*Third Quarter 2023 (October 2, 2023)*

The SEM-Select Growth composite declined slightly in the third quarter and gained a bit of relative performance versus the index, as the **SEM Select Growth** portfolio was +17.6% versus the S&P 500 market index +13.1% year to date. With a stronger economy than most expected this year, earnings growth supports the gains. At this point we believe our portfolio is at fair value, with a solid earnings outlook in an uneven economy. In the commentary below, we discuss our newest addition **Nvidia**, an increase in newer holding **Fiserv**, and our sale of **KLA Corporation** and **Activision**.

Portfolio Activity

After following **Nvidia (NVDA)** for many years, we initiated a position during the quarter and increased it a month later. NVDA is a leading developer of Graphics Processing Units (GPUs), traditionally used to enhance experiences on computing platforms such as video games on personal computers.

While business results for NVDA were very strong as recently as 2020, we felt they did not meet our criteria until recently. Much of NVDA's business results during the pandemic period, while strong, were as volatile as the industries it served, namely crypto mining and gaming. NVDA doubled its net income in just one year between 2020-2021, then fell 20% in 2022 in large part due to the volatility of its customers' businesses.

Today's business success at NVDA is fueled by demand for its Data Center products, which is growing rapidly as cloud service providers, such as Amazon (AMZN), **Microsoft (MSFT)** and **Alphabet (GOOG)** among others, capture the power of generative Artificial Intelligence (AI). In July, NVDA reported incredibly strong results and with visibility into the next year and unprecedented demand, the company dramatically increased both sales and earnings targets for the second time this year. Results were driven by higher margin Data Center revenues +171% in the quarter, while gross margins jumped from 46% to 71% and operating margins went from 20% to 58%! NVDA's operating leverage or economies of scale is vast and margin expansion is a key indicator we favor in our **SEM- Disciplined Investment System (SEM-DIS).**

NVDA has created an unparalleled "one-stop shop" business model with its GPUs, hardware/software tools and its platform ecosystem of AI programmers and coding language named CUDA (Compute Unified Device Architecture). NVDA's Data Center revenues have almost tripled in the last 6 months and were 76% of second quarter sales. With GPU's parallel processing ability (GPUs can run workloads simultaneously rather than one at a time, which increases productivity exponentially) and the transformative power of NVDA's H100 chips, ChatGPT debuted last November and started a new frontier in accelerated and generative AI. NVDA has 70%+ market share and is benefiting from the tremendous resources MSFT (a large investor in ChatGPT), GOOG, AMZN, META, **Apple (AAPL)** and others are spending to build out AI services.

We believe for NVDA that the cloud computing and AI market is a much stronger and more enduring mix of revenue than NVDA's past mix. NVDA is well positioned to keep benefiting as the market for cloud and AI continues to expand, no matter which companies in that space come out ahead. At present, no competitor has the ecosystem of products, services, and coding language that NVDA does. Furthermore, Jensen Huang, co-founder, and CEO of NVDA, has invested heavily to build out its capacity the last several years and continues to ramp up supply trying to meet demand. Despite those efforts, some estimates suggest the company is still only meeting *50%* of demand.

We would be naïve to assume a competitor will not appear and we factor that into our thinking and pay close attention. In fact, a competitor is expected to roll out a less expensive and less powerful GPU later this year; meanwhile, the three largest cloud computing companies, AMZN, GOOG, MSFT plus AAPL are designing their own chips. NVDA's first mover advantage, ecosystem and unmatched supply confer pricing power, and it has substantial operating leverage. We believe NVDA has a strong runway ahead and we took advantage of the recent stock price decline to establish our position.

We also increased **Fiserv (FI)** after making an initial purchase in June. As we highlighted in our second quarter letter, FI offers internet banking, bill payment, credit/debit card processing and risk management to more than 18,000 financial institutions. Fiserv reported solid second-quarter results in July, and this is the ninth consecutive quarter of double-digit organic sales growth.



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The company increased its 2023 target to +9-11% for the second time this year, driven by several products including Clover and Zelle. Clover, its Point-of-Sale (POS) system which makes it easy for businesses to accept in-person, contactless, mobile, and online payments, posted +23% revenue growth and global payments volume of $267 billion, +15%. Zelle transactions were also very strong, +44%.

With stable consumer spending and good visibility into the next few quarters, operating margins are expected to increase as well.

We sold our positions in **KLA Corporation (KLAC)** and **Activision (ATVI)** to accommodate the purchases noted above. These decisions are always relative for us in our efforts to own a small collection of outstanding companies with business momentum. **KLAC** is a market leader in process control and yield management solutions for the semiconductor industry. Management noted that some customers have been cutting back on capital expenditure and delaying investments. Although KLAC will fare much better than competitors due to its strong free cash flow and high returns on capital, it may take 1-2 years for it to generate sales and earnings growth again. We owned KLAC for a shorter than average time period of less than two years, however long-term clients earned a satisfactory positive return over that time compared to a loss for the S&P 500. Regarding **ATVI,** it was a viable choice to redeploy our investments since the share price was trading within 4% of MSFT's all cash offer price of $95, and it looks as if the deal will close by mid-October. We also earned a $0.99 per share special dividend which was paid to shareholders on August 17th.

<u>Portfolio Valuation</u>

As we head into the fourth quarter, we roll over our valuation spreadsheets for an early look into 2024. The earnings growth outlook for 2023 and 2024 for Select Growth is 10% and 11%, respectively (when we remove the very high rate of earnings growth forecasted for **Nvidia**)**.** This earnings growth is slightly below our long-term average, and it is important to note that 2024 is an early forecast, though as a base our lowest ever earnings growth year for **SEM – Select Growth** in our 25-year history was +4-5%. With this earnings outlook information and 25+ years of history as a comparison, we share some thoughts about portfolio valuation. We currently believe that **SEM – Select Growth** is fairly valued. Fair valuation implies we are reliant on earnings growth, which is solid, to increase the intrinsic value of our businesses and consequently the value of your portfolio.

We are comfortable putting new funds to work when we are in a fair value range. Notwithstanding, this is not a crystal ball as to where the market will go towards the end of 2023 or a prediction for 2024. Markets in the short run can be impacted by negative and positive global events.

Our mantra to grow and preserve your capital is to own particularly good businesses for long stretches of time. 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** |
|---|---|---|---|---|
| Year-to-Date (2023) | +17.6% | +13.1% | $ 1,175,700 | $1,130,700 |
| One-Year | +28.1% | +21.6% | $ 1,281,200 | $1,216,200 |
| Three-Year | + 7.8% | +10.2% | $ 1,251,000 | $1,336,500 |
| Five-Years | +11.6% | + 9.9% | $ 1,727,400 | $1,604,400 |
| Ten-Years | +12.6% | +11.9% | $ 3,262,300 | $3,082,100 |
| ***Inception (25 3/4 Years)*** | ***+ 9.7%*** | ***+ 7.9%*** | ***$10,713,400*** | ***$7,119,300*** |

* 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

## ***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.

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