Second Quarter 2025 (July 1, 2025)

At the half-year mark the **SEM Select Growth** portfolio was +3.8% net of fees versus +6.2% for the S&P 500. These results are a strong recovery from the 2025 market lows down mid-teens in early April. Markets don't like uncertainty, and volatility will likely remain at high levels until economic trade and tariff discussions get settled, and importantly until we see conflict resolutions in Russia/Ukraine and the recent developments involving Israel/U.S. and Iran.

As long term investors we recognize that businesses and the economy evolve over time and believe current investments being made in Artificial Intelligence are another example. While we can't predict how quickly or exactly how AI will impact businesses, some flexibility in our **SEM-Disciplined Investment System** is preferred to own the global companies driving this evolution. Part of the relative performance difference this quarter was due to modest pressure on two of our portfolio companies, **Visa** and **Mastercard**, in response to headline news regarding potential alternative payment systems. We cover these two topics below as well as highlight what we believe are some smart acquisitions by our portfolio holdings **Salesforce** and **Eli Lilly**.

SEM-DIS, Cash flow and "Margin of Safety"

The **SEM-Disciplined Investment Process (SEM-DIS)** criteria requires businesses earn above average returns on invested capital, demonstrate growth and have strong balance sheets (low debt to capital or free cash flow). What also permeates our discipline are the measures of "Margin of Safety," a phrase first coined by Benjamin Graham as the father of "value investing" and mentor of Warren Buffett. In our view, each practitioner of investing that comes from the "intellectual village" of Graham and Buffett, in addition to great investors like Phil Fisher, define "Margin of Safety" in their own way that supports their investment process. In essence it is the quantitative or qualitative characteristics to guard against a permanent loss of capital.

One longstanding principle we have had is that free cash flow is a measure of "margin of safety." Our preference has been for our businesses to have a very positive gap between cash flow and capital expenditures, relative to their current market valuation. Historically this choice has kept us away from capital intensive industries such as airlines, auto manufacturers (combustion engine and EV) and many industrial

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companies. Over the last year or so we have relaxed this requirement for the time being for a few of our portfolio holdings including **Alphabet, Microsoft** and **Meta.** These companies are investing significantly in capital expenditures, for the opportunity to earn high returns on that invested capital, by building out their AI products and service offerings. We are not sure yet whether the high level of spending is short-lived or longer lasting, but we recognize the importance, and we believe it is prudent to have some flexibility within our investment process as the business and the economy evolves. We will keep an eye on their capital spending as it also directly benefits **Nvidia (NVDA)**, an important holding in our portfolio.

<u>Portfolio Highlights - Free Cash Flow Allocation and Acquisitions</u>

SEM's portfolio companies all exhibit growth characteristics. The excess cash flow our businesses generate as they grow can be put back to work in several ways. Cash flow allocations that do not support future growth but can still be prudent and support valuations are dividend payouts and share buybacks, which in essence are the return of capital to shareholders. Excess cash may be used for working capital investments, such as inventory, to have ample supply available for customers, or cash flow can be soaked up by higher accounts receivable balances. Our preference is to see excess cash investments in research and development or marketing to support further growth, or finally accretive acquisitions.

During the quarter two of our businesses entered agreements that should turn out to be beneficial acquisitions, **Salesforce (CRM)** and **Eli Lilly (LLY).** CRM announced in late May a deal to purchase data management company **Informatica (INFA)** for $8 billion, less than the $10 billion value both companies were negotiating last year, and about 25% below where INFA's stock price was trading at that time. INFA helps companies manage their data across systems both in the cloud and onsite, allowing their customers to better analyze the data they collect. INFA's software and services should help CRM improve the quality of its AI offering, known as Agentforce. CRM's financial strength will easily fund the acquisition through a combination of cash and debt. As of April 30, 2025, CRM's last quarterly filing shows its balance sheet has $8.9 billion of cash (net of debt) and we anticipate the company's annual run rate of free cash flow to be more than $10 billion, after its dividend payout and capital expenditures.

