Sterling Partners Equity Advisors
Portfolio Commentary – Summer 2021

The Secret Sauce of Total Return

Kevin E. Silverman, CFA

At all times, even weird ones like this, we worry mostly about earning a good risk adjusted total return. That has always been the goal of our strategies and the team that runs them. Aiming for a specific total return in the short-term is tricky because if your investments require more certainty about the timing, you are almost certainly giving up some piece of total return. With the supply of stock reasonably given in the short term, lower certainty brings lower demand for the shares, and lower prices. More certainty brings the opposite. We are often uncertain about total return in the short-term, a risk we bear that helps drive our total return in the long-term. This uncertainty around timing is different than the uncertainty around survivability, an octane-fueled potential return source that we avoid. It might be worth mentioning that the standard deviation of our monthly returns is below that of our benchmark.

The biggest impediments we believe to total return in the long-term are in simple terms, overpaying. This can come about from overly ambitious financial forecasts about the company and the industry out in the future or it can come about from excessive emotional enthusiasm in the present. Earnings x Price / Earnings = Price and both components have an equal impact. Because total return is created by a shift in the P/E, and a shift in E, we try to identify companies where the potential for an earnings recovery over the next few years is high, and when therefore the potential for the sentiment about the stock, and in turn, the Price / Earnings ratio, to recover is also high.

Inflation has been and can be a big impediment to earning a good real total return. Inflation affects earnings, and price/earnings so it's double edged. We wrote about inflation risks last quarter and are watching the Fed print money along with everyone else. We try to stay on the right side of inflation by owning proprietary or low-cost competitors that can raise price faster than their costs are rising. Businesses that produce goods and services people need rather than just want, along with Maslow's hierarchy of needs — we keep these in mind when investing. We also mitigate the potential for rising inflation and interest rates by owning companies that are advantaged in the battle for market share gains in their specific business, are largely cash flow generating and are in a healthy financial position.

Much of our ability to deliver alpha, a greater total return than our benchmark, in my opinion, is our ability to discern a short-term problem which harms sentiment from a long-term problem that harms market share and ultimately cash flow. The difference between the long-term reality and short-term market sentiment is often the difference between earning alpha relative to the averages and not earning alpha — the definition of adding value.

An important element to our effort to add value is that we do long term financial projections of our potential holdings. We know the forecasts aren't perfect, with much educated guessing involved, but with objective well researched inputs, the forecast models give the team insight and conviction about the future of cash flow and therefore also a window into the potential for shifting sentiments and valuation multiples. This is particularly useful during confusing turning points in the midst of company workouts and turnarounds. Good forecasting also gives us a longer view into our holdings' ability to weather or maybe benefit from difficult periods. With what we believe is a likelihood of outperforming analyst expectations comes the opportunity to enjoy rising sentiment and P/Es.

When we can predict earnings will rise faster than expectations and we can hold for the typically multiple-year period it takes for sentiment to follow — that is the secret sauce of our investment approach and I believe the source of our strategies' excess total return. Thank you for your interest in Sterling Partners Equity Advisors.

Following is a discussion of our top and bottom contributors to performance.

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Sterling Small-Cap Value Diversified
2Q 2021 Summary*

Listed from highest to lowest contribution within the performance category

Top Contributors	Bottom Contributors
1. Criteo S.A.	1. Patrick Industries, Inc.
2. Viad Corp.	2. Eventbrite, Inc.
3. Regional Mgmt. Corp.	3. The Pennant Group, Inc.
4. AMN Healthcare Serv. Inc.	4. Calavo Growers, Inc.
5. Ntl. Storage Affiliates Trust	5. Northwest Pipe Company

Sterling Small-Cap Value Focus
2Q 2021 Summary*

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5. Haemonetics Corp.	5. Calavo Growers Inc.

Top Contributors

Criteo S.A. (CRTO)

Sterling Small-Cap Value Diversified
Sterling Small-Cap Value Focus

Criteo is an advertising platform designed to deliver advertising across all channels. Our thesis is that advertising spending will continue to migrate to online and mobile from TV, and Criteo is positioned to benefit from that continuing migration.

