



Third Quarter 2026 (October 1, 2026)

The **Suncoast Dividend Growth** portfolio gained a little ground in the third quarter, +2.5% after fees, which was in line with the S&P 500 return, +2.3%. As noted in our **Investment Commentary** the portfolio benefited from a reversal in the market with low volatility stocks outperforming more cyclical, AI-related momentum stocks. We increased **Cisco**, **TE Connectivity**, **Cintas** and **Costco** after each reported solid results, while slightly trimming **Rollins** and **Stryker**. We highlight our affinity for expanding margins and the optionality it gives.

Portfolio Activity

Long term clients know we typically start a position at about 2% and add to it in increments as we get data points that confirm business momentum. That was the case for **Cisco Systems (CSCO)** after it closed out its 2026 fiscal year in July. Fourth quarter revenue rose +18% driven by networking orders +40%. Management reported “exceptional” margins with operating income +23% and increased their expectations for AI infrastructure products and services from hyperscalers. CSCO should generate mid to high teen growth in sales and earnings, respectively, for fiscal 2027.

We’ve also been building out our position in **TE Connectivity (TEL)**, which manufactures electrical components, sensors and wireless systems for its Transportation and Industrial Solutions segments. TEL posted revenues +14% driven by Industrial Solutions segment growth of +20%. Operating margins expanded and adjusted earnings were +22%. Looking ahead TEL is seeing record order growth +27% at \$5.7 billion and is building out its own portfolio with plans to acquire Astrodyne TDI for \$1.4 billion, which provides advanced power management and filtering solutions for mission critical industrial applications. The deal is expected to close before year end.

We initiated a position in **Cintas (CTAS)** late last year when its dividend yield finally met the parameters of this strategy and was in line with the yield of the S&P 500 (we have owned CTAS in the Small-Mid Cap portfolio since its inception). CTAS provides uniforms, cleaning supplies, first aid and safety products to more than one million businesses and reported sales +11% in late September. Gross and operating margins increased, which led to adjusted earnings growth of +16%. As a result of good execution, management increased its 2027 sales



and earnings targets for its fiscal year ending May 31st and also increased its dividend +16%. CTAS expects to close on the \$5.5 billion **UniFirst (UNF)** acquisition in 2026, which will add to its route density and profitability.

We increased our position in **Costco (COST)** after it reported fourth quarter net sales were +11% at \$94 billion and digitally enabled comparables sales were +20%. Adjusted margins rose and earnings were +15% boosted by a \$184 million tariff refund. Of that amount management plans to reinvest \$100 million back into lower prices which reinforces the value proposition for the company's 84.1 million paid members. COST has expanded its third party same day delivery services with DoorDash, Instacart and Uber Eats and expects to open 28 new warehouses in 2027.

Rollins (ROL) and **Stryker (SYK)** were slightly reduced in order to accommodate these purchases. ROL, a pest and termite control services company, reported strong organic growth in relationship based channels like homebuilders and door-to-door sales but is experiencing softer demand in residential brands that are more reliant on consumer-initiated search and digital media. SYK reported strength in MedSurg and Neurotechnology above its targets but narrowed sales and earnings to the middle of its previous range due to continued supply constraints from a cyberattack. It is also seeing slower seasonal demand in Orthopaedics.

Moats and Margins

Last quarter we discussed that the vast majority of Suncoast's Dividend Growth companies have wide economic moats and listed examples of moats like scale, cost advantages, switching costs and brands. This quarter we expand on another component of our **SEM- Disciplined Investment System (SEM-DIS)**, stable to increasing operating margins. Improving operating margins may mean a company is managing expenses well, or flexing its pricing power, or shifting to more profitable business segments. The more profitable a company becomes the more the intrinsic value grows and the more the stock appreciates over time. Higher profitability also gives management the option to reinvest in growth opportunities, make acquisitions, buy back shares or increase dividends. It is no coincidence that each of the purchases we discussed above noted increasing margins. Below we share a three year snapshot of increasing operating margins for several of our holdings.



		Operating Margins		
Company		2025	2026e	2027e
Abbvie	ABBV	47.0%	48.0%	49.5%
Automatic Data	ADP	28.7%	29.5%	29.5%
Cintas	CTAS	27.6%	27.7%	28.0%
Cisco	CSCO	38.0%	39.5%	39.5%
Costco	COST	4.7%	5.6%	5.9%
Eaton	ETN	23.7%	25.0%	25.5%
Eli Lilly	LLY	46.6%	48.0%	52.0%
Paychex	PAYX	43.4%	45.3%	45.5%
TE Connectivity	TEL	24.7%	26.0%	26.5%
TJX Companies	TJX	13.6%	14.0%	14.0%
Trane Technologies	TT	20.4%	20.5%	21.0%

Source: Value Line

Looking at the table, the trend is what's most important, not the absolute margin percentage, as margins vary for businesses in different industries.

Outlook

We are hopeful the market will continue to recognize the financial strength and increasing profitability of our companies. In the meantime, our portfolio is generating mid teen intrinsic value growth and the average dividend yield is 1.7%, which compares favorably to the S&P 500 yield of 1.1%.

Thank you for entrusting us with your hard-earned capital and please reach out with any questions.

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 Nine Months 2026	(4.9)	12.8	(17.7)
Compounded Annual Gain	12.3%	15.3%	-
Overall Gain (2017-YTD 2026)	208.7%	301.1%	-

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.