Sterling Partners Equity Advisors
Portfolio Commentary – Winter 2022

2022 and Beyond!

Kevin E. Silverman, CFA

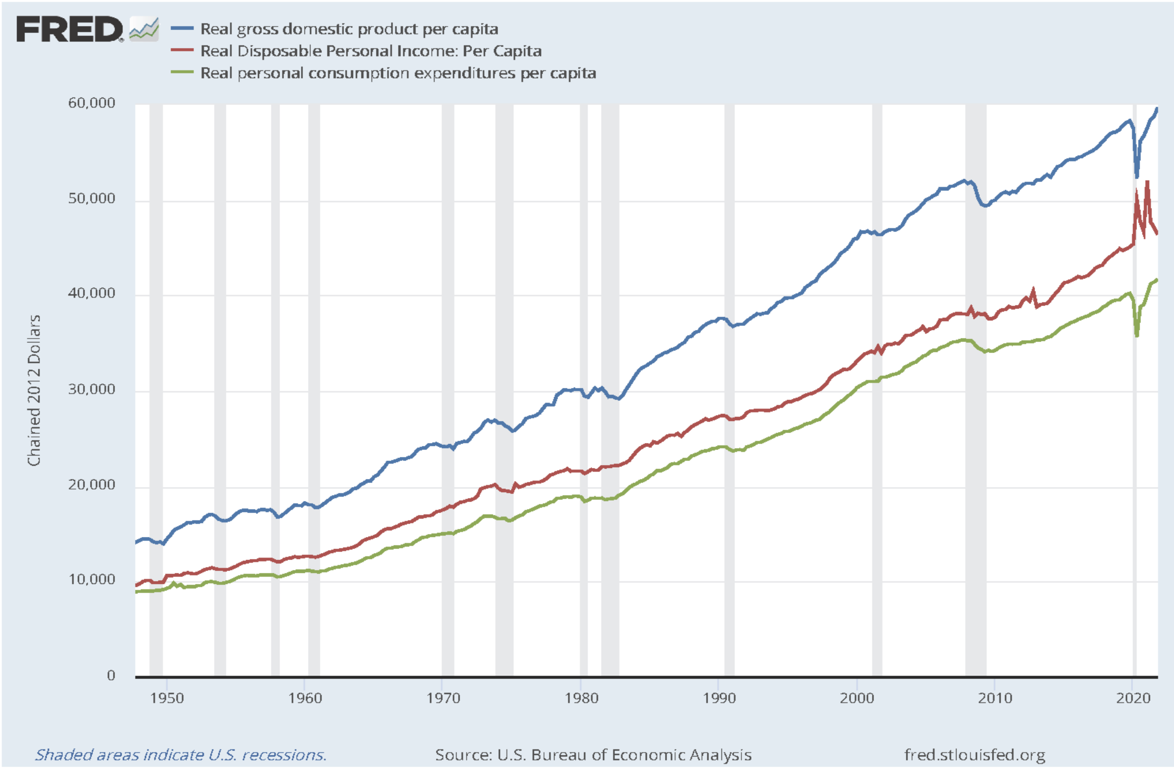
Sometimes patience is useful. Had I written this letter a month ago, my optimism for the future would appear so much more incorrect than is likely now, with most indices at least touching correction territory a few days ago. It appears that concern about inflation and what the Fed may do about it has caught up with actual inflation, an issue we explored in our Spring 2021 Letter, "All is Good Except This M2 Chart." It's worth remembering that January has always been a bit of an odd month for many reasons, hence the phrase "January effect." We certainly saw a January effect this year, although maybe not the namesake.

Last year was a fascinating year as cross-currents of new supply/demand patterns, unprecedented levels of money printing and new non-fundamentals driven entrants into the stock market made for a crazy brew. It reminded me of a college football game where about ⅓ of the crowd is screaming wildly about stuff that has nothing to do with the game on the field yet may impact the players' ability to hear the play called. Needless to say, it was an interesting year. Our strategies, like many, had a pretty good absolute year, and so in terms of our primary goal of delivering good returns to clients, we feel pretty good about that. There is detail about our performance and the best and worst contributors among our holdings later in this letter.