Criteo continues to hold a strong balance sheet that makes it attractive during their transition to a commerce media platform. Criteos' same client revenue increased 8% year-over-year and added over 120 net new clients in the quarter. Management believes its transformation into a Commerce Media Platform, building on its unique Commerce data and Reach assets positions the company well for durable growth.

Viad Corp. (VVI)

Sterling Small-Cap Value Diversified
Sterling Small-Cap Value Focus

Viad is a provider of experiential leisure travel and face-to-face events and marketing experiences. The company operates two businesses: Pursuit and GES. Pursuit is a collection of travel experiences in Alaska, Montana, the Canadian Rockies, Vancouver, and Reykjavik. GES is a global, full-service live events company offering a comprehensive range of service to the world's leading brands and event organizers.

Viad continued to improve cost structure during the restrictions due to COVID. The company is on track to add two new attractions during 2021 and has additional liquidity going into the new year.

We own the stock on the thesis that experience events will continue to grow and gain popularity in society and the company will continue to expand its global experience offering.

Regional Management Corporation (RM)

Sterling Small-Cap Value Diversified
Sterling Small-Cap Value Focus

Regional Management is a diversified consumer finance company providing loan products primarily to consumers with limited access to consumer credit from banks, thrifts, credit card companies and other traditional lenders.

Management indicated that the company maintained superior credit profile and historically low delinquencies allowing them to release allowances for credit losses. In addition, the company continues to invest in digital initiatives and growth strategies positioning the company well for the future.

We own the stock on the thesis that the company would continue to gain market share and lower costs on easy-to-understand loan products and customers will move to the convenience of online commerce and lower costs for lenders.

AMN Healthcare Services, Inc. (AMN)

Sterling Small-Cap Value Diversified
Sterling Small-Cap Value Focus

AMN Healthcare provides healthcare workforce solutions and staffing services to healthcare facilities across the United States. AMN delivers managed services programs, healthcare executive search solutions, vendor management systems, recruitment process outsourcing, predictive modeling, medical coding and consulting, and other services.

During the quarter AMN reported its highest revenue and earnings in a quarter. All reportable segments had higher demand and placement trends over Q4 2020 as overall healthcare utilization rises across acute and non-acute settings. AMN completed the acquisition of Synzi Holdings, a virtual care communications platform that expanded its solutions for the home health and outpatient care markets.

AMN is another holding that benefits from the aging population. One of the biggest cost stresses in healthcare, and therefore one of the largest cost saving opportunities, is excess labor in hospitals. AMN continued to post new highs in revenue and earnings and keeping their focus as a go-to problem solver to help clients balance labor supply, cost, and flexibility.

National Storage Affiliates Trust (NSA)

Sterling Small-Cap Value Diversified

National Storage Affiliates Trust is a real estate investment trust focused on the ownership, operation and acquisition of self-storage properties located within the top 100 metropolitan statistical areas throughout the United States
.
NSA continues to add self-storage properties to its portfolio with 23 acquisitions during the first quarter of 2021. Management reported an increase in Net Operating Income of 11.5% during the first quarter. The Self-Storage sector continues to benefit from a surge in customer demand.

Our thesis is that outside storage will continue to gain share from residential and commercial properties primarily due to growing needs for convenience and security. We believe that the purchase price is fair, and that NSA will continue to offer us good returns over time.

Haemonetics Corp. (HAE)

Sterling Small-Cap Value Focus

Haemonetics is a global healthcare company providing innovative hematology products and solutions in the blood & plasma component collection and hospital transfusion services.

As a new position in our portfolio, Haemonetics dropped significantly as a response to the anticipated loss of a major customer on the horizon. We believe the company will take the steps to continue to diversify their product offerings while making up for any potential declines highlighted by their acquisition of Cardiva Medical during the quarter.

We like companies that can improve the costs in healthcare and believe Haemonetics newest plasma collection centers will continue to reduce operating and collection costs in an expensive market. We believe that blood and plasma technology will continue to be the strongest revenue and profit driver across all Haemonetics business segments.

