

Third Quarter 2026 (October 1, 2026)

During the third quarter, we observed changes in leadership in the equity markets that may signal a shift toward a more measured investment environment. Suncoast's **Select Growth**, **Dividend Growth** and **SMID** portfolios modestly outperformed their relevant benchmarks, returning 4.2%, 2.5% and 1.5%, after fees respectively, versus 2.3% for the S&P 500 and -6.5% for the S&P Midcap 400 Growth index. Our investment discipline, focused on durable businesses capable of delivering consistent earnings and free cash flow growth, benefitted from a modest rotation away from more speculative areas of the market and back toward underlying business fundamentals.

AI is moving quickly, so much so that President Trump has suggested rebranding references to AI as "SI or Super Intelligence," citing that the word "artificial" implies it is fake. We share a few thoughts about the development of AI here and throughout our portfolio-specific commentaries, as companies - and countries, most notably the U.S. and China - compete for "Super Intelligence" supremacy. We also pause to remember and honor the lives lost 25 years ago on September 11, 2001, and to ensure that day is never forgotten.

Changes in the Market

The S&P 500 Momentum index was -6.0% and High Beta was -3.0% during the quarter, after roaring higher for the one-year period through June 30, 2026. Both factors began to show fatigue and declined. The Philadelphia Semiconductor Index, which is a proxy for AI infrastructure also fell, -11.2%. We observed these changes as market leadership transitioned somewhat from AI infrastructure companies to wide moat, durable compounders (i.e. consistent profit growers) in different industries. These companies play a big part in SEM's **Select Growth**, **Dividend Growth** and **SMID** strategies.

Many of these companies had effectively become a source of funds for the AI trade. Despite strong earnings growth and underlying fundamentals, their share prices were flat to down through mid-2026. As capital rotated back toward them in the third quarter, their stocks began to catch up with the fundamental progress the businesses had continued to make. We believe a meaningful gap remains. Long-established, wide moat companies highlighted last quarter performed particularly well, including **McKesson** and **Mastercard**.

The AI-related market concentration that emerged in late summer 2025 also began to reverse. Several companies increasingly classified as “AI losers” became important contributors across our portfolios. Software firms including **ServiceNow**, **Microsoft** and **Veeva** rose as investors began to recognize that strong businesses were not necessarily going to be displaced by AI and, in many cases, could ultimately benefit from it.

The quarter also demonstrated how quickly price and value can converge when fundamentals remain strong. For many companies previously viewed as vulnerable to AI disruption, share prices did not recover gradually - they snapped back. **Meta** alone added roughly \$500 billion in market capitalization during September. It is a reminder that when strong businesses become significantly mispriced, exiting too early can mean missing a meaningful portion of the eventual return.

Thirty years of managing portfolios through all types of markets has kept us humble, while consistently reinforcing that the best signal for future portfolio success is company earnings and free cash flow growth. While individual share prices will fluctuate, we remain confident in the long term growth of our companies. They collectively reported strong results last earnings season, and we expect that to continue.

The following illustrates the opportunity for share prices and earnings growth to converge within the aggregate **Select Growth** portfolio:

	2025	2026	2027
Select Growth EPS % Growth	27.0%	30.8%	22.6%
Select Growth % Returns	7.3%	0.1%	?

Source: Actual 2025 data. LSEG estimates for 2026-27 EPS growth. Estimates and 2026 returns as of 9/30/26. Returns net of fees.

Time to be Thoughtful...

More circumspection from market participants is warranted as investors navigate extraordinary and, in some cases, conflicting dynamics. Artificial Intelligence is very real in its economic impact and is accelerating. An estimated \$1 trillion of AI infrastructure spending globally in 2026 has become a major contributor to S&P 500 earnings growth, now running at its strongest pace since the aftermath of the Global Financial Crisis. AI-related investment alone is estimated to account for nearly half of this year’s S&P 500 earnings growth.

That investment boom is occurring against an increasingly inflationary backdrop. Along with elevated energy prices stemming from the conflicts in Iran and Ukraine, massive spending on data centers, power generation, semiconductors and other AI infrastructure is adding to demand for capital, energy and labor. The Federal Reserve responded by raising interest rates 0.25% in September, its first increase since 2023, and markets are pricing in the possibility of further tightening. The 10-year Treasury yield has reached its highest level since 2007, while the 30-year yield has risen to nearly 5.7%, a level not seen since 2004.

With interest rates higher, the U.S. government is now paying more than \$1 trillion annually in interest expense, more than it spends on the military. Meanwhile, deficits remain high and the government's balance sheet continues to weaken. Publicly held U.S. debt has risen above \$30 trillion, versus \$3.4 trillion in 2000, and stands at roughly 100% of GDP, the highest share since the aftermath of World War II.

