Fourth Quarter 2025 (January 2, 2026)

2025 was a challenging year of relative performance for all three Suncoast Equity Growth portfolios: **SEM Select Growth**, **SEM Dividend Growth** and **SEM Small to Mid-Cap**, in comparison to market indexes. As the table below outlines, this was surprising as our portfolio company profits continue to grow at high rates and much faster than the indices. In the case of **SEM Select Growth** (+27.0% profit growth) and **Small to Mid-Cap** (+19.2% profit growth) versus the S&P 500 (+11.9% profit growth) and S&P 400 Growth (+1.7% profit growth), respectively, there was no comparison. While global events and returns cannot be predicted for 2026, consensus earnings estimates for our portfolios continue to be strong in the new year. We expect relative returns will eventually track relative profit growth trends in 2025-2026. In our portfolio letters we cover company specific updates and in this general commentary we share our thoughts on the overall environment.

	Earnings Growth Estimates		**Portfolio Return**	
	2025 EPS	**2026 EPS**	**2025**	**2026**
SEM Select Growth	27.0%	19.2%	7.3%	?
SEM Dividend Growth	14.3%	12.2%	5.1%	?
S&P 500 Index	11.9%	12.3%	17.9%	?
SEM Small to Mid-Cap	19.2%	14.9%	-1.5%	?
S&P 400 Growth Index	1.7%	15.2%	7.5%	?

*Earnings estimates are from LSEG/Eikon and returns are net of fees.

The Day the Music Died?

Warren Buffett, revered by legions of global investors and one of the foundational blocks to our own discipline, retired as CEO of Berkshire Hathway on December 31st. While he remains company Chairman, Buffett announced on November 10th he would "go quiet" and no longer write the Berkshire Hathaway annual letter nor participate as much at the company's annual shareholder meeting, a now global phenomenon, famously dubbed "Woodstock for Capitalists."

It seems fitting to take a moment to celebrate one of his most elegant, yet powerful investment maxims - "Time is the friend of the wonderful company, the enemy of the mediocre." Buffett is referring to a critical phenomenon of wealth building - strong, compounding earnings growth drives similarly strong investment returns…over time. The qualification "over time" is operative here. As we detail further in our 4th Quarter **SEM Select Growth** commentary, sometimes portfolio earnings and returns do not walk hand in hand. However, they typically "find" each other soon enough and gallop, picking up speed, for a long run together. As we enter 2026, many of our portfolio companies await normalization between their underlying earnings power and their valuations. In several cases, fundamentals have continued to compound at healthy rates even as share prices have lagged, creating what we believe are increasingly attractive long-term return prospects for all three Suncoast Equity Portfolios. History suggests that this gap rarely persists. When durable growth, high returns on capital, and disciplined management are allowed time to do their work, market prices follow.

Our task, as ever, is patience paired with our **SEM Discipline**: to stay anchored to business quality and long-term earnings trajectories, to resist the temptation to confuse short-term price volatility with fundamental change, and to allow time to remain the ally it has proven to be for owners of truly wonderful companies. The music may have paused with Buffett's retirement, but it is not dead - only re-scored, adapting its rhythm to modern technological, economic, and political dynamics. The melody of compounding endures.

<u>"Prediction Markets": The New "Asset Class"?</u>

In a year where portfolio returns trailed company fundamentals, it is not surprising that we also witnessed a rampant acceleration in gambling and the gamification of investing in 2025. When digitally native trading platforms like Robinhood splash confetti for a user's trade "wins," publish leaderboards and push notifications like "Don't miss this breakout!" they incent short-term, thematic activity over long-term economic results, promote herd behavior and most critically, mask the downside of a very real risk of capital loss. In short, they promote financial behavior completely contrary to Buffett's message and our discipline.

A 2025 corollary to this phenomenon, prediction markets, is also blurring the lines between investing and gambling. Prediction markets like Polymarkets are platforms where participants buy and sell contracts based on the outcome of future events. Originally, prediction markets were used for practical purposes like hedging commodity prices. Today, technology has expanded their use to areas like sports betting, political outcomes, and even quirky predictions such as how many times the Costco CEO will say "hotdog" during an earnings call. Like gamified trading, prediction markets also resemble gambling because they do not involve owning an asset that generates income or intrinsic value. They have a "price," but not necessarily a "value" in the sense of producing cash flows.

There is a clear, psychological distinction between "investing" and "gambling." Human nature being what it is, the adrenaline rush of gambling often overtakes the more boring discipline of investing. While the fundamental difference between the two remains unchanged over time, modern technologies continually introduce novel ways to pursue either activity - especially as innovation fuels fresh opportunities to profit from humanity's insatiable appetite for gambling.

