

Sterling Partners Equity Advisors

Portfolio Commentary

April 2019



Kevin E. Silverman, CFA

In December, climate change was in full force on Wall Street. We had an impending trade war, a collapsing stock market, a scary inverting yield curve, a government shutdown, tumbling retail and online sales, rising oil prices, a collapse in job growth, Brexit chaos and negative interest rates in Europe as well as growing fears of recession worldwide. Overlay that with all the global political and military jockeying, and it was noticeably chilly during the fourth quarter. The result was many indices posted their worst results since 2009.

Fast forward to April, the weather has improved. The biggest single factor was likely the Federal Reserve recanting its plan to raise short rates, and now is seen as more likely to cut rates, with the end of the government shutdown perhaps a close second. The market has also become comfortable that a trade war will be averted, that an inverted yield curve may not happen – or matter, that corporate earnings are growing beyond just the favorable tax impact, GDP estimates for the second half are moving higher, job growth snapped back (which may have been related to data issues during the shutdown), Brexit chaos has been postponed, and the fear that worldwide recession is imminent has subsided for now. Just another quarter in the markets in other words.

Our equity strategies earned a solid return in the quarter. Our Small-Cap Value Focus strategy posted a net return of 13.07% in the first quarter, beating the 11.93% return of the Russell 2000 Value benchmark. Our Small-Cap Value Diversified strategy, which recently was noted for a top five performance ranking for the trailing three-year period ended 12/2018 by PSN/Informa¹, had a 11.54% net return in the quarter, slightly behind the benchmark. Our concentrated strategy benefitted in the quarter from a sector tilting toward U.S. industrial companies that do better in a growing economy, particularly one in which core manufacturing costs such as energy, labor and transportation are increasingly advantaged due to lower U.S. energy costs relative to the rest of the world and finally labor cost parity to China. We

talk about some of our themes and our highest and lowest performers later in this commentary.

Because we invest for the long term, we try hard to remember that short-term market changes are largely emotional reactions to short-term news. We focus our attention on our long-term thesis and our long-term financial projection for each company we own, which leads to our estimate of the underlying intrinsic value of the business, and our expected return, should we invest, which is always based on the current price. If the news leads to a projection change, our expected return changes and we reassess. If the thesis changes, we tend to exit the position. More often than not, daily news and market swings lead to expected return changes that we can take advantage of when seeking long-term excess returns. This approach worked well during the past few months, and we look forward to continuing our efforts to drive returns for our clients.

Thank you for your interest in Sterling Partners Equity Advisors.

A handwritten signature in blue ink that reads "Kevin Silverman".

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1. See www.spequityadvisors.com/press/ for more details.

Sterling Small-Cap Value Focus 1Q 2019 Summary

Highest Performers	Lowest Performers
Glu Mobile, Inc.	AMN Healthcare Svcs, Inc.
The Ensign Group, Inc.	Criteo SA
Winnebago Industries, Inc.	Lions Gate Entertainment Corp.
Fox Factory Holding Corp.	Skyline Champion Corp.
Oshkosh Corp.	Waddell & Reed Financial, Inc.

Sterling Small-Cap Value Diversified 1Q 2019 Summary

Highest Performers	Lowest Performers
Glu Mobile, Inc.	AMN Healthcare Svcs, Inc.
The Ensign Group, Inc.	Criteo SA
Winnebago Industries, Inc.	Green Dot Corp.
Enova International, Inc.	Skyline Champion Corp.
Patrick Industries, Inc.	Glacier Bancorp, Inc.

Glu Mobile, Inc. (GLUU)

Highest 5 Performing Security:
Sterling Small-Cap Value Focus
Sterling Small-Cap Value Diversified

Glu Mobile is a leading creator of mobile games, with a diverse portfolio of original and licensed IP titles including Cooking DASH, Covet Fashion, Deer Hunter, Design Home and MLB Tap Sports Baseball. Glu was one of our best performing holdings in 2018 and did not disappoint in the first quarter of 2019 as it continued to outperform. Most of the positive performance is the anticipation of more consistent positive earnings. In addition, there are positive expectations for two new releases, WWE Universe and the Disney title during the year.

A CEO change last year has led to an improved approach to greenlighting games and a recommitment to nurture in-house franchises. We've had a longtime interest in participating in the video game space, a subset to our view that global spending on leisure will continue to grow faster than the overall U.S. economy.

The Ensign Group, Inc. (ENSG)

Highest 5 Performing Security:
Sterling Small-Cap Value Focus
Sterling Small-Cap Value Diversified

The Ensign Group provides 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 at 237 healthcare facilities, 21 hospice agencies, 22 home health agencies and 6 home care businesses across the United States.