The U.S. economy continues to grow, but its sources of strength have become unusually concentrated, with AI-related capital spending doing an outsized amount of the work. The result is an unusual backdrop: extraordinary earnings growth and investment at the leading edge of the economy alongside high inflation, rising interest rates and considerably less robust conditions beneath the surface.

...When Others Are Not.

Despite a bit more balanced market, speculation remains elevated. After spiking 50% year over year to \$1.5 trillion as of June 30th, U.S. margin debt (loans taken out to purchase securities) crept higher over the summer months. We also continue to see exceptional flows into investment products such as 2-3x levered single stock ETFs and perpetual single stock futures. Both allow market participants to amplify gains when share prices rise but can be especially destructive when they fall.

In the third quarter, the U.S stock exchange-listed Direxion South Korea Bull ETF (KORU), a 3x levered bet on a Korean equity index, declined -48.8% versus -6.5% for the index. Though American brokerage accounts suffered KORU's decline, similar Korean stock exchange-listed, levered ETFs were also slammed. South Korean regulators responded by banning new listings of single stock leveraged products after extreme volatility in memory chip leaders, Samsung Electronics and SK Hynix, exposed the risks of leveraged retail speculation.

Meanwhile, US regulators, not following Korea's regulatory response, recently approved perpetual single stock trading, previously only available outside the U.S. These new products in the U.S. markets are likely to keep our domestic gambling mentality elevated and could contribute to significant short-term volatility, even though fundamentals ultimately drive stock returns over the long run.

Artificial Intelligence - Fast and Scary Moves from Training to Inference to Agentic

AI entered another stage of development this quarter while also amping safety fears. The industry is moving rapidly from training ever larger models toward inference (humans prompting models for specific tasks) and now agentic AI, systems that can reason, use tools, take actions and complete multi-step tasks with far less human intervention.

That shift expands both AI's potential economic value and the amount of computing required. **Nvidia** CEO Jensen Huang has said agentic AI can require roughly ten times the compute of generative AI.

The transition also raises legitimate safety questions as increasingly autonomous agents gain access to software, networks and real-world systems. NVDA responded this week by introducing an Open Agent Safety Platform designed to monitor and contain agents with the ability to shut them down if they move beyond defined boundaries. On CNBC Monday, Huang described AI safety as "fundamentally solvable through engineering like any innovation."

For our part, we remain focused on separating hype from economic reality and concentrating our investments in companies that meet our discipline, businesses with wide economic moats built on sustainable competitive advantages. We expect markets to scrutinize AI-related companies' individual, long-term economic prospects more closely in the months ahead, and this quarter may have marked the beginning of that shift.

Nvidia is a good example. Beyond its core AI chips, the company has built a broad ecosystem of software, networking, systems and developer tools around its platform, with each additional layer strengthening its competitive position. It also performed well in the third quarter even as most semiconductor stocks declined.

We Will Never Forget...and We Will Always Look Forward

This past quarter marked the 25th anniversary of September 11, 2001, when terrorists attacked some of the most prominent symbols of our country, the World Trade Center in New York and the Pentagon outside Washington. Nearly 3,000 people lost their lives that day, including hundreds of first responders who ran toward danger. It was a monumental human tragedy for the victims, their families and the many heroes of that day. As Vice President Dick Cheney later said, “That day changed everything.”

Twenty-five years later, historians, policy experts and others continue to debate how September 11th reshaped U.S. priorities, the enormous resources committed in the years that followed, and the relative successes and failures of those efforts. More than 7,000 U.S. military service members were killed in the subsequent wars and for one member of our team, that loss is deeply personal. A nephew was among the service members who gave their lives in Afghanistan in the following years.

At the same time, the past quarter-century has brought extraordinary progress: life-extending medical advances, dramatic growth in renewable-energy technologies, and inexpensive access for billions of people to communication, education, navigation and emergency information through smartphones and the internet. Our hearts will always ache for those lost on September 11th and for those who gave their lives in the following years. We will never forget. At the same time, we will always remain optimists about the future.

Alongside exogenous events that can suddenly change the world, whether 9/11 or the pandemic, economic and innovation cycles continue to unfold. Business cycles, whether driven by innovation or other forces, are cyclical. No one has a perfect crystal ball, and nothing is permanent, neither the good nor the bad.

Our purpose remains straightforward, to grow and preserve your hard-earned savings over time, ahead of inflation. We have nearly 30 years of experience delivering upon that goal for our clients and our own families. We are encouraged by the earnings progress of our portfolio companies and by the technological advances many of them are helping to enable.

Providing information and transparency is one way we take responsibility for the capital entrusted to us. Across all three of our portfolio strategies, earnings growth has outpaced price appreciation, creating what we

believe is a growing gap between underlying business value and market price. Over time, those two have historically reconnected, and we believe they will again. As always, our personal investments and our company retirement plans remain invested side by side with our clients. Best wishes for an enjoyable fall and the upcoming holiday season.

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.