Sterling Partners Equity Advisors
Portfolio Commentary
Fall 2020

Kevin E. Silverman, CFA

Problem Solved

"All we have to fear is fear itself!" This would be a good time for Franklin D. Roosevelt to repeat that great piece of advice, but this time he would have to add office buildings and elevators among other things. But during the time we have been fearing them, it's become increasingly clear that we have not been needing them.

Our strategies have been doing well during this period, in part because we have always taken seriously our job to predict the future, and the future got here quicker this year. There is performance information and a detailed discussion of our top and bottom performers later in this report.

I remember a few years back when I asked if we had a phone book in the house and my young son looked at me with the oddest expression, "a phone . . . book?" I'm starting to think "office . . . building?" is heading down the same digital pathway. Urban office workers and their managers along with the infrastructure that serves them have all learned simultaneously that the time, trouble and cost of "getting to work" is wasted when everyone is already at work. In truth, along with the phonebook, our offices are also now on our phone. Hello! Yes, I am at work.

A lot of us in the information business have been able to work remotely for a long time. As long as the computer didn't weigh too much, and the modem speeds were above 1200 baud, that is. Still, the expectation was always that if you weren't on the road on business you were at your desk. 'Working from home' was frowned on if it was any more than a rarity. Now look at us. What an odd new world where no one has to commute to work.

Well, wait a minute. For 5,000 years people pretty much worked and lived at the same place. At home on the farm, or the tiny commercial class lived above their shops. This was a pretty common set up for a long time. So now it seems likely that what we are really seeing, and it took a global pandemic to notice it, is that humanity has solved an enormous problem that has been holding us back for a few hundred years, logistics.

The industrial revolution brought an enormous leap forward in per capita productivity. One hour of human labor began to generate many multiples of what was possible at any time during the prior 5,000 years. The earliest productivity enhancing tools were brought to the worker, and there were improvements over the centuries, but beginning in Northampton, England in 1743 and in Lowell, Massachusetts in 1822 there was an enormous leap forward in per capita productivity which brought an enormous problem. The new factories could dramatically increase worker productivity, but now rather than the tools coming to the worker, the workers had to all be brought to the tools.

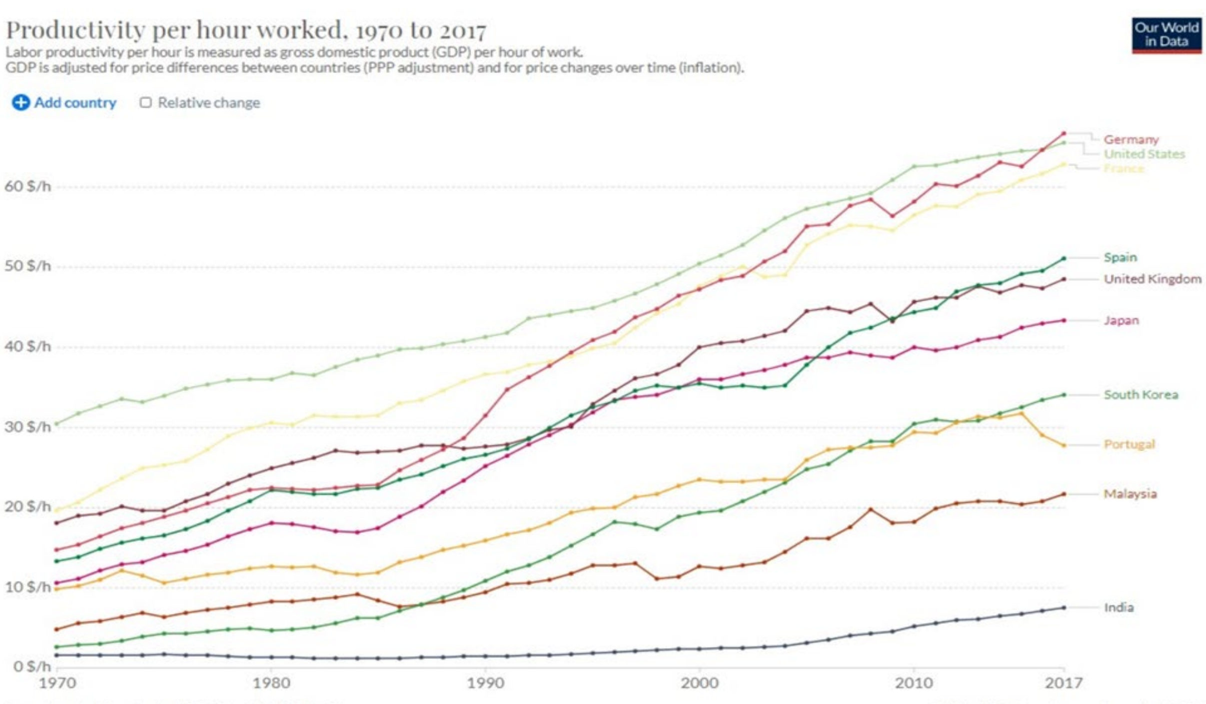
This was the model of the industrial age. Bring the workers to the factories. Alongside the factory, office workers naturally needed a place to conduct business. As time went on, there was a need to use the telephone switchboard, a xeroxgraphy device, perhaps a Dictaphone, conduct a meeting in an air-conditioned room, use a computer. Most importantly, all the contracts and secret formulas were in a safe in the corporate fort. The trains, subways, bus routes, restaurants, shoeshine guy, hotels, etc., grew up to serve these office businesses. Manufacturing workers moved out and office workers moved in. Mass Attracts Mass, E-Bay used to remind us. That has always held true in cities.