We applaud our businesses when they can apply cash flow strength towards future growth initiatives in new areas of their business. With our experience we believe we can identify when a company is taking meaningful advantage of their current strength to invest in the future to enhance and maintain its competitive advantages to benefit its shareholders. We believe LLY accomplished just that as it uses its current strong cash flow results from its GLP-1 franchise (currently approved for patients dealing with diabetes, obesity and sleep apnea and in trials for chronic kidney disease, addiction and other chronic conditions) to strike an agreement in mid-June to purchase gene editing medicine company **Verve Therapeutics** for about $1 billion upfront, or $10.50 per share. LLY would pay an additional $300 million once the first patient is dosed with Verve-102 for atherosclerotic cardiovascular disease in the U.S, which could happen in a Phase 3 trial that may begin in the first quarter of 2027. Verve could be an amazing leap forward, and “be the first in vivo gene-editing therapy for broad patient populations and could shift the treatment paradigm for cardiovascular disease from chronic care to one and done treatment,” per Ruth Gimeno LLY group vice president of diabetes and metabolic research and development. Essentially, it lowers LDL cholesterol for life and if these new medicines hit all their targets, it can stop cardiovascular disease before it causes all the trouble that requires stenting and bypasses. LLY’s very strong cash flow generation, more than $10 billion, gives it plenty to invest in Verve and other opportunities moving forward.

Portfolio Updates

Late in the second quarter, the Senate passed legislation to regulate stablecoin, a type of cryptocurrency. As a result, the stock prices of our payments companies **Visa (V)** and **Mastercard (MA)** fell by nearly 10%, denting our performance by over 100 basis points (1%). The bill now moves to the House of Representatives, where it will likely pass but could take time according to some reports, though President Trump wants to sign it before Congress’s August recess. Stablecoin is a type of cryptocurrency that is pegged to a government currency such as the U.S. dollar. The proposed regulations require that issuers of stablecoins, such as the two largest, Circle based in the U.S. and Tether which is based abroad, meet certain standards including that they hold $1 in reserves of cash or treasury bills for every $1 of stablecoins. Up to now the popularity of cryptocurrency has in part been driven by scarcity and as a result has drawn in speculators, driving up prices to attempt to profit, versus the purpose of a “stable” form of global currency to engage in everyday commerce. Cryptocurrency emerged from a technology we have written about before known as blockchain. The one sentence description of blockchain is that it's the modern-day equivalent of an accounting ledger. The technology of stablecoins and blockchains can speed up transaction processing and lower fees, and as such could be disruptive to existing payment systems.

V and MA as payment facilitators, and banks and merchants of all kinds are exploring these developments with the purpose of providing consumers the most secure and cost-effective path to commerce. Since payments require the participation of consumers and merchants, and consumer preference usually drives the market, any new payments preference will develop over time, not overnight. Consumers seem very content with the current frictionless system and have gotten accustomed to certain benefits, such as reward programs from usage, that may be hard to wean them off in the near term. V and MA, according to a recent Morgan Stanley report, have also both been proactive around their stablecoin strategies, such as enabling stablecoin settlement directly on their network, enabling acceptance of certain stablecoins among their merchant networks, and ongoing partnerships with stablecoin providers. Also, while the cost of processing transactions through stablecoin seems low, it could rise from new compliance costs, and costs to incentivize consumers, similar to current credit card rewards programs. We are content to hold our important positions in V and MA at this time, as we have been owners here for 15 and 10 years respectively. But we will be vigilant in observing the evolution of their competitive advantages and any impact on their growth prospects.

Best Wishes for a Peaceful Summer!

We have always recognized that businesses have competitive advantages that ebb and flow and change over time. Headlines can greatly impact stock prices in the near term when the reality of change usually takes longer. Thanks for your confidence and we will keep working hard to find competitively advantaged businesses at reasonable valuations. Best wishes for a peaceful and enjoyable summer!

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
First Half 2025	+ 3.8%	+ 6.2%	$ 1,038,400	$ 1,062,000
One-Year	+ 13.2%	+ 15.2%	$ 1,131,500	$ 1,151,600
Three-Year	+ 20.0%	+ 19.7%	$ 1,728,700	$ 1,715,500
Five-Years	+ 14.7%	+ 16.6%	$ 1,980,600	$ 2,158,900
Ten-Years	+ 13.7%	+ 13.6%	$ 3,599,600	$ 3,593,600
Inception (27 1/2 Years)	***+ 10.4%***	***+ 9.0%***	***$ 15,303,900***	***$ 10,557,800***

* 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.

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.