Second Quarter 2025 (July 1, 2025)

The **Suncoast Dividend Growth** strategy posted a +5.3% return net of fees in the first half of 2025, compared to the S&P 500 return of +6.2%. We initiated positions in **Fastenal** and **Paychex** and added to our recent purchase of **Trane Technologies,** while we sold **Pepsico** and trimmed **Apple** and **Microsoft**. We discuss the business fundamentals that led to these decisions below.

Portfolio Activity

In June we bought a 2.5% position in **Fastenal (FAST),** a distributor of wide-ranging industrial and construction components such as nuts and bolts as well as safety, janitorial, plumbing and welding supplies, hydraulics, power tools and equipment. The Fastenal Managed Inventory (FMI) platform offers services like logistics, custom manufacturing and secure supply chain solutions. One of the company's competitive advantages is its 130,000 FASTVend and FASTBin devices, which are onsite industrial vending machines that control and track consumables. With these devices customers have real-time visibility and insights into usage data based on 24/7 access to purchased units. The Trump administration's efforts to bring manufacturing back to the U.S. should be a tailwind for FAST since the vast majority of its revenue is domestic. In fact, business momentum has increased this year driven by contract sales +8.5% (national, multi-site, local, regional and government customers), which were 73% of first quarter revenue. Total sales and earnings estimates have been steadily rising and FAST is expected to grow +8-10% in 2025-26. With a return on capital of 30%+, net cash as well as increasing sales and earnings, the company increased its dividend +13% to a yield of 2.1%. We will look for opportunities to increase FAST to a core position as management delivers on its metrics.

We also initiated a 2.5% position in **Paychex (PAYX)** after their earnings report in late June. PAYX offers human resources, employee benefit solutions, insurance and payroll processing and recently acquired a small competitor, **Paycor (PYCR)** , for $4.1 billion. The deal is complementary and allows PAYX to expand its services upmarket to larger employers as well as broaden its AI offerings. Management expects high-teen sales growth and increased its cost savings target so that adjusted earnings should be +8-10% for its 2026 fiscal year ending in May. PAYX yields 3.1% after it increased its payout +10% in March. As the companies become more integrated we will look for high retention rates of existing clients and cross selling opportunities for growth.

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After initiating a position in February, we increased **Trane Technologies (TT)** to 4.8% shortly after it reported organic revenue grew +11% and its largest segment, the Americas commercial HVAC unit, posted all-time high bookings of $5.3 billion. Operating margins were higher and adjusted continuing earnings were +26%. The company is on track to generate mid-teens earnings growth this year and has been steadily increasing its dividend as well as buying back shares to benefit owners.

Both FAST and TT are exhibiting the business momentum, high returns on capital and healthy free cash flow characteristics that our **SEM – Disciplined Investment System (SEM-DIS)** requires. But since we are fully invested these decisions are always relative and to initiate a new position or increase a company that has strong momentum, we must sell something to fund the purchase. Our small position in **Pepsico (PEP)**, one of the original Dividend Growth holdings, was sold after several quarters of softening demand. PEP is facing a more discerning consumer due to less discretionary spending as well as dietary changes from the increasing use of GLP-1 weight loss drugs such as Zepbound. It is also trying to navigate the impact of tariffs on its global business and regulatory changes by the FDA to phase out food dyes. As a result, sales and earnings are expected to be flat to down this year.

Apple (AAPL) had appreciated to an above core weighting and was reduced to purchase FAST. As noted above, FAST should benefit from "reshoring" back to the U.S., while AAPL's global business may have more difficulty managing through uncertainty over tariffs. We also trimmed **Microsoft (MSFT)** in order to purchase PAYX**,** which had appreciated to more than 10% of the total portfolio. These transactions will slightly increase the total portfolio yield of Dividend Growth since AAPL and MSFT's yields have fallen below 1% due to stock price appreciation during our long term ownership while FAST and PAYX have much higher yields.

<u>Outlook</u>

As we head into the third quarter, we will be incorporating 2026 sales and earnings estimates into our decision making process. Early indications are for our Dividend Growth businesses to grow sales +6-8%, earnings +11-12% and dividends +9-10%. While there are always factors that could change these targets, we will keep watching for indicators of strengthening competitive advantages, market share gains and solid fundamentals. Wishing all a Happy 4th of July and please reach out with any questions.

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Sincerely,

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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**
First Half 2025	+ 5.3%	+ 6.2%	$ 1,053,200	$ 1,062,000
One-Year	+ 9.5%	+ 15.2%	$ 1,095,400	$ 1,151,600
Three-Year	+ 14.7%	+ 19.7%	$ 1,509,700	$ 1,715,500
Five-Year	+ 15.1%	+ 16.6%	$ 2,015,300	$ 2,158,900
Inception (8 1/2 Years)	***+ 14.9%***	***+ 14.7%***	***$ 3,253,700***	***$ 3,204,900***

* 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.

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

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