Now we simply have the return of the old model to the office worker. It took about 178 years from the textile mill in Lowell for technology to solve the logistics problem of getting office workers in front of their most productive equipment without hauling them 30 miles a day and back, and it took management another 20 years to realize it had happened. Bottom line, there is an argument that GDP is about to benefit from the giant reduction in expense related to moving office workers to a specific physical location in order to reach peak productivity. It took a pandemic to realize it, but the daily migration of nearly a billion people to the office and back is about to end. Businesses save the cost of seating everyone, and workers save the cost of the commute. It's win/win. I do not know if the shift is exactly like railroads replacing canals, but I do notice there are not a lot of canals.

According to the [Texas A&M Traffic Institute](), 128 million people in the United States commute a round trip total of 54 min per workday, or roughly 250 hours per year. The Institute suggested that 20% of that was wasted in traffic jams, and a board member there was quoted saying "There is no way to clear the roads." Like many great societal leaps in productivity, the one we are in was also unseen.

Assuming the dumb estimate 80/20 rule that just 20% of commuting will continue – after all, the Panama Canal is still doing good business, if not the Erie – the math says there are about to be 25.6 billion hours returned to formerly commuting workers. No longer necessary. It is easy to see this development as a giant negative. Worker displacements like this often are seen that way. Fortunately, the wealthiest world in history can now better assist displaced commuter infrastructure workers in identifying higher and better uses for their labors, and those are temporary displacements. Human skills and instincts will lead those hours to higher and better use. But the commuter hours saved are a permanent benefit to society, an annuity of fewer hours needed to get all the work done. Where will those saved hours go?

The two most productive economies in the world according to the OECD are the U.S. and Germany at just about $65 per hour as of 2017. Assuming people will be as productive with that time as the current average, an 80% reduction in commuting adds $65 per hour x 200 hours x 128 million commuters = $1.67 trillion, a roughly 8% increase in GDP. This completely excludes the benefits that come from these hours being redeployed into higher and better uses, which is where humanity shines. Obviously, some of those saved hours will go toward goofing off, known as the leisure industry, which has been growing faster than GDP for 170 years, and where we've been over-weighted since the inception of the strategy, but some hours will go toward solving bigger problems, and inventing new productivity tools, which increasingly includes lengthening human life itself -- so we can work and goof off even more in the future. In the short term, it seems there could be a chance for a surprisingly better than average annual growth in GDP for several years.



This estimate excludes the commuter infrastructure workers that have been displaced, but those workers will find more productive jobs. Former farm workers and canal workers are all earning more per hour and many are happier than in their former roles. Farm workers are now 1% of workers, vs 72% in 1820 according to the Bureau of the Census. That is a GDP boost that isn't well measured, which is the benefits of happier, less stressful lives tailored less around the timetable of railroad and rush hour traffic and more around personal productivity.

There may not have been a time in history when so many people were lurched at once into a world where each day is more productive than it was last year. Hours per day of not driving, not commuting, not walking the endless aisles of retail stores, will all come back into more hours of doing other things. Assuming at least some of those aren't used sleeping, it seems we could be on the front end of a long period of innovation created by the billions of extra hours the world suddenly has to think of ways to do things better, cheaper or faster, the building blocks of productivity; sudden awareness by billions of people that they can re-invest hours per day for the rest of their working lives. What will this mean for commerce? We will keep trying to figure that out. Please click here to view Sterling Partners Equity Advisors Small-Cap Value Performance. Thank you for your interest in Sterling Partners Equity Advisors.