Along the way, Wall Street often incorrectly labels innovations like these event contracts as new "Asset Classes." We disagree. Investing for 30+ years and being students of history gives us the confidence to define an "Asset" as anything owned that can produce an income to support financial value. Many things that capture human interest are difficult to truly "value," even though they carry a "price." Meme stocks, NFTs, SPACs, metaverse real estate, beanie babies and tulips come to mind. While financial innovations often provide new use cases and solve discrete issues of financial risk, they are also typically misunderstood and therefore misrepresented to Joe Public, to its long-term detriment. One maxim we do not question – anything Wall Street can sell, it will.

<u>Exhibit X: "Private Credit"</u>

When you see the word "democratize" associated with the marketing of one of these innovations, run. As we close 2025, "Private Credit," a new "Asset Class" has proved problematic for the swarms of individual investors who have jumped aboard what had previously been an investment for sophisticated institutions. Business Development Corporations, or BDCs, are specialty finance companies that trade on US stock exchanges and typically make high-interest loans to midsize corporations with junk credit ratings, using income from the loans to pay big dividends to their investors. Wall Street has peddled these so much that assets have tripled since 2020 to $450 billion.

Many BDCs are now stumbling badly. Several have seen their prices decline by 20% or more in 2025 as interest rates and loan income declined. Several like KKR's $14 billion fund, recently reported heavy losses from bad loans with poor underwriting transparency. This has added to the private credit malaise. Even Jamie Dimon, JP Morgan CEO, has called private credit "dangerous" and asserted the innovation which was developed after the Global Financial Crisis is a "zero-rate fairy tale" and "hasn't been tested in a true recession."

Antidote to Shiny Bauble Chicanery

Chicanery aside, as equity investors we remain laser focused on our **SEM Discipline** and building enduring portfolios of quality compounders. Importantly, 2025 and 2026 average earnings per share growth estimates for each of **our three** portfolios are double digits. See individual portfolio commentaries for more detail, but we expect returns to follow.

In addition to strong profit growth, we believe it is important to highlight our focus on free cash flow in this environment. While S&P 500 earnings have grown about 10% annually over the last two years, returns have grown much faster and created a US equity market with a high historical valuation. More concerning is that S&P 500 free cash flow growth has lagged returns and been flat for several years.

At Suncoast we continue to prioritize portfolio-level free cash flow growth. In another year with flat market level free cash flow, **SEM Select Growth's** 2025 +16% free cash flow growth is highly notable. In fact, 18 of the 20 portfolio stocks offer free cash flow growth this calendar year. Some may surmise that the S&P 500's recent dearth of free cash flow growth is due to Mega Tech's massive expenditure in AI infrastructure. However, even using an equal-weighted S&P 500 index, where each of the 500 companies is weighted the same, or in other words, where Mega Tech does not dominate the index, free cash flow growth is still flat. While some companies deserve a temporary pass to ramp investments, which reduces free cash flow, we believe aggregate portfolio free cash flow is critical in satisfying our investment mandate to help grow and protect client capital over the fullness of time.

<u>Outlook for 2026</u>

As we turn the page to 2026, the backdrop remains constructive but nuanced. The economy appears "strong-ish," supported by resilient consumer spending and corporate profitability, while fiscal measures such as the anticipated extension of tax cuts and accelerated depreciation under OBBBA provide additional tailwinds for business investment. Economic forecasts call for continued GDP growth, and 2026 consensus profit growth estimates for our companies are robust, generally at mid-to-high teen growth rates, which is comparable or faster than the indexes again. This reinforces our confidence in the durability of the companies we own. That said, risks persist. Labor market trends and inflation data remain critical watchpoints, as do trade dynamics in an environment still prone to geopolitical friction. After three years of outsized S&P 500 returns, history reminds us that such streaks are rare, and market leadership can rotate abruptly. Elevated valuations, coupled with uneven free cash flow growth - particularly as companies divert capital into AI infrastructure -underscore the importance of disciplined security selection.

In short, while the melody of compounding endures, the rhythm may shift. Our focus remains on fundamentals: businesses with enduring competitive advantages, strong balance sheets, and superior free cash flow growth. By staying anchored to our SEM Discipline, we aim to navigate near-term volatility and position portfolios for long-term success, just as we have through prior cycles. We thank you for your continued confidence and look forward to partnering with you in the year ahead. Best wishes to each of you and your loved ones in 2026.

Sincerely,

Don	*Dan*	*Amy*	*Eric*
Donald R. Jowdy	Daniel T. McNichol	Amy A. Lord, CFA	Eric K. Lynch
CIO	President	SVP / Co-PM	Managing Director/ Co-PM

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 – 12/31/24. 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 – 12/31/24. The verification and performance examination reports are available upon request.

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