Fourth Quarter 2024 (January 2, 2025)

Post election enthusiasm drove the stock market to further gains in the 4th quarter, as **SEM Select Growth** finished the year +23.1% net of fees slightly lagging the S&P 500 return of 25.0%. Portfolio activity was minimal as we sold our position in **UnitedHealth Group** and added to our position in **Eli Lilly**. We highlight our portfolio holding **Stryker** as it is a beneficiary of recent healthcare utilization trends. Artificial intelligence is driving major investments in key areas including the power grid, data centers and networking, so we discuss some of our portfolio companies benefiting from these developments.

<u>Portfolio Activity</u>

After initiating a position in August, 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 early December showed Zepbound, with its main active ingredient tirzepatide was found to be more effective than **Novo Nordisk's** (NVO) Wegovy, a drug with semaglutide as its main active ingredient. Also, NVO's next generation Wegovy, called CagriSema fell short of expectations in a recent study when 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 health-care 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.

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In October we sold our small position in **UnitedHealth Group (UNH)** shortly after it reported higher expenses in several areas. In addition to higher utilization rates specifically in seniors since Covid, 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. While recent results have been disappointing, UNH appreciated 23% during our three year ownership. We believe LLY is better positioned for the year ahead.

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 and 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 a tactic called 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 the delivery, efficiency and transparency of care in the U.S.

<u>Portfolio Highlights</u>

We highlight **Stryker (SYK)** for its solid business momentum and because it is a beneficiary of one the issues UnitedHealthcare is experiencing. SYK, a holding since 2017 in **Select Growth** and **Dividend Growth**, 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 robots used during 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 (at the expense of UNH as noted above) 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 have obesity, according to the Center for Disease Control and Prevention, and that 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.

<u>Data Centers, Power Grids and Networks, Oh my!</u>

Artificial Intelligence (AI) development is straining data centers, power grids and networks. As we touched upon in our SEM Investment Commentary, progress in AI may be lumpy and ebb and flow with corporate budgets as well as the cash flow available to invest in these capabilities. Notwithstanding, this area seems to have a long and winding road ahead. SEM owns a few companies offering products and services in this area including **Nvidia (NVDA)**, **Eaton Corporation (ETN), Microsoft (MSFT)** and **Salesforce (CRM)**, among others.

NVDA offers more than just the chips that power the data centers, it also makes a networking platform called InfiniBand for moving large amounts of data between data centers. The $34.6 billion global data center networking market is forecast to reach nearly $120 billion by 2033, according to market research firm Straits Research. On the power grid front, *The Wall Street Journal* recently reported that utilities from Michigan to New York and beyond are planning their largest capital investments since World War II as the grid has become more unstable due to age and extreme weather, as well as soaring demand from millions of electric vehicles and massive data centers. ETN is at the heart of this growing need as it supplies the electrical equipment needed to build these facilities. Utility companies expect to have invested more than $165 billion this past year and will again this year to make significant upgrades, per trade group Edison Electric Institute, which is more than any year since the group began collecting data. ETN also supplies equipment including load content and power control to a vastly changing residential market with homes now having five times the electrical content they once did including electrical vehicle chargers, wireless infrastructure and solar.

As AI looks to drive productivity, the new tools created by our portfolio companies include Agentforce at CRM and Copilot at MSFT, in the form of AI “agents” or assistants. These assistants have a long way to go to improve value for their customers and businesses, and indeed they will get better over time. The goal is to get the collective value of all human intelligence across an organization, for tasks ranging from client services such as booking a flight or an inquiry to personal banking, to an industrial robot cutting stone countertops. The collective value of data from every employee needs to be regularly updated and fed into the data centers through emails, manuals, customer service chats and contracts for the “agents” to learn. This process would be consistent with previous technological revolutions when economists reference that while some jobs are eradicated, new ones are rapidly created.

New Year ahead

The SEM Investment Process focuses on the ownership of growth businesses with strong balance sheets and cash flow generating capabilities. We've been investing for nearly three decades and have experienced several changing business trends and technological advancements. We will continue to seek out what we believe are better businesses to provide better long-term results and greatly appreciate your continued confidence.

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**
One-Year	+23.1%	+25.0%	$ 1,230,600	$ 1,250,200
Three-Year	+7.4%	+8.9%	$ 1,239,700	$ 1,292,900
Five-Years	+14.9%	+14.5%	$ 2,001,100	$ 1,970,200
Ten-Years	+13.7%	+13.1%	$ 3,623,000	$ 3,425,400
Inception (27 Years)	***+10.5%***	***+ 8.9%***	***$14,738,400***	***$ 9,941,200***

* 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.

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 Select Growth composite has had a performance examination for the periods 12/31/97 – 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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