First Quarter 2025 (April 1, 2025)

First quarter performance for **SEM Select Growth** of -6.2% net of fees versus -4.3% for the S&P 500 did not catch us off guard. Following two strong years of equity returns and optimism for the new administration, we commented at year-end that stocks were a little bit (which we quantify as in the 5% to 10% range) above fair value. Two separate developments impacted the quarter. First, in late January Chinese AI company, DeepSeek, released its open-source reasoning model claiming the same capabilities of models by OpenAI, Anthropic and Google, at a much lower training cost. For the Trump administration, year-end optimism quickly shifted to uncertainty as they work through their desired policy implementations (which we discuss in our **SEM Investment Commentary**), including global tariffs that many fear could result in higher inflation impacting already strained family budgets in the U.S. and usher in an economic recession.

Portfolio activity was minimal in the first quarter as we added one new position, **Meta Platforms** and reduced **Apple** to just below a core weighting to make room for our new purchase. A meaningful portion of the market's optimism at year end was invested in both large and small companies participating in the transformative path of Artificial Intelligence (AI). We will share our thoughts on DeepSeek's implications, as well as the possible impact on our portfolio holdings, and take a 25 year look back at the "dot.com" era.

Portfolio Activity

We purchased **Meta Platforms (META)** in early March and added to the position just two weeks later, as the price fell 10% from our original entry price. META, as most already know, is the largest social media company in the world, with close to 4 billion monthly active users accessing its Facebook, Instagram, Messenger and WhatsApp sites and applications. People use META services to stay in contact with family and friends, for news and entertainment, and to offer and advertise business services and products. META's unmatched scale packages customer data from its application ecosystem and sells advertising to businesses. META's business execution is strong both on the user side and the advertising side. The company supports its users by adding new engagement features such as Stories, Reels, and Threads. For its advertising customers, businesses of all sizes have access to META's platforms, and the company has benefited from the increased shift to digital advertising, with social media gaining market share. They are using AI to improve ad-targeting algorithms for business customers, and at year end more than 4 million advertising customers were using these tools, up from 1 million just 6 months prior. The results have benefited META as evidenced by +14% price per ad increase in the fourth quarter of 2024, and operating margins expanding 700 basis points year over year, back towards the company's historic levels earned pre-pandemic. To make room for our new purchase, we reduced our position in **Apple (AAPL)** to a similar weighting as META, in the 3.5-4% range.

DeepSeek – Part of the natural evolution of AI

DeepSeek shook the AI world on January 27th, impacting nearly every publicly traded company within the semiconductors, cloud infrastructure, software, utilities and energy industry sectors, including our portfolio holdings **Nvidia (NVDA)**, **Microsoft (MSFT)**, **Alphabet (GOOG)** and **Eaton (ETN).** The introduction by DeepSeek of a lower cost reasoning model that does not have to rely on massive clusters of AI GPUs and related hardware may have been misinterpreted by the markets.

AI over time may follow a path similar to the personal computer (PC) revolution; the more affordable it becomes and the easier it is to access the more people will use it. MSFT CEO Satya Nadella and NVDA CEO Jensen Huang both cited another explanation referencing the Jevons Paradox: When a resource becomes more efficient to use, overall consumption increases dramatically. Technologist and author George Gilder recently cited in his *Wall Street Journal* opinion piece in late January, that Nobel laureate William Nordhaus' most obvious example of Jevons Paradox is lighting. "When people only used fire for lighting, the world was a very dark place……as we progressed from candles to oil lamps to incandescent lights and now LEDs, the cost of lighting dropped by 99.97%, and we buy more of it than ever."

Millions of people now use AI tools, and this will likely continue to grow exponentially. With AI still in its early stages, it is shifting from the operation of training the models to using the models for reasoning or inference, taking what it has learned to make an informed prediction or generate output. AI models will get both simpler and more sophisticated as they are purposed for specific tasks. NVDA CEO believes reasoning models could eventually require thousands or millions of times more computing power than their predecessors and "this is just the beginning."

In regard to our portfolio holdings, even as the service price comes down profit margins for chipmakers, software, cloud services and infrastructure could still stay level or move upwards as companies such as GOOG, MSFT and NVDA build scale to serve more customers and use cases. Considering the scale and capital expenditures required to service these customers, companies of size with great balance sheets like GOOG, MSFT and NVDA are best qualified to serve them. It also enables these same companies to annuitize and create recurring subscription revenue streams that may have pricing power if their customers don't have a plethora of other choices to move to. And if changing to another provider becomes cumbersome then our portfolio holdings have the competitive advantage referred to as high switching costs. Of course, to be of continued value to their customers, GOOG, MSFT and NVDA must continue to innovate to provide value. Competitors and customers alike are attracted to high margins, and that bears watching.

