



*Second Quarter 2026 (July 1, 2026)*

The **Suncoast Dividend Growth** strategy was relatively flat during the quarter despite double-digit earnings expectations for 2026-27 and higher dividend payouts, ending the first half -7.3% net of fees. As investors flocked to more volatile, cyclical companies like Micron and the initial public offering of SpaceX, we were able to purchase attractive dividend-paying businesses like **Cisco**, **Abbvie** and **Costco** as well as add to **TE Connectivity**. Small positions in **Accenture** and **Tractor Supply** were sold to fund the new buys while **Automatic Data Processing** and **Sherwin Williams** were slightly reduced. We look for economic moats and believe owning a portfolio of businesses with competitive advantages and pricing power is the best way to generate solid long-term results, outperform inflation and minimize risk.

Portfolio Activity

**Cisco (CSCO)** is an industry leader in enterprise networking offering an ecosystem of switching, routing, wireless access, security and collaboration tools to more than a million customers in 150 countries. It is providing critical infrastructure for the AI era and we bought a 2.5% position after a stellar report in May. Sales were +12% driven by strong demand from hyperscalers with product orders +35% and networking orders +50%. Both sales and earnings were ahead of management's targets, so it raised guidance for the year ending July 31<sup>st</sup> and expects +11-12% growth. Most exciting was CSCO's hyperscaler order book that increased to \$9 billion from \$5 billion and major multi-year campus networking orders that were +25%. We look to add to our position as orders convert to revenues and momentum continues.

In June we initiated a position in **Abbvie (ABBV)**, a leading biopharmaceutical company whose main products include Immunology treatments Skyrizi (29% of total sales) and Rinvoq (14%) as well as the therapeutic and aesthetic drug Botox (10%). First quarter global sales were +12% and management increased its 2026 adjusted earnings target. ABBV is on track to surpass its prior peak sales and earnings this year (Its blockbuster drug Humira went off patent in 2023. Longer term clients may remember that's what led us to sell ABBV in 2022). Importantly 2027 revenues should grow high single digits and earnings should compound 12-14%. CEO Robert Michael continues to strengthen the Immunology portfolio with the recently announced \$10.1 billion acquisition of Apogee Therapeutics which has late stage candidates for atopic dermatitis. With a robust



diversified pipeline in Immunology, Oncology and Neuroscience we believe ABBV is well-positioned for long-term growth in addition to its 2.7% dividend yield.

**Costco Wholesale (COST)** perfectly fits our mandate of owning durable compounding businesses with a history of increasing their dividends and we initiated a position. In addition to low prices on brand names COST offers a pharmacy, optical, hearing aids, fuel, tires, home renovations and travel services to its 83 million members. In its most recent quarter, the company delivered +12% revenue growth driven by comparable sales growth +10%. Average ticket grew +7.3% and traffic +2.4%, truly industry-leading metrics given the current environment. Earnings grew even faster, +15%. COST's in-house brand is known for its quality and actually boosts margins as consumers switch from higher-priced brand names to Kirkland Signature. In fact, operating margins have steadily risen over the years as COST flexes its customer loyalty and economies of scale. Management continues to introduce new items to the Kirkland portfolio which not only serves as a margin lever but also acts as a pricing tool against national brands. Most of COST's 931 warehouses are in the US, but we expect long-term growth to be supported by international expansion beyond its current footprint in Puerto Rico, Canada, Mexico, Japan and the UK. The Board of Directors recently increased the quarterly dividend +13% to \$1.43 but the company has also been known to pay out special dividends every few years, the most recent being \$15 per share in 2024. With a long-term time horizon, we plan to benefit from the next payout.

We added to the recent purchase of **TE Connectivity (TEL)** after it beat management's targets, a global industrial technology company that manufactures and sells connectivity and sensor solutions to end markets such as transportation and data centers. Recent orders were +25% and sales were +15%. Margins grew on higher volumes and adjusted earnings were +24%.

Two of our smallest positions were sold, **Accenture (ACN)** and **Tractor Supply (TSCO)**. Growth has slowed in Accenture's consulting business as corporations reallocate funds to AI and management narrowed its sales target. ACN recently announced three cybersecurity acquisitions at steep valuations as they try to capture more growth. We prefer to wait on the sidelines as the company navigates the AI transformation and believe ABBV is primed for better growth. Similarly same-store sales have flattened at TSCO with average ticket +1.6% offset by a 1.0% decline in traffic in the first quarter. Management acknowledged it wasn't positioned well in



the Companion Animal category and is working to correct the issue. We believe the business momentum at COST makes it a much more compelling investment even though the dividend yield is lower than TSCO.

**Automatic Data Processing (ADP)** and **Sherwin Williams (SHW)** were trimmed to increase faster-growing TEL.

### Moats and the SEM – Disciplined Investment System

Warren Buffett popularized the phrase “economic moat” in a 1999 *Fortune* magazine interview but as long-term students of Buffett, our discipline was founded on that concept in 1997. Competitively advantaged businesses with pricing power and the ability to generate consistently high returns on capital without significant debt are the pillars of an economic moat. The **Dividend Growth** strategy adds another layer of safety with the requirement that companies return a portion of their profits to shareholders by increasing their dividends every year. It’s no surprise then that more than three quarters of the portfolio is invested in companies with Wide Moats according to Morningstar, including our recent purchases. **CSCO’s** wide moat is based on high switching costs, meaning once its ecosystem of products and services is installed it would be too time-consuming and expensive to replace it with a competing service and would likely be incompatible with the remaining infrastructure. **ABBV’s** major products are protected by patents out until 2033 with many going into the late 2030s thus giving it a wide moat. As noted above **COST** has brand trust, cost advantages and a membership-driven business model that are nearly impossible to disrupt.

### Outlook

Our portfolio of “moaty” businesses should generate mid-teen earnings growth this year and has a 1.6% dividend, higher than the S&P 500 yield of 1.1% which is hovering near the historic low set during the tech bubble of 2000. With solid growth and a respectable yield, our portfolio is designed to help clients sleep at night knowing they own very profitable, steadily growing durable compounders. As always we are here to answer your questions and appreciate your feedback.

Sincerely,

*Amy*

Amy A. Lord, CFA

Senior Vice President/ Co-Portfolio Manager

*Don*

Donald R. Jowdy

CIO



**Annual Returns vs. Benchmark**

Year	SEM (Net)	S&P 500	Difference
2017	22.8%	21.8%	1.0%
2018	(1.1)	(4.4)	3.3
2019	34.2	31.5	2.7
2020	16.7	18.4	(1.7)
2021	35.2	28.7	6.5
2022	(11.8)	(18.1)	6.3
2023	20.3	26.3	(6.0)
2024	13.3	25.0	(11.7)
2025	5.1	17.9	(12.8)
First Half 2026	(7.3)	10.2	(17.5)
Compounded Annual Gain	12.3%	15.5%	-
Overall Gain (2017-YTD 2026)	201.1%	292.0%	-

Returns are net of fees. Past performance is not indicative of future results.

\*Numbers may vary due to rounding.

**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 – 12/31/24. 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 Dividend Growth composite has had a performance examination for the periods 12/31/16 – 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.