

First Quarter 2026 (April 1, 2026)

It has been nearly one year since the market’s “Tariff Tantrum” last April, and the anniversary of this equity market rally since offers a timely reminder that long-term investment success is rooted in discipline.

Suncoast’s disappointing portfolio returns over the same trailing 12 months, and not to be confused with a full calendar 2025 and 2026 phenomenon at this point, were marked by a three-part perfect storm. The first part was an exceptional cyclical stock rally starting last April, second was the January and February acceleration of AI disruption concerns on digital software and services portfolio companies, and the third part is the current Iran conflict which remains unresolved as of this writing. Below we cover in greater detail this unusual period marked by significant market noise and some important signals, with support from our nearly 30 years of experience that we are undervalued from both an absolute and relative perspective.

Tariff Tantrum Peak to

Since peak tariff concerns on April 8, 2025, the S&P 500 High Beta index - comprised of the S&P 500 index’s top 20% most volatile stocks - has returned an astonishing 67% through March and led the benchmark S&P 500’s returns, while high quality, consistent profit compounders that meet our **SEM-Discipline** have trailed far behind. We cannot recall a year of such extreme high beta stock returns. The first quarter of 2026 put an exclamation point on what has been a challenging trailing 12-month period across all three **Suncoast Equity Growth** portfolios - **SEM Select Growth**, **SEM Dividend Growth**, and **SEM Small to Mid-Cap**. Each portfolio has lagged its respective benchmark despite delivering stronger earnings per share (EPS) growth in 2025.

Earnings Growth

	2025 EPS <u>Actual</u>	2026 EPS <u>Estimates</u>
SEM Select Growth	27.0%	20.4%
SEM Dividend Growth	14.3%	13.1%
SEM Small to Mid-Cap	19.2%	14.6%

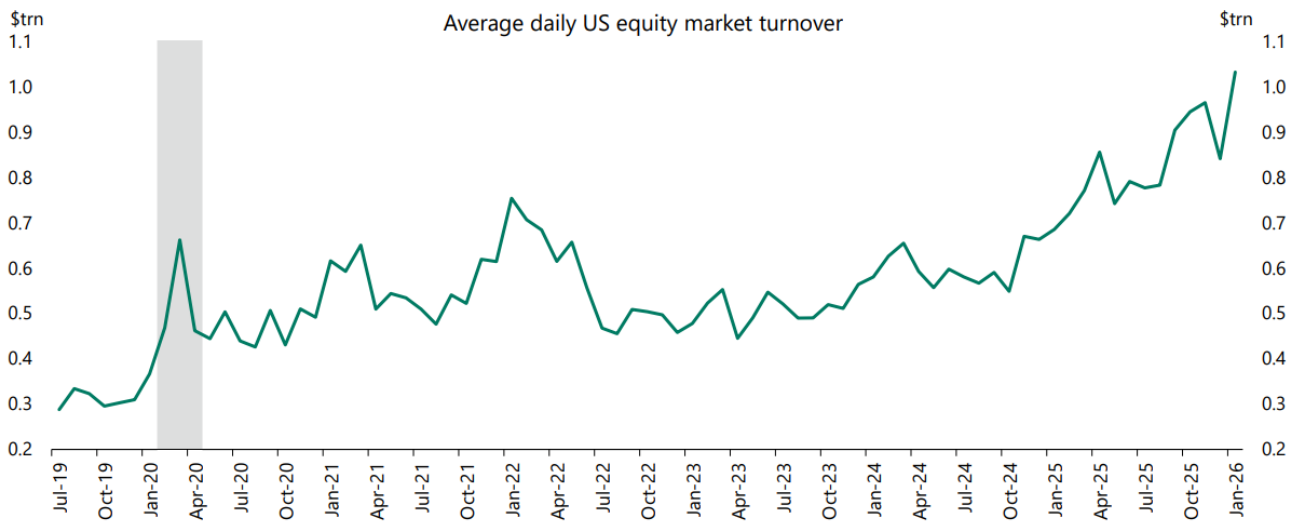
Source : Eikon as of 3/28/26

Perfect Storm Part 1: “Animal Spirits” – A High Beta/Cyclical Rally

From a historical perspective, high beta/cyclical stocks - despite their recent popularity - have underperformed over long horizons. They tend to deliver returns in bursts rather than with consistency, living up to their cyclical nature. In the most recent twenty-year time frame and incorporating the past year’s surge for high beta stocks, a \$1 million investment in the high beta index in April 2006 would have grown to just \$2.7 million today, compared to \$7.1 million placed in **SEM Select Growth**.

Looking back over this period, the last two calendar years in which high-beta stocks also dramatically led market returns were 2010 and 2016. In those two years, the **SEM Select Growth** portfolio trailed the benchmark by 8% and 15%, respectively. In 2010, cyclical stocks rallied briefly as the economy rebounded from the global financial crisis. In late 2016, President Trump’s pro-business mandate fueled a sharp cyclical rally after his election. After each cyclical rally subsided, our portfolio went on to outperform the S&P 500 in each of the next three years as investors rewarded the portfolio companies’ accruing superior profit growth.