This business benefits from the aging demographics of the U.S. population, a thesis where 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.

Ensign's business model includes acquiring complimentary businesses and improving the cost structure. Sometimes in the wake of a deal, overall margin is hurt by the addition of the new business, which can disappoint the market for a time until costs can be reduced. We were fortunate to be able to acquire a position during such a period at a good price and look forward to this low-cost/high-service provider continuing to gain share in a market gaining share of the economy.

Winnebago Industries, Inc. (WGO)

Highest 5 Performing Security:
Sterling Small-Cap Value Focus
Sterling Small-Cap Value Diversified

Winnebago Industries is a manufacturer of recreation vehicles under the Winnebago, Grand Design and Chris-Craft brands, primarily used in the leisure travel and outdoor recreation activities. We see WGO as a beneficiary of entrenched favorable trends in recreational vehicles, including the recent addition of Chris-Craft brand recreational boats to the product mix.

As one of our lower performing holdings during the prior quarter for both the Focus and Diversified products, Winnebago rebounded and made the top performer list. Most of the rebound is due to management's continued positive indications about gaining market share despite challenging macro conditions within the RV industry as dealers reduce their overall inventory levels.

Fox Factory Holding Corp. (FOXF)

Highest 5 Performing Security:
Sterling Small-Cap Value Focus

Fox Factory Holdings designs and manufactures performance ride dynamics products primarily for bicycles, on-road and off-road vehicles and trucks, side-by-side

vehicles, all-terrain vehicles, snowmobiles, specialty vehicles and motorcycles.

Fox Factory reported another strong quarter of sales in both their Powered Vehicle, (48% increase,) and Specialty Sports Group, (12% increase.) Management indicated strategic investments to expand manufacturing capacity to support needs for FOXF's growing business over the next several years.

We have owned FOXF for many years around the thesis that leisure activities will continue to gain share of GDP and we like the margin opportunities as FOXF operates in the luxury end of their market niche. For many years, management has exhibited much skill in making accretive bolt-on acquisitions and optimizing ROA. We anticipate these trends to continue.

Oshkosh Corp. (OSK)

**Highest 5 Performing Security:
Sterling Small-Cap Value Focus**

Oshkosh is an integrated global industrial designing, manufacturing and servicing company across a broad range of access equipment, commercial, fire and emergency, military and specialty vehicles. During the past quarter, OSK reported a good start to the fiscal year 2019, with positive customer sentiment and elevated backlog. Because of the positive start and improved outlook to their access equipment segment, management raised earnings expectations.

We've owned the stock for a long time with the basic thesis that the company is a world class competitor in several large stable markets with entrenched competitive advantages. A long period of recovery has demonstrated the skill of OSK management, and the stock has performed nicely in recent years.

Enova International, Inc. (ENVA)

**Highest 5 Performing Security:
Sterling Small-Cap Value Diversified**

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.

The large pull back in the market at the end of 2018 hit ENVA particularly hard. However, during the first quarter

of 2019 management reported a strong end to the year, which pushed the shares up for the first quarter.

Management indicated continued diversification across the business model which, along with a strong balance sheet, positions ENVA well for fiscal 2019.

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.

Patrick Industries, Inc. (PATK)

**Highest 5 Performing Security:
Sterling Small-Cap Value Diversified**

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 completed nine acquisitions during the year, expanding its product portfolio, geographic and product expansions as well as strategic initiatives. For the fiscal year 2019, management remains positive on leveraging its cost structure, executing on synergies and driving efficiencies across the entire organization.

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.

AMN Healthcare Services, Inc. (AMN)

**Lowest 5 Performing Security:
Sterling Small-Cap Value Focus
Sterling Small-Cap Value Diversified**

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.

One segment of the business, Locum Tenens, did put a strain on the quarter, but that decline was offset by other workforce solutions gains. Management continues to focus

on long-term strategic investments by acquiring Silversheet, a cloud-based clinical credentialing solution.

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 is keeping its focus as a go-to problem solver to help clients balance labor supply, cost and flexibility.

Criteo SA (CRTO)

Lowest 5 Performing Security:

Sterling Small-Cap Value Focus

Sterling Small-Cap Value Diversified

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 ended the quarter with some speculation about a potential negative impact on a large business segment as a result of Google's changes to its Chrome browser. We believe in CRTO's multi-solution platform for advertising and believe CRTO will overcome these hurdles by moving into new markets and designing new technology to take advantage of the growing advertising opportunity in mobile. Once again, CRTO ended the quarter with a strong balance sheet with \$364 million in cash which was slightly lower after completing a \$80 million share buyback program.