Bottom Contributors

Patrick Industries, Inc. (PATK)

Sterling Small-Cap Value Diversified
Sterling Small-Cap Value Focus

Patrick Industries is a manufacturer and distributor of component and building products for the recreational vehicle, manufactured housing, marine and industrial markets. Our thesis on PATK is again a view that leisure is in a long cycle of gaining share of the economy as Patrick Industries is a supplier for multiple recreational vehicle companies.

Patrick has benefited from rising demand in Recreational Vehicle, Marine and Manufactured Housing because of increase in interest from new customers. The surge in retail demand in these markets has reduced dealer inventories from what management considered a low point. Management expects this momentum to continue into the second half of 2021.

We see PATK as a beneficiary of entrenched favorable trends in recreational vehicles and marine markets and will be patient while the management team executes on their strategic plan.

Eventbrite, Inc. (EB)

Sterling Small-Cap Value Diversified
Sterling Small-Cap Value Focus

Eventbrite is a global self-service and experience technology platform serving a community of nearly one million event creators in over 180 countries.

As vaccinations reach more of the population and restrictions stated to ease, live events began to reopen. Pent-up demand for in-person experiences is showing as number of live events grow on the Eventbrite platform. Management believes that the first quarter begin to hint at the strength of its strategy and product-driven model.
We own the stock on the thesis that global live events will continue to grow. The company will continue to gain global market share with their scalable and efficient self-service model.

The Pennant Group, Inc. (PNTG)

Sterling Small-Cap Value Diversified
Sterling Small-Cap Value Focus

The Pennant Group is a holding company of operating subsidiaries that provide healthcare services through 85 home health and hospice agencies and 54 senior living communities located throughout the United States.
Management continues to see tremendous opportunities for acquisitions both withing its existing footprint and in new markets. They indicated that the company is poised to accelerate its disciplined growth strategy with a strong balance sheet, talented local leaders that manage its facilities to bring quality care to patients.

This business benefits from the aging demographics of the U.S. population, a thesis in which we have strong conviction, providing a broad spectrum of skilled nursing and assisted living services, physical, occupational and speech therapies, home health and hospice services and other rehabilitative and healthcare services.

Calavo Growers Inc (CVGW)

Sterling Small-Cap Value Diversified
Sterling Small-Cap Value Focus

Calavo Growers is a global avocado-industry leader and provider of value-added fresh food service serving retail, grocery, foodservice, club stores, mass merchandisers, food distributors, and wholesalers worldwide.

Despite lower foodservice demand due to the pandemic, Avocado volumes increased due to rising popularity in the United States and abroad. Management believe they will emerge from the pandemic as a strong organization by using this time to improve operating costs and improve long-term growth prospects.

We own Calavo Growers around the thesis that globally the average person consumes healthier foods as they gain more wealth. Calavo is positioned well to benefit from healthier food trends and popularity of avocados.

Northwest Pipe Company (NWPX)

Sterling Small-Cap Value Diversified

Northwest Pipe is a leading manufacturer of engineered welded steel pipeline systems in North America.
Northwest Pipe reported net sales increase of 4.9% for the first quarter of 2021, primarily due to the Geneva Pipe and Precast operations acquired in Jan 2020. Backlog continues to remain strong with eleven straight quarters with backlog above $200 million.
Our thesis is that Northwest Pips is positioned well to take advantage of the growing needs of the United States for upgrades for their aging water and wastewater infrastructure.

Meritage Homes Corporation (MTH)

Sterling Small-Cap Value Focus

Meritage Homes is a large public homebuilder in the United States focused on the entry-level and first move-up buyers in Arizona, California, Colorado, Texas, Florida, Georgia, North Carolina, South Carolina, and Tennessee.

Management indicated that 2021 is off to a solid start with robust demand that never slowed down from 2020. Meritage believes that its strategy centered on affordable entry-level and first move-up homes has them well positioned for a strong year absent any large interest rate increases and anticipates the number of active communities to grow from 200 to 300 during the next twelve-month period.

We own the stock on the simple thesis that our modern society creates a stable demand for new homes as people need shelter and want modern designs.

DISCLAIMER
*Top and Bottom Contributors were calculated by Sterling Partners Equity Advisors using data available for the holding's contribution to composite performance taking into account its composite weight, on an annualized basis.

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