One thing to note, this Winter of 2022, the impact of the pandemic appears to have normalized. It may not be the winter of content, but at least it seems to no longer be the winter of discontent. The worldwide lurch to a more internet centric life has become mainstream. Grandma can deposit a check with her phone and get a medical checkup via Zoom. Her knowledge worker buddies can now work from an RV in the woods and maintain their weekly bridge game with her. As we've pointed out in past letters, the potential for a sustained period of rising productivity is apparent. The actual costs of supporting a commuter infrastructure are falling and that unproductive time and capital will be redeployed into more productive pursuits. We expect leisure to be one of them, but on the other hand, generally when new roads are built, people follow. Shifting long-term capital spending trends are something we pay attention to. So, while predicting the intermediate future well remains our core task, predicting the immediate future is not a core competency, and hence, a post-January letter is working better than an early-January letter, at least this year.

This time of year, market participants love to read prognostications about the year ahead. With January behind us, I feel we have a bit of an edge over our competitors in that our rosy view won't be immediately rendered incorrect. Our view is only partially due to our colored glasses, the rest is due to the engine of productivity gains that has driven human activity for millennia. We like charts, so here is one that shows the long march of real GDP per capita, real disposable personal income per capita and real personal consumption expenditures. These are real numbers, and in the long run, this is a great source of conviction about the future, maybe not next year, but the next five years.

Please see chart on following page…



We do feel good about 2022, but it's hard not to. Over most of the history of those rosy charts, interest rates were higher, sources of capital were limited, knowledge sat in silos and computing power was tiny. We believe a lurch in productivity is underway because of low rates, abundant capital, global collaboration in real time and game changing computing power. Will that happen in 2022? Really, we don't know, but it's likely one of two things.

If 2022 turns out to be a tough year in the market, our turnover is likely to be muted. When the market offers us prices below our estimates of intrinsic value, we pass. Manager research teams may say we had a bad year, and unfortunately the argument that we didn't sell many holdings would fall on unsympathetic ears. Meanwhile, we would in fact be paring our best performing names to add more quality to the portfolio at what often in a bad market can be a steep discount.

If 2022 turns out to be a good year in the market, then our turnover is likely to be higher as more holdings reach our estimate of intrinsic value. We would re-deploy capital into our highest expected return names at that time. Researchers might say we had a good year, but we might be having trouble finding great expected returns.

Either way, we own well-capitalized companies that earn good returns over cycles. They sell differentiated products and services that serve a niche, with a "moat" to quote Morningstar, and we buy them at what we believe are attractive prices. We will be looking for more of them in 2022.

Click here for our most recent performance and please keep reading to see our thoughts about our best and worst contributors to our performance in the quarter.

Thank you for your interest in Sterling Partners Equity Advisors.

Best Regards,

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Sterling Small-Cap Value Diversified
4Q 2021 Summary*

Listed from highest to lowest contribution within the performance category

Top Contributors	Bottom Contributors
1. National Storage Affiliates, Inc.	1. Haemonetics Corporation
2. Meritage Homes, Corp.	2. Atlas Technical Consultants, Inc.
3. Enova International, Inc.	3. Corsair Gaming, Inc.
4. NetScout Systems, Inc.	4. Green Dot Corporation
5. HomeStreet, Inc.	5. Dril-Quip, Inc.

Sterling Small-Cap Value Focus
4Q 2021 Summary*

Listed from highest to lowest contribution within the performance category

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1. Meritage Homes, Corp.	1. Haemonetics Corporation.
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4. NetScout Systems, Inc.	4. Corsair Gaming, Inc.
5. Lions Gate Entmt, Corp.	5. Lands' End, Inc.

