Lessons

by Kevin Silverman, CFA
CIO & Portfolio Manager

I had the pleasure of recently attending an investment conference hosted by the Hawk Center at UW-Madison, in conjunction with UW's Applied Security Analysis Program (ASAP). ASAP is a pioneer in applied investment education and, not coincidentally, a program from which I am an alumnus. It was a pleasure reconnecting with Professor Hawk, former classmates and colleagues and hearing a few good investment ideas. But at least as interesting for me was the eagerness of the students to learn important lessons from seasoned veterans, so valuable in such a volatile and uncertain time.

Learn from seasoned veterans? What advice do we really have? I listened to one panel discuss how the advances in technology over our careers have helped investors but may have made things worse for professionals by making markets more efficient, fees lower, and has left the computers managing more money than the humans. I heard another panel discuss how the current period is unlike any in long careers, leaving the lessons of past cycles somewhat lacking to deal with this one. Clearly, these are challenging times. But for those just entering the business, if neither technology nor experience is helping, what are the lessons of experienced careers in the industry?

Technology has brought faster computing speeds and a ubiquitous internet that has led to many new tools for investors that can measure and visualize the causes of portfolio volatility and performance in real-time. Obviously, this has led to a majority of assets under management being managed by computers applying various forms of modern portfolio theory, first developed in the 1950s. There is now no shortage of data or the computer power to manipulate that data and graph it in HD, a functionality transforming all industries. Since fiduciaries typically need to see whatever level of granularity is available, this leads to even long-term active managers having a deeper understanding of what's going on day-to-day in the portfolio than ever before. But are these advances helping investment returns or competing them away?

Even for active managers who don't manage to the real-time volatility and performance attribution information flow and instead continue to value businesses based on the present value of future cash flows, technology has entirely changed the time and access to the information flow that is at the heart of the research process. SEC filings, news releases, management communications, databases, and product demonstrations- the currency of investment research – are now available in real-time. There was a time when SEC Filings were only available on the day of filing in SEC regional offices in six cities in the U.S., each with a copy machine that required exact change! Technology has also automated the process of idea discovery, screening, and financial modeling. It has allowed testing a broader range of assumptions to hone estimates of cash flow and, ultimately, business value. But while these are great new tools, they have also vastly expanded access to information and the power to analyze it for the market in general, making markets more efficient and potentially eroding the alpha available to dedicated institutional investors.

As far as experience, in our shop, we hand-make financial models that attempt to predict the future by making judgments about market share changes within product categories and by making judgments about the amount of capital necessary to run those businesses. Are the products winning in the marketplace? Are they faster, better, cheaper, or more convenient? We largely try to predict the future by talking with people smarter than we are about what they think. We make intrinsic value estimates of businesses and expected return estimates from that. This approach was invented a long time ago and was dramatically aided by the invention of the telephone. Our edge is to care less about the present that no manager can talk about -- and care a lot about the periods out a few years from now that they *can* talk about. Arbitrage the time value of information. Invest for the long run. This is an equity practitioner's lesson: Trust the raw data, make well-reasoned valuation judgments, and hold managers accountable for outcomes.

We like companies with little analyst coverage and little institutional interest because it hopefully leads to a better understanding of the intrinsic value than the average participant may have and the potential for rising demand later on. These days, that effort is made easier by the large ownership percentage of many stocks by ETFs, which trade with no concern for the valuation of any individual name. With an average four-year holding period, we normally find ourselves waiting for the stock's price to move toward our estimate of intrinsic value as market participants come to believe what we believe, and demand slowly moves the stock higher. That is another practitioner's lesson, patience. Being first in line means you won't miss the event, but you may be waiting around a while.

In our strategies currently, we are waiting around for the gap to close between market prices and our estimates of intrinsic value. Our expected return estimates on our holdings have rarely been higher over our 20-year history; in that sense, this period feels very much like 2008. Our short-term returns have been holding steady against the benchmark since March or so but remain farther behind than usual year-to-date, again like in 2008. We have detail on our performance and our recent best and worst performers later in this newsletter written by our Director of Research, Nathan Schmidt. If you have managed to read this far, the best lesson we can offer after a long career managing equity strategies is to own good long-term profitable businesses that sell necessary goods and services and own them at reasonable prices. If we can continue to do that, we can continue to deliver good long-term returns to clients. I don't think it is really any more complicated than that.

Best Regards,

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Sterling Small-Cap Value Diversified 3Q 2022 Summary*	
Listed from Highest to Lowest contribution within the performance category	
Top Contributors	**Bottom Contributors**
1. EVI Industries, Inc.	1. Cerence, Inc.
2. Xperi, Inc.	2. Calavo Growers, Inc.
3. CTS Corporation	3. Lands' End, Inc.
4. Haemonetics Corporation	4. Green Dot Corp.
5. Atlas Technical Consultants, Inc.	5. National Storage Affiliates

Sterling Small-Cap Value Focus 3Q 2022 Summary*	
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3. Atlas Technical Consultants, Inc.	3. Eventbrite, Inc.
4. Criteo S.A.	4. Lands' End, Inc.
5. EVI Industries, Inc.	5. Green Dot Corp.