<u>Internet and AI revolution</u>

The AI revolution could be as important as the internet revolution, and in fact, from an investment perspective we can draw some comparisons and differences as we look back at the internet explosion and the "dot.com" era. Twenty-five years ago, the stock market became the home of quite a few companies popular with investors that never accumulated any meaningful revenues let alone operating profits such as Pets.com and Webvan.com. **Suncoast** managed client assets back then and we did not invest in those stocks.

Today, the difference is that there are quite a few companies, including those in our portfolio cited above that are the largest by revenues and profits, and among the most successful businesses in the world. The stock market also has many underlying emerging businesses that have achieved rapid scale, measuring their revenues in the billions of dollars including **AppLovin** and **Super Micro Computer** (we don't own either). What both the dot.com and AI revolution share, however, is periods of time where the enthusiasm for stock prices for these companies get ahead of themselves. Since we have experience in both time periods as investors, we understand there will be very successful corporations and other companies that will melt and not survive. The **SEM-Disciplined Investment System** is built to focus on the former and avoid the latter.

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Closing Thoughts and Technology – How we think about it across our portfolio holdings

We covered mostly "technology" in this quarter's Select Growth letter. The Global Industry Classification Standards (GICS) categorize companies into eleven sectors. By this analysis, 60% of our portfolio is in the Information Technology Sector. We bring this up to identify that while the volatility of stock price movements in our portfolio may be associated with the lumping of many of our businesses in this category, we think about it a little differently. A substantial part of GOOG and especially META's business is advertising, of course they use technology to offer these services. Back when newspapers were the main source of advertising, the GICS industry classification may have been advertising/media, as printing presses were used to create the content and advertising. Today the **New York Times (NYT)** (which we do not own) is classified in communications/telecom, not in the information technology sector. Portfolio holdings **Automatic Data Processing (ADP)** and **Intuit (INTU)** provide payroll/employee benefits and accounting services to businesses from small to large, and they are lumped into the information technology sector. Of course, ADP and INTU each have software to deliver these services but we think about the services and products and who they serve. **Visa (V)** and **Mastercard (MA)** provide payment processing and are in the Financial GICS, but they don't lend money and do not face the same risk as most of the companies in that industry category; so which category should they be in? Similarly, **Stryker (SYK)** makes robotic surgery equipment and software, which was only a small portion of its business fifteen to twenty years ago, but is categorized as a healthcare company.

While the stock market's perception of our portfolio may be 60% technology, we think about it as a selection of businesses that all earn high returns of capital, have great balance sheets, strong free cash flow characteristics, and competitive advantages that we watch closely. As George Gilder recently opined, "technology is the key adventure of human progress and it is intrinsically global." Every business today should have some elements of new technology to be competitive. We will keep trying to own competitively advantaged businesses at reasonable valuations. Thanks for your confidence and we will keep working hard.

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
1st Quarter 2025	- 6.2%	- 4.3%	$ 938,200	$ 957,300
One-Year	+ 5.9%	+ 8.3%	$ 1,058,900	$ 1,082,500
Three-Year	+ 9.4%	+ 9.1%	$ 1,310,600	$ 1,297,300
Five-Years	+17.7%	+18.6%	$ 2,261,200	$ 2,345,700
Ten-Years	+12.8%	+12.5%	$ 3,335,500	$ 3,248,200
Inception (27 1/4 Years)	***+10.1%***	***+ 8.6%***	***$13,827,700***	***$ 9,516,500***

* 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. 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 1/1/2022, 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.

The composite dispersion represents a measurement of the consistency of the composite's performance results with respect to the returns of the individual accounts within the composite over an annual period. The annual dispersion is measured by the asset-weighted standard deviation of the composite and is calculated using net of fees returns. Only portfolios that have been managed for the full period are included in the composite dispersion calculation. In accordance with the GIPS standards, dispersion data is not provided for years in which the composite is comprised of five or fewer accounts and of periods of less than one year.

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.

The 3-year annualized Ex-Post Standard Deviation is calculated using 36 consecutive monthly net of fees returns to the end calculation period.

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 – 12/31/23. 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 – 12/31/23. The verification and performance examination reports are available upon request.

For any additional information, please contact the Chief Compliance Officer at (813) 963-0502.