Top Contributors

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 76 wholly-owned self-storage properties during the third quarter and during the 4th quarter prior to reporting results acquired 39 properties.

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.

Meritage Homes (MTH)

Sterling Small-Cap Value Diversified
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.

Meritage had their highest gross margin, 29.7%, and EPS, $5.25, during the third quarter of 2021. Management believes the housing market remains solid from continued demand with historically low interest rates and limited housing supply.

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.

ENOVA International, Inc. (ENVA)
Sterling Small-Cap Value Diversified
Sterling Small-Cap Value Focus

Enova is a provider of online financial services to non-prime consumers and small businesses, providing access to credit powered by its advanced analytics, innovative technology, and world-class online platform.

Management reported strong top and bottom-line results during the quarter. The company's accelerated marketing activities were successful in capturing new customers. Management indicated that those strong results would continue to the end of 2021.

Our thesis on Enova is that digital transactions will continue to move toward a dominant share of the financial industry, with a low-cost, high-service model.

NetScout Systems, Inc. (NTCT)
Sterling Small-Cap Value Diversified
Sterling Small-Cap Value Focus

NetScout Systems provides real-time, pervasive visibility, and insights that customers need to accelerate and secure their digital business services against disruptions in availability and performance.

NetScout has recently been rolling out products exclusively for 5G application, while continuing to help customers better optimize their 4G networks. Wireless providers still heavily rely on both 4G and 5G networks to handle the end customer's growing demand for data.

We own the stock on the thesis that internet traffic is gaining share of total communication (and encroaching on travel budgets as well) and companies will continue to need sophisticated software to optimize, defend, protect, and monitor their digital and cellular networks as the threat of attacks continues to evolve.

HomeStreet (HMST)
Sterling Small-Cap Value Diversified
Sterling Small-Cap Value Focus

HomeStreet is a financial services company in Seattle, Washington and holding company for HomeStreet Bank. Our thesis is that HomeStreet is strategically growing in the Pacific Northwest.

HomeStreet's posted positive results during the quarter which reflects its focus on improving operating efficiency and conservative credit culture. Management expects strong loan production will drive loan portfolio growth in the future.

Lions Gate Entertainment, Corp. (LGF)

Sterling Small-Cap Value Focus

Lionsgate is a global content platform whose films, television series, digital products and linear and over-the-top platforms reach audiences around the world. Our thesis is that part of the growth of leisure, entertainment, and the content that drives it, will continue to gain share of the economy.

Management indicated positive momentum in all business segments during the quarter. Starz added 1.3 million global streaming subscribers with strong premieres of three new series. The Television Group launched six new series and renewed six current shows. The Motion Picture Grouped added nine new film production starts to a robust pipeline. Lionsgate completed an acquisition of a 200-title library from Sypglass Media Group.

Bottom Contributors

Haemonetics Corporation (HAE)

Sterling Small-Cap Value Diversified
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.

Management indicated delay in the acceleration of plasma collections in the prior quarter. Management also, does see encouraging signs of recovery in the Hospital and Blood Center businesses delivering strong sales despite resurgence of COVID.

We like companies that can improve the costs in healthcare. We believe that blood and plasma technology will continue to be important for all of Haemonetics' business segments.

Green Dot Corporation (GDOT)

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

Green Dot is a consumer financial services providing a range of reloadable prepaid debit cards and cash reload processing services with a mission to provide a full range of affordable and accessible financial services to customers.

Management believes that the company delivered a strong quarter with solid revenue growth. During the quarter Green Dot added to its leadership bench with a new COO and CFO.

We own the stock on the thesis that the company would continue to gain market share with its no real estate, low-cost model and those customers would increasingly gravitate to the convenience of online commerce.

Atlas Technical Consultants (ATCX)

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

Atlas Technical Consultants is a leading infrastructure and environmental services provider with solutions to public and private sector clients in the transportation, commercial water, government, education, and industrial markets.
Backlog achieved another new record high at $757 million, driven by key infrastructure and environmental related contact wins that offset what is historically the company's highest quarter for backlog burn.