Top Contributors

EVI Industries Inc. (EVI)

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

EVI Industries, Inc., distributes, sells, rents, and leases commercial and industrial laundry and dry-cleaning equipment and related services. EVI is positioned for continued success as demand and growth across the commercial laundry industry remain robust. We view EVI as an essential business that will continue to have a need regardless of the economic cycle.

To date, EVI has acquired 23 laundry and dry-cleaning-related businesses as part of its buy-and-build growth strategy. As EVI brings on its new ERP system it will allow them to properly integrate all their businesses under one roof and create further synergies.

Our view is that EVI's commercial focus on serving hospitals, hotels, and first responders while providing the equipment and services to these industries remains incredibly fragmented with a long-term ability to consolidate operations across the southeast. We strongly believe management's large ownership stake and vision will materialize over the coming years.

Haemonetics Corp. (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. It operates across three segments: Plasma, Blood Center, and Hospital. Last year Haemonetics acquired Cardiva Medical for $475 million, aiming to grow its hospital product offering in a fast-growing vertical. Vascular closure systems and plasma collection technology will continue to be important for all Haemonetics' business segments. We expect newer machines to continue improving collection yield while lowering costs.

This past quarter Haemonetics began to see the planned loss of a major contract with CSL Plasma, but management is optimistic about maintaining its current leading market share position in the plasma industry.

We like companies that can improve the costs of healthcare. We believe that blood and plasma collection technology will continue to be important for all of Haemonetics' business segments and expect newer machines to continue improving collection yield while lowering costs.

Xperi Holding Corp. (XPER)

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

Xperi Holding Corporation, together with its subsidiaries, operates as a consumer and entertainment product/solutions licensing company worldwide. The company operates through two segments, Intellectual Property Licensing (Adeia) and Product/Solutions (Xperi). The Intellectual Property Licensing segment primarily licenses its innovations to companies in the entertainment industry under the Adeia brand. This segment licenses its patent portfolios across various markets, including multichannel video programming distributors comprising cable, satellite, and telecommunications television providers. The Product segment includes Pay-TV that delivers user experience (UX) solutions, such as electronic program guide, internet-protocol television (IPTV) solutions, TV as a service IPTV program, video metadata personalized content discovery, natural language voice and insights, and legacy TiVo DVR subscriptions.

At the beginning of October Xperi has a planned spin-out that will separate the parent company into two standalone businesses based on the primary segments Adeia and Xperi. We view Xperi as having a unique position in the non-linear TV market, while Adeia's intellectual property portfolio remains undervalued prior to the spin-out transaction.

CTS Corporation (CTS)

Sterling Small-Cap Value Diversified

CTS Corporation manufactures and sells sensors, actuators, and connectivity components in North America, Europe, and Asia. The company provides sensors and actuators for use in passenger or commercial vehicles; connectivity components for telecommunications infrastructure, information technology, and other high-speed applications. In addition, the company sells and markets its products through its sales engineers, independent manufacturers' representatives, and distributors.

The Company's long-term relationships with OEMs have positioned them to take full advantage of the growth in sustainability, automation, and innovation across their diverse end markets. We continue to see CTS be a beneficiary of these secular themes for the foreseeable future.

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. They specialize in testing, inspection, engineering, environmental impact, and program management consulting services.

Backlog achieved another new record high at $855 million, an increase of 14% from the prior year, driven by key infrastructure and environmental-related contact wins in addition to a new contract with the Georgia Department of Transportation.

Our thesis is that Atlas Technical Consultants is positioned well to benefit from increased domestic infrastructure spending as a growing consultant and service provider to industrial markets.

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. During August, Criteo completed its acquisition of IPONWEB, a market-leading AdTech platform company with world-class media trading capabilities. The deal closed at a $250 million purchase price, with potential earnout consideration of up to $100 million given the strong growth projected for IPONWEB's business near term.

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Cerence, Inc. (CRNC)

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

Cerence provides AI-powered virtual assistants for the mobility/transportation market worldwide. The company offers edge software components, cloud-connected components, related toolkits and applications, virtual assistant coexistence, and professional services. It also provides conversational artificial intelligence-based solutions, including speech recognition, natural language understanding, speech signal enhancement, text-to-speech, and acoustic modeling technology. Cerence was recently spun-out from Nuance Communications, the speech-to-text company famous for its Dragon Speech Recognition software.

During the quarter, Cerence struggled with macroeconomic headwinds, negatively impacted by the 6% slowdown in automotive production and continued FX headwinds as the U.S. dollar strengthened vs. major currencies.

