Fourth Quarter 2024 (January 2, 2025)

The **Suncoast Dividend Growth** strategy ended 2024 +13.3% net of fees compared to the S&P 500 +25.0%. As we finish the eighth year of managing this strategy, the portfolio has generated an annualized return of +15.1% after fees. The S&P 500 index has returned +14.8% over that same period. While this outperformance may appear marginal, we feel it is significant given the fact that many of the largest drivers of the S&P 500 index return pay minimal dividends, if any at all, and therefore do not qualify for this strategy. We are proud of the fact that we have been able to achieve better returns than the market, while providing a meaningful, growing yield component, and taking, we would argue, less risk. In terms of portfolio changes, we purchased a small position in **Zoetis** during the quarter, increased **Eli Lilly** and **Stryker** and sold our positions in **UnitedHealth Group** and **Hershey**. We also highlight the growth in the total portfolio yield since inception.

Portfolio Activity

We initiated a position in **Zoetis (ZTS)**, an animal health company that sells products, biodevices and diagnostics for companion animals, as well as livestock in over 100 countries. Although it's not a household name, ZTS has been in business for more than 70 years and focuses on eight core animal species (dogs, cats, horses, cattle, swine, poultry, sheep and fish). Its innovative culture has led to 15 current blockbusters including Simparico Trio (parasiticide) and Apoquel (dermatology). ZTS continues to gain market share and sees long term growth being driven by the growing human-animal bond, innovative treatments for chronic diseases and the expanding global population which creates demand for animal protein. After its largest segment, US companion health, reported revenues +18% and higher margins, management increased its sales and earnings for the third time this year. In turn, the Board of Directors increased its dividend +16%. We will be looking for continued business momentum and will increase our position accordingly.

We added to **Eli Lilly (LLY)** in November due to its strong business momentum and diversified portfolio of treatments. LLY reported third quarter revenues +42% largely driven by Mounjaro (diabetes) and Zepbound (obesity). With expanding margins, earnings are expected to have grown 60-70% in 2024 and 2025 growth should be similar. LLY's competitive position may be strengthening as a new study released in December showed Zepbound was found to be more effective than **Novo Nordisk's** (NVO) Wegovy. Also, NVO's next generation Wegovy, called CagriSema fell short of expectations in a recent study. It showed similar weight loss to Zepbound instead of statistically better results, which management had hoped for.

Distribution is also broadening for Zepbound, as LLY recently announced an agreement with healthcare startup RO to offer more affordable single-dose vials to patients through LLY's direct-to-consumer website. RO will offer end-to-end service allowing eligible patients to receive a diagnosis, prescription and home delivery, mostly serving cash-paying customers that aren't using insurance. In late December Zepbound was also approved for obstructive sleep apnea which affects 1 in 15 people, "but what's most frightening is that as many as 9 in 10 people don't know they have it," according to Johns Hopkins Medicine. With another 24 drugs in Phase 3 trials for cardiometabolic health, immunology and neuroscience, we look forward to even more approvals in the coming years.

Stryker (SYK) was also increased after it reported another quarter of solid business momentum. SYK is one of the original Dividend Growth holdings and is a market leader in robotic-assisted surgery products including implants, and develops and sells powered instruments, endoscopic systems, specialty stretchers and maternity beds. In addition to its Mako surgical technology used for knee and hip replacements, Mako spine was recently approved and management expects Mako shoulder will be approved very soon. SYK is benefiting from increased utilization by seniors after Covid as well as younger patients pursuing joint replacements for several reasons including minimally invasive procedures, implants that can last 20-30 years and increasing obesity rates. More than 40% of US adults struggle with obesity, according to the Center for Disease Control and Prevention, which is up from roughly 30% in 1999. In October SYK increased its 2024 organic sales growth target for the 3rd time this year to +9.5%-10% driven by double digit growth in its Orthopaedics/Spine and MedSurg/Neurotechnology segments. Adjusted margins are also expected to increase and earnings should be +12-14% for 2024/2025.

We sold **UnitedHealth Group (UNH)** in October shortly after it reported results. As discussed in the third quarter **Dividend Growth** letter, we reduced UNH in July when the company's expenses increased due to higher utilization rates (seniors are using their insurance more which is actually benefiting SYK and their joint replacement technologies) as well as lower government reimbursement rates for Medicare Advantage plans. This quarter UNH disclosed hospitals are "aggressively coding" more procedures (requesting additional and more expensive procedures) and doctors are prescribing high-cost specialty drugs at a faster rate (which likely includes LLY's Mounjaro and Zepbound although UNH didn't specify). As a result, UNH reduced its 2024 earnings target to the lower end of its previous range and guided 2025 earnings growth lower. We more than doubled our investment in UNH over our five year ownership but believe LLY and SYK are better suited for the portfolio at this time.

As we are all painfully aware, navigating the U.S. healthcare system can be frustrating and a large financial burden that takes a huge emotional toll on many of our citizens. The U.S. system is a patchwork of providers including insurers, manufacturers, distributors, pharmacies that offer goods and services to large consumer groups like Medicare, Medicaid, employers and ultimately patients. All have different goals and incentives. A recent *Wall Street Journal* article highlighted one of the most frustrating aspects is prior authorization, which is needed before a provider can deliver certain services. An investigative Senate report revealed that UNH and CVS declined prior authorization requests for post-acute care for seniors at rates nearly three times higher than their overall denial rates. We hope to see improvements in efficiency, transparency and the delivery of healthcare in the U.S.

After reducing **Hershey (HSY)** in May, we sold our small position this quarter. HSY reported that third quarter sales fell 1% and adjusted earnings fell 10% driven by historically high cocoa prices and a challenging consumer spending environment. As a result, the company lowered its 2024 sales and earnings targets and expectations for 2025 look soft as well. Should it regain its business momentum we would take another look, but for now we believe ZTS is a better option. While newer clients unfortunately did not experience the same gains, long term investors in our Dividend Growth strategy earned a +70% return during our eight years of ownership.

<u>Dividend Growth versus Yield Growth</u>

We often talk about our companies' ability to increase their dividends over time due to consistently growing revenue and profitability. What we haven't discussed as much is that the yield to cost of the portfolio also grows as our holdings appreciate. For example, the current portfolio yield is 1.4% slightly above the S&P 500 yield which hit a 20-year low of 1.2% in December. Meanwhile the yield to cost based on the actual purchase price of our holdings is more than twice that at 2.9%. **Apple(AAPL)** and **Microsoft (MSFT)**, two of our original holdings, are the most striking examples. AAPL's current yield is 0.4%, which isn't much but its yield to cost is actually 3.4%. Similarly, MSFT's current yield is 0.8% but our yield as long term owners is a whopping 5.4%! We are hopeful that our newer investors will experience similar yield growth in the years ahead, as we continue to deploy capital in companies that consistently raise their dividends over time.

Outlook

We believe the portfolio is well positioned for earnings and dividend growth in 2025, but as always we will be on the lookout for confirmation from our businesses as well as new candidates. Wishing you and yours much prosperity and a Happy New Year!

Sincerely,

Amy	*Don*
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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
One-Year	+13.3%	+25.0%	$ 1,132,700	$ 1,250,200
Three-Year	+ 6.3%	+8.9%	$ 1,202,000	$ 1,292,900
Five-Year	+13.7%	+14.5%	$ 1,896,400	$ 1,970,200
Inception (8 Years)	***+15.1%***	***+14.8%***	***$ 3,089,400***	***$ 3,017,700***

* 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 – 12/31/22. 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 Dividend Growth composite has had a performance examination for the periods 12/31/16 – 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.

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