Our thesis is that Atlas Technical Consultants is positioned well during a decade of increased infrastructure spending in the United States.

Corsair Gaming, Inc. (CRSR)

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

Corsair Gaming is a global developer and manufacturer of high-performance gear and technology for gamers, content creators, and PC enthusiasts. Corsair delivers a full ecosystem of products; PC Components, Peripherals, Premium Streaming Equipment, and Smart Ambient Lighting.

Corsair responded to the difficult sourcing and shipping environment by building inventory closer to its customers. Management believes that once this difficult supply chain is behind them their targeted growth and profitability targets will return.

We believe in the growing gaming market globally and Corsair is positioned well to support this growing customer base with a platter of products.

Lands' End (LE)

Sterling Small-Cap Value Focus

Lands' End is a retailer of casual clothing, accessories, footwear, and home products.

Management believes they continue to deliver on its digitally led business model and are navigating the global supply chain challenges well. The company is focused on four pillars' product, digital, uni-channel distribution, and infrastructure.

Our thesis is that Lands' End will continue to increase the number of online purchases versus physical store sales.

Dril-Quip (DRQ)

Sterling Small-Cap Value Diversified

L.B. Foster is a manufacturer and distributor of transportation and energy infrastructure products and services with locations in North America and Europe. This has been a very long-term holding on the thesis of a growing share of rail and pipelines in transportation and FSTR's low-cost manufacturer role in the supply chain.

During the quarter, management reported increased Q2 revenues substantially driven by strength in the rail, precast concrete products, and fabricated steel markets. Backlog increased by 12.4% compared to the prior year quarter driven by the significant increase in the infrastructure solutions segment.

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Sterling Partners Equity Advisors LLC, a Chicago-based Registered Investment Adviser reports the following preliminary results through December 2021 for its two institutional small-cap value equity strategies. Sterling Partners Equity Advisors claims compliance with the Global Investment Performance Standards (GIPS®).

- **Small-Cap Value Diversified:** A diversified, long-only, small-cap value equity strategy with a 14-year verified track record. The portfolio typically holds 50-70 stocks, generally underfollowed, misunderstood, and believed by the research department to be mispriced.

Sterling Small-Cap Value Diversified	Dec-21	QTD	One Year	Three Years	Five Years	Seven Years	Ten Years	Since Incep 12-31-2006
Sterling SCV Diversified (Gross)	3.51%	5.64%	29.78%	25.02%	17.50%	14.77%	16.32%	10.93%
Sterling SCV Diversified (Net)	3.43%	5.40%	28.62%	23.86%	16.39%	13.67%	15.19%	9.84%
Russell 2000 Value Index	4.08%	4.36%	28.27%	17.97%	9.08%	9.46%	12.04%	7.19%

- **Small-Cap Value Focus**: A concentrated, long-only, small-cap value equity strategy with a 20-year verified track record. The portfolio typically holds 25-35 of our highest conviction stocks with the identical research approach and potential universe of stocks as the Diversified strategy.

Sterling Small-Cap Value Focus	Dec-21	QTD	One Year	Three Years	Five Years	Seven Years	Ten Years	Since Incep 6-30-2001
Sterling SCV Focus (Gross)	2.60%	2.12%	26.26%	24.85%	14.10%	13.06%	15.60%	12.34%
Sterling SCV Focus (Net)	2.52%	1.88%	25.13%	23.69%	13.01%	11.97%	14.48%	11.24%
Russell 2000 Value Index	4.08%	4.36%	28.27%	17.97%	9.08%	9.46%	12.04%	9.02%

Our investment team is supported by the operations team of our affiliate, Sterling Fund Management, a Chicago-based diversified investment management firm founded in 1983. We welcome the opportunity to serve your needs in small-cap value equities.

Best regards,

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