for the **SEM Select Growth** companies. In the commentary below, we discuss our newest addition **Fiserv,** an increase in **Bookings** and **Activision,** as well as slight reductions in **Home Depot, Microsoft,** and **Accenture**. We also highlight our long-term holding, **Apple**.

Portfolio Activity

SEM welcomed back **Fiserv (FI)** to our portfolio holdings, this time in our **SEM Select Growth portfolio**. FI provides internet banking, bill payment, credit/debit card processing and risk management solutions for the financial services industry. These solutions include trust and administrative services to 18,000 or so financial institutions such as banks, credit unions and broker-dealers. FI had been an original holding of our **SEM Small to Mid-Capitalization portfolio** and performed well, though we decided to sell our position when the company acquired First Data Corporation (FDC) at the end of 2019. The acquisition brought significant scale, doubling revenues, but it also came with a hefty debt load at that time.

Fast forward to today, momentum is gaining for FI as *Clover*, its small business transaction processing solution, grows. Also, payment processing of debit and credit cards as percentage of total revenues has grown to 40%. From a financial strength perspective, long term debt remains meaningful but manageable and we may start to see the balance sheet strengthen. FI has $20 billion of long-term debt, about the same amount as it did at the close of the First Data merger in 2019. FI's free cash flow from operations has nearly doubled within four years to the $5 billion range from $2.7 billion. Since the acquisition, FI has returned much of the free cash flow to owners in the form of stock buybacks, as shares outstanding have shrunk 7.5% to 628 million from the post-merger level of nearly 680 million. With interest rates rising a bit, future free cash flow allocation may shift to strengthening the balance sheet. We have reviewed FI's debt schedule which reveals it has laddered maturities with no more than $2 billion due in any single year for the next 5 years or so. As this debt matures and if the rollover rates are not advantageous, we would expect a pay down of debt.

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FI's growth outlook is bright from an organic and potential acquisitions standpoint, and we foresee higher free cash flow levels applied to strengthening the balance sheet or share reduction. To make room for FI, we reduced our position in **Accenture (ACN)** from 8% to 5.75%, transitioning from an overweight to a core portfolio holding.

During the quarter we also raised **Booking (BKNG)** to a core weighting and reduced **Home Depot (HD)** to below core. The shift in consumer spending towards travel and away from home improvements favors our holding in BKNG. Summer travel in 2022 was busier than 2021 but this year it will be much stronger. A Gallup poll, recently reported by the *Wall Street Journal*, tells the story, along with the U.S. ending the national public emergency declaration in May, which was put in place due to the pandemic. Back in May of 2022, 40% of the respondents said they had been avoiding travel by airplane, bus, subway, or train; in February of 2023 – the most recent survey – this had fallen to 18%. The spending surge on travel and other tourism-related experiences, such as concerts, is supporting the overall economy. Travel to the U.S. by overseas visitors is also picking up and this will help the more profitable segments of two of our additional holdings: **Mastercard (MA)** and **Visa (V)**.

At the end of the quarter, we increased our portfolio position in **Activision (ATVI).** You may recall that Microsoft has an agreement to purchase the company, but it is being contested on several regulatory fronts, especially by the Federal Trade Commission in the U.S. A federal judge heard arguments in the FTC's lawsuit the last week of June, but no ruling has been issued, yet. MSFT and ATVI's deal deadline is July 18th. As we discussed in our first quarter letter, our investment in ATVI is not predicated on the deal getting done, its business is doing well. Many paths are possible; if the deal is called off then MSFT will need to pay ATVI a $3 billion termination fee. If the court case continues past July 18th, MSFT may have to increase their initial $95 offer price from the original announcement in January of 2022. To accommodate the addition of ATVI, we reduced **Microsoft (MSFT)** to 9% from 11.4% of the portfolio.

<u>Portfolio Highlights</u>

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 hit 52.5% by December with the iPhone, according to a *Wall Street Journal* article by Christopher Mims who cites Counterpoint Research. As AAPL flexes its muscles by continuing to raise the price on new premium phones, the market is also growing for those that purchase refurbished handsets, supporting the increased 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 huge 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 Updates

In mid-June portfolio holding **UnitedHealth Group (UNH)** shared elective health procedures, such as knees and hips, especially those desired by seniors, are beginning to make a strong 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 its earnings in the low teens in 2023. **Stryker (SYK),** also a portfolio holding, will see a positive impact since knees and hips 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. UNH's stock price weakened a bit on the news, and we could decide to add to our position as we did in early March of this year.

Overall, albeit unevenly because of shifting consumer consumption patterns, the **SEM Select Portfolio** businesses continue to advance their operating earnings and consequently their intrinsic values. We will monitor our companies' competitive advantages and focus on ownership of those businesses that maintain or expand their advantage. Thank you for your ongoing support and please contact us anytime.

Sincerely,

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

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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)	+19.0%	+16.9%	$ 1,190,200	$1,168,900
One-Year	+22.5%	+19.6%	$ 1,225,000	$1,195,900
Three-Year	+12.0%	+14.6%	$ 1,403,600	$1,505,100
Five-Years	+13.1%	+12.3%	$ 1,849,700	$1,786,600
Ten-Years	+13.5%	+12.9%	$ 3,535,000	$3,353,500
Inception (25 1/2 Years)	***+ 9.8%***	***+ 8.1%***	***$10,845,300***	***$7,360,300***

* 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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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.

The Suncoast Equity Management composite is an equity only 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 18-22 stocks.

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 Suncoast Equity Management composite has had a performance examination for the periods 12/31/97 – 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.

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.

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