Lions Gate Entertainment Corp. (LGF)

Lowest 5 Performing Security:

Sterling Small-Cap Value Focus

Lions Gate 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 as part of the growth of leisure, entertainment, and the content that drives it, will continue to gain share of the economy.

LGF's Starz movie channel recoded record growth driven by a sequential increase of 1.3 million subscribers to a total of 25.1 million domestic subscribers with gains in both over-the-top (OTT) and traditional subscribers.

With movie hits a bit random, we are encouraged by the strong slate of content coming out in 2019 and attractive valuation of the shares. We have patience for Lions Gate to continue creating interesting content while executing its plan of domestic and global subscriber expansion.

Green Dot Corp. (GDOT)

Lowest 5 Performing Security:

Sterling Small-Cap Value Diversified

Green Dot is a consumer financial services company 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.

GDOT did not rebound quickly from the difficult period at the end of 2018 but we remain patient for the management team to continue to invest in Green Dot's long-term strategy to create a unique, sustainable and valuable fintech ecosystem.

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

Skyline Champion Corp. (SKY)

Lowest 5 Performing Security:

Sterling Small-Cap Value Focus

Sterling Small-Cap Value Diversified

Skyline Champion is one of the largest factory-built housing companies in North America, with a leading portfolio of manufactured and modular homes, park-models and modular buildings for the multi-family, hospitality, senior and workforce sectors. Skyline also operates a factory-direct retail business, Titan Factory Direct, with 21 retail locations in the Southern United States.

SKY was a recent addition to the portfolio during the first quarter of the year, so its contribution in this period did not represent our long-term view. Management indicated that during the quarter they made progress realizing the recent merger synergies which should help margins move higher over the next few quarters. Also during the quarter the company completed the expansion of one facility and made progress on building another new manufacturing facility.

Our thesis on Skyline Champion is that it is a low-cost producer in providing shelter for individuals and families in areas in which costs for traditional on-site home construction are beyond reach for those with average income. We believe this will evolve to be a major theme in rural economies during the next decade.

Waddell & Reed Financial, Inc. (WDR)

**Lowest 5 Performing Security:
Sterling Small-Cap Value Focus**

Waddell & Reed provides investment management and financial planning services to clients throughout the United States. For the quarter, WDR was a flat to slightly negative contribution as their management continues to adjust to the competitive landscape. We are patient that the management's investments in sales leadership, field & support structures, and technology play out positively. Our thesis on WDR is that the total of investable liquid assets in the U.S. will continue to grow, and while product types are shifting from actively managed to passively managed, the sale and marketing of investing services will, for most customers, continue to require a trusted advisor. The company has spent several years right-sizing its investment product portfolio while also transitioning its advisor teams to higher productivity individuals. The margin and growth benefits from these management moves will unfold, in our view, over the next several years.

Glacier Bancorp, Inc. (GBCI)

**Lowest 5 Performing Security:
Sterling Small-Cap Value Diversified**

Glacier Bancorp is the parent company for Glacier Bank, Kalispell and its bank divisions. These bank divisions are in the States of Montana, Idaho, Utah, Washington, Wyoming, Colorado, and Arizona. During the first quarter, Glacier Bancorp announced an agreement to acquire FNB Bancorp of Layton, Utah which would increase its Utah footprint from only four branches to the 7th largest bank in Utah with \$500 million in assets. Our thesis is that Glacier Bancorp is strategically growing in the Pacific Northwest and becoming one of the largest banks west of the Mississippi.

Sterling Partners Equity Advisors Small-Cap Strategy Performance 1Q 2019

Sterling Small-Cap Value Focus	QTD	One Year	Three Years	Five Years	Seven Years	Ten Years	Since Incep 6-30-2001
Sterling SCV Focus (Gross)	13.34%	3.17%	13.51%	6.31%	11.48%	19.19%	10.95%
Sterling SCV Focus (Net)	13.07%	2.15%	12.38%	5.25%	10.38%	18.01%	9.86%
Russell 2000 Value Index	11.93%	0.17%	10.89%	5.60%	9.64%	14.14%	8.13%

Sterling Small-Cap Value Diversified	QTD	One Year	Three Years	Five Years	Seven Years	Ten Years	Since Incep 12-31-2006
Sterling SCV Diversified (Gross)	11.81%	5.98%	17.57%	8.81%	12.65%	17.54%	8.49%
Sterling SCV Diversified (Net)	11.54%	4.93%	16.42%	7.74%	11.54%	16.39%	7.42%
Russell 2000 Value Index	11.93%	0.17%	10.89%	5.60%	9.64%	14.14%	5.52%

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