Third Quarter 2024 (October 1, 2024)

Year to date **SEM Select Growth** is +16.4% net of fees while the S&P 500 gains stand at +22.1%. Regulatory news this quarter impacted two of our long-time holdings, **Alphabet** and **Visa** and is contributing to our underperformance this year. We share our investment philosophy regarding regulation. During the quarter we initiated a position in **Eli Lilly** and sold **Merck** to make room for the purchase. We also sold our long-term holding in **Nike**.

Portfolio Activity

In August we initiated a position in **Eli Lilly (LLY)** after it raised its 2024 revenue and earnings targets largely driven by Mounjaro (diabetes) and Zepbound (obesity). Although we already owned LLY in our Dividend Growth strategy, the newly discovered additional health benefits from these treatments lead us to believe there is a widening addressable market for LLY. While Tirzepatide, the main ingredient in Mounjaro and Zepbound, is well known for helping patients lose up to 16% of their body weight, recent studies have shown that it also lowers the risk of hospitalization or death from heart complications by 38% and reduces symptoms of fatigue, shortness of breath and swelling in the arms and legs. Some patients state that it also helps reduce cravings for alcohol and tobacco. In addition, Phase 3 clinical trials showed Tirzepatide meaningfully improved sleep apnea with about 30 fewer events of restricted or blocked breathing per hour and FDA approval is expected in the next few quarters. In other treatment areas, Lilly's Kisunla was approved in July for the treatment of early symptomatic Alzheimer's disease after trials showed it slowed cognitive and functional decline up to 35% and cut the risk of progressing to the next clinical stage of the disease up to 39%. With a well-diversified portfolio of treatments for diabetes, obesity, neuroscience, immunology and oncology as well as very strong sales and earnings growth, we will look for opportunities to add to our position.

After four years of ownership, we sold our small position in **Merck (MRK)** to purchase LLY. MRK's second best-selling product Gardasil (a vaccine for HPV that can lead to certain cancers) saw a slowdown in China, which is one of its largest markets. It was a relative decision and we believe LLY has more business momentum at this time.

Shortly after **Nike (NKE)** announced revenues would be down mid-single digits for its upcoming fiscal year, we sold our 2% position. Growth has been muted recently by a loss of innovation as well as competitors taking share and a promotional market. Traffic declines in its stores and slowing sales in China have also had an impact. Ultimately, NKE was a successful long-term holding earning +638% since our first purchase in Select Growth in 2006 and we would consider it again should the new CEO Elliott Hill be able to reignite consistent long-term growth.

“Alphabet Is a Monopolist” – Our thoughts on Regulation

Our opinion of regulation, which has not changed in our 25+ years at SEM, is that it is mostly backward looking. By the time the government targets a corporation, that same business is fighting competitors that are introducing new innovations into a marketplace, serving consumers whose needs are evolving, and effectively eroding advantages of the same company the government is trying to regulate. During the quarter, two of our portfolio companies **Alphabet (GOOG)** and **Visa (V)** experienced further regulatory judgements. Both are long-term holdings of 15+ and nearly 14 years, respectively, and collectively make up 14% of the portfolio. Their stock performance year to date is +19.0% and +6.2% respectively, lagging the S&P 500 gain of +22.1%.

Alphabet (GOOG) is fighting regulatory actions on multiple fronts in the U.S., European Union and U.K. In the U.S. it is facing two antitrust cases, one of which it lost in mid-August, and the other trial started in mid-September. At the center of the cases is GOOG’s 90% global market share in internet search engine inquiries. There are several components to the various cases in the U.S. and abroad yet all hone in on “GOOG is a monopolist,” its behavior reflects that and it harms consumers and innovation. Without digging too deep into the weeds on this, one area of focus is the billions of dollars GOOG pays to mobile device makers Samsung and Apple, for allowing GOOG to be the default search browser. Of course, if Samsung and Apple believed they could create a better performing and more successful search browser for their customers and gain more revenue than the amount GOOG pays them, they would likely consider that. Otherwise, they prefer to outsource or subcontract and ultimately share in the benefits GOOG gains in advertising revenue. Depending on the court’s recommended remedies for any case GOOG may lose, GOOG can appeal, and the cases could drag out for years.

