Second Quarter 2026 (July 1, 2026)

The first half of 2026 saw robust earnings growth accompanied by significant stock price volatility, similar to the trends of late 2025. The SEM Small to Mid Cap portfolio rallied off the lows of the first quarter but ended the first half -2.8% net of fees. As outlined in our **Investment Commentary**, cyclical stocks are outperforming durable compounders by a historically exceptional amount. Our expectation of a realignment with intrinsic value growth over time remains as we upgraded the portfolio's earnings profile with the addition of **Wabtec** and **Credo Technology Group** using **Checkpoint Software, Sprouts Farmers Market** and **Copart** as sources of cash. We also took advantage of the volatility by tweaking a few positions which we highlight below.

Portfolio Activity

During the quarter we leaned into our philosophy of owning consistently compounding businesses and executed on our **SEM-Disciplined Investment System** by buying **Wabtec (WAB),** formerly known as Westinghouse Air Brake Technologies. As a global leader in equipment and services for the rail industry WAB possesses a wide economic moat according to Morningstar. The company reported first quarter sales of $3 billion, +13%, fueled by strong momentum in both its Freight and Transit segments. Adjusted earnings jumped 19%, prompting management to raise its 2026 earnings guidance to +14%-19%. The core of our long-term investment thesis rests on multi-year visibility and pricing power with a historic backlog +36% to $8.1 billion driven by a $1.2 billion locomotive modernization contract with Union Pacific and a $670 million fleet upgrade agreement with CSX. Furthermore, WAB continues to demonstrate expanding operating margins as the company successfully integrates the acquisition of higher-margin Dellner Couplers, which also allows the Transit business to capture more European market share.

We added **Credo Technology Group (CRDO)**, a leader in ultra-high-speed copper and optical interconnection products used in the AI infrastructure buildout. Its proprietary Serializer/Deserializer (SerDes) architecture powers energy-efficient, custom-designed ZeroFlap Active Electrical Cables (AECs) which allow data center operators to maximize GPU utilization and link thousands of chips together while drastically reducing power-consumption and heat limitations that plague traditional copper or optical solutions. As hyperscalers ramp up massive cluster computing setups, network bandwidth has become the primary bottleneck for AI.

5550 W. Executive Drive, Suite 320 Tampa, FL 33609 813-963-0502 www.suncoastequity.com

Data centers are aggressively upgrading their network backbones from 400 gigabyte and 800 gigabyte up to emerging 1.6 terabyte speeds to manage AI workloads. As a result of CRDO's leading position in these specialized cables, revenues tripled year over year to $1.3 billion for the fiscal year 2026 ending May and adjusted net income rose more than five-fold to $662 million. CRDO is proving it can scale its profitability with operating margins ramping from 14% in 2024 to 50% expected this year. Add to that a pristine balance sheet with $1.4 billion in cash, no debt and management has the flexibility to make acquisitions like the May purchase of DustPhotonics for $750 million, a leader in silicon photonic integrated circuits which transmit data using light. We believe CRDO possesses a long, high-margin runway that aligns with our portfolio standards and hope to add to the position over time.

We increased our stakes in **Fair Isaac Corporation (FICO)** and **Neurocrine Biosciences (NBIX),** as both validated our long-term fundamental thesis of business momentum and sustainable earnings growth. FICO reported strong second quarter revenue growth +39% driven by the high-margin Scores segment which surged +60%. Business-to-business (B2B) scores were +72% primarily attributable to higher mortgage originations, which led to higher operating margins and adjusted earnings growth +60%. Management increased its full-year expected revenue target to +23% and adjusted earnings +35%. FICO continues to prove that it has an extremely competitive moat and we gladly took the opportunity to buy more shares.

Following our initial purchase in late 2025, NBIX posted first quarter revenue growth of +42% and adjusted earnings +177%. The commercial strength of Ingrezza taking market share in the tardive dyskinesia landscape, alongside strong new patient demand for Crenessity for the rare genetic disorder of congenital adrenal hyperplasia (CAH), led to the impressive growth. NBIX has a strong pipeline of candidates in psychiatry, neurology, endocrinology and immunology with two Phase 3 data readouts expected in 2027 for the treatment of schizophrenia and major depressive disorder. We expect continued market share gains for NBIX's current portfolio and will be watching as more trial data is released.

To fund the new purchases we sold our positions in **Checkpoint Software (CHKP), Sprouts Farmers Market (SFM)** and **Copart (CPRT).** After CHKP's new CEO Nadav Zafrir took the reins from founder Gil Schwed in early 2024 we had hoped Zafrir would be able to reignite growth in the cybersecurity company with better organic sales and complementary acquisitions. That was not the case. In the first quarter CHKP announced product sales fell 3% while billings fell 1%. CHKP is reorganizing the sales team for a second time in as many years and earnings are also expected to decline this year. We believe FICO is a better investment at this time. Similarly, growth has slowed significantly at SFM as consumers deal with higher inflation and less discretionary income. SFM reported a 1.7% decline in same-store sales in the first quarter and earnings are only expected to grow mid-single digits this year and next. While SFM may be fine longer term, we have much better visibility in WAB. Online auto auction company **Copart (CPRT)** was sold as it navigates industry headwinds of high auto insurance rates. Drivers often skip optional collision insurance when premiums surge which leads to fewer insured wrecked cars being sold at auction putting pressure on CPRT’s volumes and revenues. In contrast, NBIX is reporting accelerating momentum. **ITT Inc (ITT)** has been executing well but had appreciated to one of the largest positions in the portfolio. It was reduced slightly to make room for faster-growing CRDO.

Outlook

While macro headlines and short-term market psychology will always create price fluctuations, the structural earnings power of our businesses remains our north star. By upgrading the portfolio and consolidating into faster-growing companies, we have secured deeper backlogs and stronger margin visibility for the years ahead. We remain focused, disciplined, and heavily co-invested right alongside you. Please reach out at any time if you have questions.

Sincerely,

Don

Donald R. Jowdy

CIO

Eric

Eric Lynch

Managing Director / Co-Portfolio Manager

Annual Returns vs. Benchmark

Year	SEM (Net)	S&P 400 Growth	Difference
2nd Half 2017	7.0%	10.5%	(3.5%)
2018	(3.6)	(10.3)	6.7
2019	42.7	26.3	16.4
2020	24.2	22.8	1.4
2021	29.9	18.9	11.0
2022	(25.3)	(19.0)	(6.3)
2023	23.5	17.5	6.0
2024	17.7	15.9	1.8
2025	(1.5)	7.5	(9.0)
First Half 2026	(2.8)	21.6	(24.4)
Compounded Annual Gain	10.6%	11.4%	-
Overall Gain (2nd Qtr. 2017 – YTD 2026)	146.6%	163.4%	-

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

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 June 2017, SEM also offers a Small to Mid Cap (SMID) Growth Composite. The SMID Composite includes all discretionary, fee-paying portfolios managed within this strategy. The creation and inception date of the SMID composite is 6/30/2017.

The SMID 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 20-30 stocks. This strategy of smaller companies will own businesses with high earnings growth relative to the market, while incurring moderately more risk than SEM Growth Composite. Potential investors should have a minimum three year time horizon, since selling at a disadvantageous time could result in principal impairment. 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. As of 1/1/2021 we retroactively changed the index used for comparison to the Standard and Poor's 400 Growth Total Return Index is an unmanaged index with no expenses, which covers growth stocks within the S&P 400 index. It is a float adjusted market capitalization-weighted index calculated on a total return basis with dividends reinvested. Prior to this change, the index used for comparison was the Russell 2000 Growth index.

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.

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