Kevin Silverman

Kevin E. Silverman, CFA
Chief Investment Officer
P: 312-465-7096
C: 312-953-0992
ksilverman@sterlingpartnersequityadvisors.com

Contact:
John A. Schattenfield
Head of Distribution
jschattenfield@sterlingpartnersequityadvisors.com
P: 312-465-7037
C: 872-202-23

Sterling Small-Cap Value Diversified
3Q 2020 Summary*

Listed from highest to lowest contribution within the performance category

Top Performers	Bottom Performers
1. The Pennant Group, Inc.	1. Glu Mobile Inc.
2. QuinStreet, Inc.	2. NetScout Systems, Inc.
3. Middleby Corp.	3. Winnebago Industries, Inc.
4. U.S. Concrete, Inc.	4. MasterCraft Boat Holdings, Inc.
5. Echo Global Logistics, Inc.	5. Amalgamated Bank

Sterling Small-Cap Value Focus
3Q 2020 Summary*

Listed from highest to lowest contribution within the performance category

Top Performers	Bottom Performers
1. The Pennant Group, Inc.	1. Glu Mobile Inc.
2. The Ensign Group, Inc.	2. NetScout Systems, Inc.
3. Middleby Corp.	3. Winnebago Industries, Inc.
4. U.S. Concrete, Inc.	4. MasterCraft Boat Holdings, Inc.
5. Echo Global Logistics, Inc.	5. Patrick Industries, Inc.

Top Performers

The Pennant Group (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 71 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 and talented local leaders that manage its facilities to bring quality care to patients. Management increased its midpoint 2020 annual EPS guidance 34.2% from the previous guidance.

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.

QuinStreet Inc. (QNST)
Sterling Small-Cap Value Diversified

QuinStreet provides an online marketplace solution to match prospects searching for solutions with brands, Auto Insurance and Home Services being their two largest businesses, in digital media.

During the quarter, QuinStreet reported results for their fiscal year with healthy operating cash flow of $47.6 million adding to their strong balance sheet ending cash balance of $107.5 million. Quinstreet acquired a company in their Home Services segment and divested Mortgage Services assets. With the uncertain and challenging times, management expects the combined general strength in insurance and home services and weakness in credit-driven client markets is likely to continue.

We own the stock on the thesis that more advertising is moving to digital media and concurrently generating more useful data around the needs and wants of the end customer. We believe that software to optimize the advertising spend will reliably continue to outpace the growth in advertising itself because it delivers better ROI for its customers.

Middleby Corp. (MIDD)
Sterling Small-Cap Value Diversified
Sterling Small-Cap Value Focus

Middleby Corporation is a global leader in the foodservice equipment industry. The Company develops, manufactures, markets and services a broad line of equipment for the commercial foodservice, food processing, and residential kitchen industries.

Management moved swiftly to adapt to the impact of COVID to the business by successfully reducing its cost structure and maintaining strong levels of profitability across all three of its business segments.

We own the stock on the thesis that food productivity machines are necessary the way farm equipment is necessary. While typically priced too high for us, this is an example of short-term fears giving long-term value investors a chance to buy a great business at an attractive price. We've been waiting literally a decade for a chance to buy this great company. We believe the company will continue to gain global market share with its portfolio of brands in the foodservice equipment industry and proven management leadership to execute through all business cycles.

U.S. Concrete, Inc. (USCR)
Sterling Small-Cap Value Diversified
Sterling Small-Cap Value Focus

U.S. Concrete is a leading supplier of concrete and aggregates for large-scale commercial, residential and infrastructure projects across the country. The company holds leading market positions in the metropolitan markets of New York, San Francisco, Dallas/Fort Worth and Washington D.C.

Even with large revenue declines in the quarter, U.S. Concrete improved operating income through aggressive cost containment measures, operating efficiencies and growth from their aggregate products segment, which includes a recent acquisition.

We have a long history of owning cement and concrete companies on the evidence that owners enjoy a bit of local monopoly as a result of transportation costs limiting the physical area that can be served from a particular quarry. We believe USCR is a low-cost producer in its market area. Our thesis includes the view that both commercial and residential construction activity will benefit from the current strong economy and employment.

Echo Global Logistics, Inc. (ECHO)
Sterling Small-Cap Value Diversified
Sterling Small-Cap Value Focus

Echo Global Logistics is a provider of technology-enabled transportation and supply chain management services through its network of transportation providers across a wide range of industries. Echo offers Freight Brokerage and

Management Transportation Solutions for all major modes, including truckload, LTL, intermodal and expedited.

