



Fourth Quarter 2024 (Jan 2, 2025)

The **Suncoast-SMID Portfolio (SEM-SMID)** composite closed out 2024 +17.7% versus the S&P 400 Growth benchmark at +15.9%. In the fourth quarter we initiated positions in **Yelp Inc.** and **NetApp Inc** and sold our positions in **MSA Safety** and **Medpace Holdings**. We also highlight **Brown & Brown** for their strong momentum. Finally, we review how we arrived at the S&P 400 Growth as an index comparison and discuss the shrinking universe of Small to Mid-Capitalization companies available for us to consider.

Portfolio Activity

We recently initiated investments in **Yelp Inc. (YELP)** and **NetApp Inc. (NTAP)**. Yelp is widely recognized as a leading platform for writing reviews and checking ratings for businesses, offering both an online platform and a mobile app that connects businesses with consumers. While inflationary pressures have caused a decline in restaurant-related budgets, Yelp's Services segment has emerged as a growing contributor, offsetting these challenges. The Services segment benefits from a higher mix of clicks, which raises cost-per-click (average ad pricing), and is less volatile than the restaurant segment since it's not as closely tied to consumer spending cycles. Yelp is strategically diversifying away from its reliance on restaurants by leaning into Home Services. In line with this strategy, Yelp recently acquired RepairPal, an automotive services platform that connects consumers with certified mechanics across the U.S., solidifying its leadership in service-focused businesses. Yelp meets our **SEM-Disciplined Investment System (SEM-DIS)** criteria, featuring a strong balance sheet with no debt and robust free cash flow generation. We look for Yelp to continue to pursue bolt-on acquisitions to drive double-digit earnings growth and margin expansion.

NetApp is a leader in intelligent data infrastructure, offering enterprise data management and storage solutions. Its portfolio integrates unified data storage, advanced data services, and cloud operations, enabling clients to optimize their data infrastructure for seamless, dynamic, and high-performing operations. In the last quarter, NetApp posted an 8% revenue increase, driven by 19% growth in demand for all-flash storage. The company continues to gain market share from competitors while maintaining strict control over operating expenses, which led to margin expansion. Looking ahead, top-line growth is expected to benefit from opportunities tied to artificial intelligence. In recent years, the company prioritized returning capital to shareholders through share buybacks and a reliable dividend.



NTAP's collaborations with our **SEM-Select Growth** holdings, such as **Alphabet (GOOG)** via its cloud platform and **Microsoft (MSFT)** via Azure, further enhance its strategic position. Additionally, it recently expanded its partnership with Google Cloud to provide data storage for distributed cloud infrastructure. We are excited to add NetApp to the portfolio.

To fund these additions, we exited our positions in **MSA Safety (MSA)** and **Medpace Holdings (MEDP)**. MSA is a global leader in safety products for people as well as facility infrastructures, while MEDP is a full-service clinical contract research organization (CRO) that conducts Phase I-IV trials for small to mid-sized biotechnology, pharmaceutical, and medical device companies. Both MSA and MEDP recently experienced softening business outlooks, which led us to reallocate capital to YELP and NTAP.

Portfolio Update

We have owned **Brown & Brown (BRO)** for a little more than a year. BRO is a diversified insurance broker specializing in property/casualty and employee benefit products and services. The company has demonstrated impressive momentum, achieving 12.1% year-over-year revenue growth year-to-date, alongside a 100-basis-point margin expansion with adjusted margins increasing to 35.9% from 34.9%. The Programs segment (formerly National Programs) remains a key driver of growth, benefiting from the diversity of its offerings and continued robust margin expansion. During the quarter, BRO completed two notable acquisitions: The Canopy Group and Quintes Holding. The Canopy Group, a multiline insurance agency focusing on personal lines and commercial property/casualty insurance for small businesses, strengthens BRO's personal lines portfolio and enhances its small business commercial offerings. Meanwhile, the acquisition of Quintes Holding, one of the largest independent insurance brokers in the Netherlands, expands BRO's international footprint and broadens its global capabilities. These strategic moves position BRO for continued growth and operational excellence.

Index for Comparison / Harder to come by

SEM makes every attempt to present our results against the appropriate indices. We currently use the S&P 400 Growth index, whose constituents are "growth stocks based on three factors: sales growth, the ratio of earnings change to price and momentum", per S&P Global. Occasionally we run the since inception comparison against the Russell Small to Mid-capitalization indices including the Russell 2000 and Russell 2000 Growth.



Since inception we have outperformed all three indices, with the S&P 400 Growth placing second:

	Annualized Return Since Inception	Growth of \$1 million
SEM - SMID	13.43%	\$2,575,200
S&P 400 Growth	9.79%	\$2,016,000
Russell 2000 Growth	8.17%	\$1,803,400
Russell 2000	7.69%	\$1,743,300

When we started this strategy, we used the Russell indexes, but then switched since a significant portion (40% or so) of the Russell 2000 companies are unprofitable. We will continue to pay attention to all three of these indexes and keep an eye out for other fair comparisons.

An increasing challenge in the world of small to mid-capitalization investing is a shrinking universe. Between the 1996 peak and 2022, the number of U.S. listed companies fell 43% to 4642, according to the World Bank WDI and a recent *Wall Street Journal* article. Much of this decline took place in the small to mid-cap universe as large cash-rich corporations bought smaller companies. Also, with growth in the private equity market over the last decade more small businesses stayed private for longer. Finally, some well performing businesses graduated to Large Capitalization status.

As we manage SEM-SMID we utilize Morningstar’s market capitalization guidelines. The most recent Morningstar data shows that the Large-Capitalization universe begins at \$66 billion. So, our candidates are companies under that market value. One allowance our SEM-SMID strategy permits, is if we own a company that grows beyond the Mid-capitalization level that Morningstar defines, we can keep it in the portfolio. Why penalize a strong performing business as they are hard to find!

Outlook

As we enter 2025, our **Suncoast-SMID Portfolio** is strategically positioned for sales and earnings growth. We are always here for further discussion and wish you a healthy and successful year ahead!

Sincerely,

Don
Donald R. Jowdy
CIO

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Cheeroke Townsend, CFA
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	+17.7%	+15.9%	\$ 1,176,600	\$ 1,159,400
Three-Year	+2.8%	+3.4%	\$ 1,084,700	\$ 1,103,900
Five-Year	+11.8%	+10.0%	\$ 1,749,900	\$ 1,611,400
<i>Inception (7 1/2 years)</i>	<i>+13.4%</i>	<i>+9.8%</i>	<i>\$ 2,575,200</i>	<i>\$ 2,016,000</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.