The past year’s market environment can be summed up in two words: animal spirits. Alongside cyclicals’ dominance, the market entered 2026 with record margin debt, elevated bullishness and doubled daily equity trading levels vs. the prior year. High periods of equity turnover often signal speculative market activity.



Source: Apollo

Perfect Storm Part 2: “Hold that Baby!” - AI Disruption

Few doubt that recent, exponential advances in AI have and will continue to dramatically impact society and the economy. However, given the wide range of possible outcomes, there is great uncertainty on AI’s specific impact on many individual companies’ future positioning and profitability. When leading AI pioneer, Anthropic, released new, robust agentic AI capabilities in January and February, the stock price pressure on digital businesses like software providers, payment companies and payroll processors ramped considerably. Stock market participants are now suspicious of highly profitable and growing digital businesses and severely discounting their share prices for future AI disruption. We believe the increased uncertainty may merit notable repricing for select companies, but not all.

Has the proverbial baby been thrown out with the bathwater? In a word, yes. We believe the near AI panic this quarter created the opportunity to upgrade the portfolio with even stronger, faster growing businesses at attractive valuations. We reviewed each of our digital-leaning portfolio companies through an intensive Agentic AI Disruption framework following the Anthropic advances this quarter, assessing the business’ long-term competitive durability, specifically its technological and operational integration, mission critical factors, cost vs. value, substitutability, and any regulatory, legal and risk protections. As a result of this review and the market’s dislocation, we made a few upgrades specific to AI across our three portfolios.

Perfect Storm Part 3: “Tinder” and the Iran Conflict

In March, fears that the Iran conflict could trigger an oil and natural gas supply shock - and with it higher global inflation and slower economic growth - sparked a broad selloff across markets, with investors dumping stocks, bonds, gold, and other assets alike. Unfortunately, this impacted Suncoast portfolios as well. Energy stocks, whose cyclical nature and low historical returns fail to meet our discipline, were the lone exception. The S&P 500 Energy sector returned nearly 40% year to date, accounting for some of our trailing performance.

Lloyd Blankfein, the former CEO of Goldman Sachs, who successfully steered the firm through the Global Financial Crisis, was on Bloomberg Television recently and he made an interesting observation about his time managing the investment bank’s balance sheet. When asked about market shocks, general asset valuations and specifically, the current gyrations in private credit, an asset class we called out as problematic in our

previous commentary, he explained that market shocks, or sparks, will invariably occur. He emphasized that the bank could not escape an unforeseen spark, so the real discipline lies in recognizing that extended periods - the current one being an especially long one - without extended market disruption tend to allow excess risk, or “tinder”, to quietly and dangerously accumulate on the forest floor. We agree. There is no doubt the Iran conflict is at least a spark, and time will tell if it is a full-on forest fire. We believe, however, that our disciplined process focused on high quality businesses - profitable, growing, durable, prudently financed, reasonably priced - mitigates the tinder and prospects for an extended burn.

Portfolios’ Intrinsic Value Building: Morningstar, an Independent Reference Point

Businesses become more intrinsically valuable as their profits consistently and steadily increase, and as we have outlined, **SEM** portfolio companies are delivering outstanding growth rates. However, intrinsic value is inherently an estimate as all businesses’ competitive position may ebb and flow over time. One independent company that takes a reasonable approach to assessing individual stock valuation is Morningstar. They estimate a company’s intrinsic value by projecting how much cash the business will generate in the future and then “discounting” those cash flows back to today’s dollars. In simple terms, they are trying to figure out what the business is truly worth today based on its long-term earning power – separate from what the stock market happens to price it at right now. Currently, Morningstar estimates that **SEM Select Growth** is 20% undervalued, **SEM Dividend Growth** is 10% undervalued and **SEM Small to Mid-cap** is 16% undervalued. This makes sense since portfolio companies’ stock prices have materially lagged their earnings this past year.

Looking Ahead

We remain humble but steadfast in our investment approach during challenging times like the Iran conflict, as well as laser-focused on AI’s threats and opportunities to the portfolio. In a world where AI narratives and general trading setup acronyms have caught the popular imagination of market participants, earnings per share - current *and* future - remains our go to, or “signal” for investing.

More important than the constant market, political, economic and media noise, is the following - your portfolio companies just reported a very successful final quarter and calendar year 2025, and prospects for 2026 look similar. Now is the time for resolve, discipline and strong hands. Over our three decades of

managing client wealth, we have experienced relative return drags before only to come out stronger. *Your* businesses - you own them - have grown intrinsic value 15-25% over the last year, but their share prices have declined double digits. That is an opportunity.

Sincerely,

Don

Donald R. Jowdy

CIO

Dan

Daniel T. McNichol

President

Amy

Amy A. Lord, CFA

SVP / Co-PM

Eric

Eric K. Lynch

Managing Director/ Co-PM

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

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.