Echo struggled as truckload volumes declined earlier in the year before things began to stabilize near the end of the quarter. Less-than-truckload volume was down 20% in April before improving to a modest 2% decline by the end of June. Management announced an additional $50 million repurchase authorization in August as the underlying business continues to generate adequate cash flow even during an unusually difficult time.

We own the stock on the thesis that smaller logistics companies benefit from Echo's technology platform aiding them in optimizing their freight capacity and rates. As an aggregator of many smaller freight companies, Echo can help lower costs for customers by engaging with a larger audience of suppliers. We believe the long-term outlook for domestic shipping and freight provides ample room for future growth while Echo benefits from the fragmented nature of the freight shipping industry.

The Ensign Group, Inc. (ENSG)
Sterling Small-Cap Value Focus

The Ensign Group provides a broad spectrum of skilled nursing and assisted living services, physical, occupational and speech therapies and other rehabilitative and healthcare services at 226 healthcare facilities across the United States.

Ensign's business model includes acquiring complimentary businesses and improving the cost structure. For the quarter, they continued to execute on this strategy and management indicated that the pipeline for acquisitions is as full as ever.

This business benefits from the aging demographics of the U.S. population, a thesis in which we have a strong belief, 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.

Bottom Performers

Glu Mobile Inc. (GLUU)
Sterling Small-Cap Value Diversified
Sterling Small-Cap Value Focus

Glu Mobile is a leading creator of mobile games. With a diverse portfolio of original and licensed IP titles including Covet Fashion, Deer Hunter, Design Home, Diner DASH Adventures, Disney Sorcerer's Arena and Kim Kardashian Hollywood and MLB Tap Sports Baseball.

Glu Mobile recorded strong Q2 revenue growth year-over-year of 40% and bookings growth year-over-year of 79%. The company raised full year 2020 bookings guidance again from the prior earnings report. Glu ended the quarter with net cash of $250 million, providing great flexibility for organic and external growth opportunities.

We have long believed in the video game space over the long-term, as the category continues to gain share of leisure. GLU has much multiple expansion potential ahead as it is comfortably cashflow neutral to positive as we wait for the probabilities to work to deliver a few great hits in the years ahead, including the potential associated with its new Disney relationship, an expansion of the advertising platform within Design Home, among other things in the lab.

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

Netscout Systems provides real-time, pervasive visibility, and insights 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.

Winnebago Industries, Inc. (WGO)
Sterling Small-Cap Value Diversified
Sterling Small-Cap Value Focus

Winnebago Industries is a manufacturer of recreation vehicles under the Winnebago, Newmar, Grand Design, and Chris-Craft brands primarily used in the leisure travel and outdoor recreation activities.

During the quarter, the company was primarily dealing with the unprecedented series of events related to the pandemic. Winnebago's financial position remains strong due to the variable cost structure of the business in addition to the healthy balance sheet and capacity under its revolving credit facility, if needed.

We have owned WGO for many years around the thesis that leisure activities will continue to gain share of GDP. We look forward to management executing on the building of its iconic brand portfolio over time.

MasterCraft Boat Holdings, Inc. (MCFT)
Sterling Small-Cap Value Diversified
Sterling Small-Cap Value Focus

MasterCraft Boat Holdings is an innovator, designer, manufacturer and marketer of premium recreational powerboats through its three subsidiaries, MasterCraft, NauticStar and Crest Marine. Our thesis on MCFT is again, a view that leisure is in a long cycle of gaining share of the economy.

Management indicated recently that the unprecendented surge in retail demand for boats, combined with the historically low level of dealer inventory across its brand, sets up the company for significant growth for this year and beyond.

Amalgamated Bank (AMAL)
Sterling Small-Cap Value Diversified

Amalgamated Bank is a full-service commercial bank and trust company with a network of 11 branches in New York City, Washington D.C., and San Francisco.

The pandemic has allowed Amalgamated to benefit from higher levels of digital transactions, obliging its customers to utilize technology when in-person banking was not an option The successful transition to online banking allowed the bank to close several branches earlier than anticipated.

Amalgamated Bank interests us because of a differentiated bank model in a commodity industry. In addition, the bank is focused on moving toward digital adoption and removing the cost of retail branches.

Patrick Industries, Inc. (PATK)
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 2020.

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.

<u>DISCLAIMER</u>

*Highest and Lowest Performers 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.

The information contained herein has been obtained from sources believed to be reliable, but we do not guarantee its accuracy or completeness. The opinions and estimates reflect our best judgment as of the report date and are subject to change without notice.