We believe that Cerence's high consumer automotive attachment rate (50% globally for new vehicles) and ability to operate across multiple operating systems within cars provide tremendous value to automotive OEMs at a low per-vehicle cost.

Calavo Growers, Inc. (CVGW)

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

Calavo Growers markets and distributes avocados, prepared avocados, and other perishable foods to retail grocery and food service customers, club stores, mass merchandisers, food distributors, and wholesale customers worldwide. The Fresh products segment distributes avocados and other fresh produce products comprising tomatoes and papayas; and procures avocados grown in California, Mexico, Peru, and Colombia. In addition, the Calavo Foods segment is involved in purchasing, processing, packaging, and distributing prepared avocado products, including guacamole and salsa. The Renaissance Food Group segment manufactures, markets, and distributes fresh-cut fruits and vegetables, freshly prepared entree salads, wraps, sandwiches, fresh snacking products, as well as ready-to-heat entrees, other hot bar and various deli items, meal kits and related components, and salad kits.

Calavo Growers struggled during the quarter with a sharp increase in fruit input costs for their guacamole product line. Thankfully avocado input costs declined significantly in

August and management is optimistic margins normalize during the fourth quarter.

We continue to view Calavao Growers as the premier public company supplying avocados and prepared products to consumers and businesses in the United States where per capita avocado consumption is on the rise. At present, Mexico's per capita consumption is 18 lbs. annually compared to 8 lbs. annually in the United States. We expect this gap to close over time as consumers' preference for fresh avocados and prepared products continues to grow.

Eventbrite, Inc. (EB)

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.

Management has been confident about its customers adapting to the challenging environment. Internally, the company has reduced costs which should benefit the company after the pandemic fears are in the rear window.

We sold this stock in September after management was unable to effectively scale the business post-COVID. Compared to 2019, revenue for 2022 is expected to be down 16%, while paid event tickets are expected to decline 13%. The lack of profitability for Eventbrite post-COVID has been disappointing.

Lands' End, Inc. (LE)

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

Lands' End, Inc. operates as a uni-channel retailer of casual clothing, accessories, footwear, and home products in the United States, Europe, Asia, and internationally. The company sells its products as well as through third-party distribution channels under the Lands' End, Let's Get Comfy, Lands' End Lighthouse, Square Rigger, Squall, Super-T, Drifter, Outrigger, Marinac, Beach Living, as well as Supima, No-Gape, Starfish, Iron Knees, Hyde Park, Year' Rounder, ClassMate, Willis & Geiger, and ThermaCheck brands. Lands' End, Inc. was founded in 1963 and is headquartered in Dodgeville, Wisconsin.

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 remain a low-cost producer of clothing brands appealing to cost-sensitive consumers while continuing to grow its e-commerce footprint elevating margins relative to physical retail margins historically.

Green Dot Corporation (GDOT)

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

Green Dot Corporation, a financial technology and bank holding company, provides various financial products to consumers and businesses in the United States. It operates through three segments: Consumer Services, Business to Business Services, and Money Movement Services. The company offers deposit account programs, including consumer and small business checking account products, network-branded reloadable prepaid debit cards and gift cards, and secured credit programs. In addition, the company offers tax processing services comprising tax refund transfers, which provide the processing technology to facilitate the receipt of taxpayers' refund proceeds.

Management continues to believe in their B2B Services segment's long-term potential with a white-labeled product offering, evident in the 27% growth during the most recent quarter in both revenue and gross dollar volume processed. However, the Consumer Services segment continued to struggle with significant headwinds related to loss of stimulus-related spending as revenue declined 17% compared to the prior year period.

We own the stock on the thesis that the company would continue to gain market share with its low-cost model and the continued growth of Apple Payment product offerings.

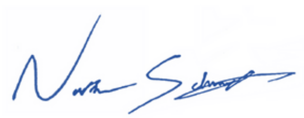
National Storage Affiliates Trust (NSA)

Sterling Small-Cap Value Diversified

National Storage Affiliates Trust is a Maryland real estate investment trust focused on the ownership, operation, and acquisition of self-storage properties located within the top 100 metropolitan areas throughout the United States. The Company held ownership interests in and operated 788 self-storage properties located in 35 states and Puerto Rico with approximately 49.5 million rentable square feet. NSA is one of the largest owners and operators of self-storage properties among public and private companies in the United States.

National Storage Affiliates' growth continues to be robust, with a 17% increase in samestore net operating income (NOI) during the quarter, however, the stock has underperformed recently as investors are concerned interest rate increases will negatively impact their ability to continue an acquisition-focused expansion model.

We continue to be impressed by management's ability to seamlessly integrate new properties into the portfolio. Additionally, we positively view the highly fragmented nature of the self-storage market and the fact that smaller self-storage property owners' demographic profile already exceeds the average retirement age as a giant opportunity for consolidation. This should continue to allow National Storage Affiliates the ability to find motivated sellers for years to come as the baby boomer generation continues to retire.



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