

*Second Quarter 2025 (July 1, 2025)*

Equity markets recovered from mid-teen declines reached in early April of this year, as global tariff discussions have tempered for now. Also, concerns over lower spending on data center buildouts for artificial intelligence mostly dissipated and those suppliers and service companies' stock prices rebounded.

With Suncoast Equity Management deep into our third decade (our 28<sup>th</sup> year), we congratulate, celebrate and thank Warren Buffett, who after 60 years as CEO of **Berkshire Hathaway**, will retire at the end of this year. We discuss two very important but perhaps less obvious takeaways from years of following Mr. Buffett and his former partner Mr. Munger. One of those takeaways is the flexibility to evolve our investment discipline which we cover below.

Well Deserved Retirement!

Mr. Warren Buffett announced at the Berkshire Hathaway meeting in early May, at the age of 94, that he will retire from his CEO position and allow his successor Greg Abel to take the reins at the end of this year. Mr. Buffett may still weigh in on large capital allocation decisions as Berkshire currently has the largest cash hoard in corporate history of \$348 billion.

We have been part-owners of **Berkshire Hathaway (BRK.b)** for our clients in our **Suncoast Select Growth** portfolio since 2001, and prior to that personally. BRK has been led by two men, Warren Buffett and Charlie Munger (recently deceased), both widely regarded as the world's greatest investors of their time. The company has been a very powerful and unique platform since Buffett took over back in 1965. In its present form it is an insurance underwriting behemoth, collecting significant insurance premiums. It is well-disciplined and profitable. Until claims are filed and need to be paid out (often well into the future), the insurance premiums, or float as it is known, are used in large part by BRK to invest in entire businesses such as Burlington Northern, NetJets and See's Candies, as well as a portfolio of publicly traded companies, including **Apple** and **Coca-Cola**, in which BRK is a part-owner.

There is much we have learned from Mr. Buffett and Mr. Munger beyond just how to identify what a good business looks like. Two of the many lessons we have learned, which may be particularly important today, are that an investment process may need to evolve a little over time as well as what investors should glean from past experiences. As the profile of businesses and the investment landscape evolve over time, the “intelligent” investor needs to adapt with that change. Early on, in the late 1940s and early 1950s, when the economy was more industrial-based and less global, Buffett followed the teachings of his mentor Benjamin Graham who taught him to buy stocks at extreme bargain prices based on financial ratios. Buffett made his first big change and step forward in the early 1970s, when Charlie Munger’s influence led him to the purchase of See’s Candies, followed by Buffett’s investment in Coca-Cola in the late 1980s. His experience with See’s Candies showed Buffett that if you have a very profitable business with predictable growth potential, you can pay a fair price for it and benefit from a long ownership period as the company grows its earnings levels and consequently the intrinsic value of the business. In his 1988 annual report Buffett wrote: “When we own outstanding businesses with outstanding managements, our favorite holding period is forever.”

We believe another important trait of the “intelligent investor” is to learn from past experiences but not pretend that those past experiences qualify someone to predict the future. Buffett’s more than 75 years of investing experience are of great value, and we recognize that those years give him the ability to identify the importance of new information about a business or conversely recognize that it is noise that should be ignored. Our 35+ years of experience, and cumulative knowledge of businesses and investing help us appreciate the significance of this quality and work hard to emulate it.

#### SEM-Disciplined Investment System Tweaks!

What remains unchanged is how we identify a good business. The **SEM-Disciplined Investment Process (SEM-DIS)** only considers businesses that earn above average returns on invested capital, can demonstrate growth and have strong balance sheets (low debt to capital or free cash flow).

Our investment process is evolving slightly as AI has ushered in a very heavy capital spending period for several of our businesses. Our preference historically has been for our businesses to have a very positive gap between cash flow earned and capital expenditures, relative to their current stock market valuation. We

recognize our CEOs are investing for long-term returns in AI, not short-term results, as it could be a generational boost to productivity and standards of living. Similarly, remaining focused on the long term is an important attribute that Buffett has bestowed on the managers of BRK's portfolio companies.

Buffett has enjoyed a period of investing, as we have, where businesses such as newspapers or more recently payment system providers, like our portfolio holdings **Visa (V)** and **Mastercard (MA)**, have had a long run of competitive advantages. Today AI will usher in both growth and possible disruption, and we are more cognizant than ever that businesses will be impacted going forward and the length of time a company can maintain a competitive advantage may change. We cover more about this and the current news impacting V and MA stock prices in our Suncoast Select Growth client letter.

#### Hoping for Peaceful Progress

The potential for volatility remains high as conflicts in the Middle East, and Iran in particular, rise. Tariffs and trade talks have eased but remain unresolved. We are hopeful for resolutions of both by year-end. Warren Buffett's legacy is his 60+ years of investing and unmatched track record. Summertime slows down just enough for us to reflect on our own nearly 30-year history, and all that we have to look forward to achieving our goal of successfully serving our clients for the next 30 years. Thanks for your continued confidence and we will keep working to preserve and grow our clients' capital over the long term, as well as our own since our company profit sharing plan and families' savings are invested alongside our clients in the same portfolios.

Sincerely,

*Don*

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CIO

*Dan*

Daniel T. McNichol  
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Amy A. Lord, CFA  
SVP / Co-Portfolio Manager

*Investment advisory services are offered through Suncoast Equity Management, LLC, a Securities and Exchange Commission Registered Investment Advisor.*