In these cases, it seems as though very little consideration is given to where the market is heading and if the company that is targeted can manipulate that direction and the consumer. As AI tools continue to develop and consumers’ desire for better and more convenient search and answer tools evolve, GOOG is just one of many trying to move to that new frontier. **Apple (AAPL)** is certainly doing all it can to offer new choices of search solutions for its users that may involve its own internally developed, generative AI tools from other companies or from GOOG. It is not a foregone conclusion that just because GOOG has 90% market share of today's basic search function, that it will have anywhere close to that in the next great method of search. Be it voice or a cerebral based tool where the mind sends a signal other than voice to the search effort. And it is not certain how these new search tools will be paid for, whether it's advertising revenues or consumers paying by subscription, or otherwise. Netflix disrupted entertainment content delivery and first charged subscribers, now it is also getting advertising revenue.

In late September, the U.S. Justic Department sued **Visa (V)** stating that it has illegally "monopolized" the debit card payment industry since 2012, with 60% market share. The latest estimates show that the payments industry breakdown is as follows: 32% in credit cards, 30% in debit cards, 16% cash, 13% automated clearing house (ACH), 3% checks and 6% other methods. So, when thought of in its entirety among all the payment choices available to consumers V has lower market share. The payments industry is competitive with a company such as PayPal, that successfully introduced Venmo, as well as the bank-owned Zelle systems that can send funds from bank account to bank account, and the many new fintech startups that keep developing. The payments industry is constantly fighting fraud and theft, and safety is one of the key services companies like V and our other portfolio holding **Mastercard (MA)** must invest in and deliver. In fact, MA recently spent $2.65 billion to purchase cybersecurity company Recorded Future, which uses artificial intelligence to identify and prevent fraud. We will keep an eye on the Justice Department's case against V.

As investors, we need to continually keep a forward-looking perspective. As we have said in the past, we balance our portfolio holdings between businesses that are growing faster but can potentially be in a more disruptive environment, such as GOOG faces today, or companies that are less disruptive but growing more modestly due to the nature of their products or services, such as portfolio holding **W.W. Grainger (GWW)**, which is a simple distributor of maintenance and repair supplies. We will continue to watch the regulatory developments. Meanwhile, the earnings for GOOG and V are expected to grow 30%+ and 13% respectively this year and the outlook is for low to mid-teens growth next year. We would expect at some point that the stock prices would catch up to their positive fundamentals.

Closing thoughts

The SEM Investment Process of course gravitates towards selecting and being part-owners of businesses that are very profitable and perform best in their respective industries. So, it is not surprising to us that over our 25+ year history we will have ownership in companies that the government believes is “monopolizing” a marketplace at some point. We will continue to watch these regulatory trends and the possible changes a new administration might bring. Volatility is likely to continue in equity markets until the election is decided. As always, our focus will be on our portfolio holdings and how they compare to relative opportunities. We appreciate your continued confidence and will continue to work hard to provide good results over the long-term.

Sincerely,

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

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 Nine Months 2024	+16.4%	+22.1%	$ 1,164,300	$ 1,220,800
One-Year	+30.2%	+36.4%	$ 1,301,600	$ 1,363,500
Three-Year	+8.5%	+11.9%	$ 1,278,400	$ 1,401,700
Five-Years	+15.4%	+16.0%	$ 2,047,100	$ 2,098,300
Ten-Years	+13.5%	+13.4%	$ 3,553,500	$ 3,509,800
Inception (26 3/4 Years)	***+10.4%***	***+ 8.9%***	***$13,944,700***	***$ 9,707,300***

* 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 Select Growth composite includes all discretionary, fee-paying portfolios managed within this strategy. The creation and inception date of the Select Growth composite is 12/31/1997. As of 6/30/2020, the Suncoast Equity Management composite was renamed the Select Growth composite.

The Select Growth 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.

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