



Fourth Quarter 2023 (January 2, 2024)

After a strong fourth quarter, the **Suncoast-SMID Portfolio** (SEM-SMID) closed out 2023 +23.5% versus the S&P 400 Growth index +17.5%. We made two new purchases, **Brown & Brown** and **Medpace Holdings**, as well as a few other small increases using the proceeds from the sales of **Pool Corporation**, **Fortinet**, and the slight reduction of **Tractor Supply**.

Portfolio Update

We made an initial investment in **Brown & Brown (BRO)** during the quarter, a diversified insurance broker that markets property/casualty as well as employee benefit products and services. Many of its business segments are similar to our new Dividend Growth company, **Marsh & McLennan (MMC)**, but on a smaller scale. Founded in Daytona Beach in 1939, BRO has been expanding its international footprint in all three of its segments, Retail, National Programs and Wholesale Brokerage, with recent acquisitions in the UK, Belgium, Italy, and Ireland. National Programs is the fastest growing and highest margin of the segments and has relationships with many major carriers including AIG, Allianz, Munich RE and our long term Select Growth holding, **Berkshire Hathaway (BRKb)**. BRO generated +12% revenue growth over the last 10 years, while operating margins remained steady and free cash flow grew 15% annually. We look for BRO to continue to generate double digit earnings growth through tuck in acquisitions as well as strong organic growth.

We also bought **Medpace (MEDP)**, a full-service clinical contract research organization (CRO) that designs and conducts Phase I-IV trials for small to mid-sized biotechnology, pharmaceutical and medical device companies. MEDP has operations in more than forty countries and prides itself on country-specific expertise by integrating local language, culture, and requirements into study content so it can be effective wherever research is happening. After solid growth the last few years, MEDP bought back 14% of its outstanding shares which led to earnings growth of 50%+ in 2022. The company increased its sales, operating margin, and earnings targets for each of the last three quarters and now expects sales to be +28-30% with earnings +17-19%. Early estimates for 2024 are for mid-teen sales and earnings growth.



We also increased several positions to a core weighting of 4%+ after the companies reported strong quarterly results, **MSA Safety (MSA)**, **ITT Inc. (ITT)** and **Eaton Corporation (ETN)**, all of which are global manufacturers that are experiencing increasing demand for their products. We hope to increase both BRO and MEDP to core positions in the coming year should they continue to exhibit business momentum, strong free cash flow and balance sheet strength as the **SEM- Disciplined Investment System (SEM-DIS)** requires.

After more than six years of ownership, we sold our small position in **Pool Corporation (POOL)**. As discussed in our Investment Commentary and Select Growth letters we are seeing shifts in consumer spending in the post pandemic world and POOL is a classic example. As a distributor of pool equipment, construction materials and supplies, revenues and earnings almost doubled from 2019 to 2022 as homeowners built and maintained their pools. Much like our comments on Home Depot, it may take a few years before POOL starts to grow again from its peak in 2022 due to consumer confidence and a greater proportionate spending on travel and experiences than on their homes. We also trimmed **Tractor Supply (TSCO)**, which is growing but at a slower rate than it did in previous years as consumers become more selective, which is affecting seasonal products and big-ticket items.

Although POOL, TSCO and **Fortinet (FTNT)** operate in quite different industries, the global cybersecurity firm is also experiencing a slowdown after soaring demand due to the pandemic. We first purchased FTNT in 2020 as businesses and government agencies invested heavily in cybersecurity to facilitate working from home. But its 2023 billings growth, which is an indicator of future revenues, fell from 30% early in the year to 18% in the second quarter. Management cut its target to 10% during its November earnings release. FTNT noted that large customers are reducing their budgets and opting for shorter contracts due to economic uncertainty. Some of FTNT's competitors have also reduced their estimates, but not to the same extent. We sold FTNT because we were not sure if the slowdown was specific to FTNT and that it might be losing market share, or if it is an industry-wide trend.

We had a valuable experience with both POOL and FTNT over our ownership period, with gains of 185% and 83% over the respective 6- and 3-year holding periods. We will continue to monitor both and reconsider if their business momentum returns.



Outlook

We believe the recent transactions position the portfolio to generate solid growth in 2024 and as always will be watching for data points to determine if our expectations are reasonable. Wishing you a healthy and happy 2024!

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 Growth % Return</u>	<u>SEM Growth of \$1,000,000</u>	<u>S&P 400 Growth- Growth of \$1,000,000</u>
One-Year 2023	+23.5%	+17.5%	\$ 1,234,600	\$ 1,174,900
Three-Year	+6.2%	+4.2%	\$ 1,197,200	\$ 1,132,100
Five-Year	+16.2%	+11.9%	\$ 2,122,200	\$ 1,755,200
<i>Inception (6 1/2 years)</i>	<i>+12.8%</i>	<i>+8.9%</i>	<i>\$ 2,188,700</i>	<i>\$ 1,738,900</i>

* Composite results of all SEM Small-Mid Capitalization Growth managed accounts, net of all fees.

Note: Performance for the three, five 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.

The SMID 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 20-30 stocks. This strategy of smaller companies will own businesses with high earnings growth relative to the market, while incurring moderately more risk than SEM Growth Composite. Potential investors should have a minimum three year time horizon, since selling at a disadvantageous time could result in principal impairment.

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.

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 – 12/31/22. 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 – 12/31/22. 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.