

1Q18 SIERRA NEWSLETTER



MARKET REVIEW

DRIVEN BY INVESTMENT, MOST ECONOMIC FORECASTS EXPECT THAT THE U.S. ECONOMY EXPANDED NEAR A 2% ANNUAL RATE IN THE FIRST QUARTER. AS WE MOVED INTO THE FIRST QUARTER OF 2018 MANUFACTURING AND INVESTMENT EXPANDED AT A BRISK PACE, WHILE PERSONAL CONSUMPTION DECELERATED. THE SLUGGISHNESS IN CONSUMER SPENDING MAY BE PARTLY ATTRIBUTED TO RESIDUAL SEASONALITY IN THE DATA AS HOUSEHOLDS TOOK A PAUSE AFTER THEIR HOLIDAY SHOPPING SPREE. HOUSING ACTIVITY ALSO STALLED, GIVEN SUPPLY CONSTRAINTS. WEAKNESS IN CONSUMER SPENDING WAS OFFSET IN PART BY A BUILDUP IN INVENTORY INVESTMENTS. BOTH RETAIL AND WHOLESALE INVENTORIES ROSE SIGNIFICANTLY IN THE FIRST QUARTER.

THE PACE OF JOB CREATION WAS ROBUST AS WE ENTERED THE NINTH YEAR OF ECONOMIC EXPANSION. AN AVERAGE OF 202,000 JOBS PER MONTH WERE CREATED DURING THE QUARTER. THIS WAS AN INCREASE FROM THE AVERAGE PACE OF 182,000 JOBS PER MONTH IN 2017.

DOMESTIC EQUITY

OUR **LARGE CAP INTRINSIC VALUE EQUITY** STRATEGY LOST -0.5% (GROSS) DURING THE FIRST QUARTER OF 2018, OUTPERFORMING THE RUSSELL 1000 VALUE LOSS OF -2.8%. FOR THE TWELVE MONTHS TRAILING, OUR LARGE CAP INTRINSIC VALUE EQUITY STRATEGY HAS RETURNED 18.8% (GROSS) COMPARED TO THE RUSSELL 1000 VALUE RETURN OF 7.0%.

FOR THE FIRST TIME IN NEARLY TWO YEARS, THE STANDARD & POOR'S 500 INDEX (S&P 500) FELL DURING THE QUARTER, RETURNING -0.8%, THE RUSSELL 1000 GROWTH INDEX RETURNED 1.42%, AND OUR **U.S. CONCENTRATED GROWTH** STRATEGY (COMPOSITE) RETURNED 0.93%. ON A SINCE INCEPTION (JANUARY 1, 1994) BASIS, OUR U.S. CONCENTRATED GROWTH STRATEGY (COMPOSITE) HAS RETURNED 11.55%, OUTPERFORMING THE RUSSELL 1000 GROWTH RETURN OF 9.31%, AND THE S&P 500'S RETURN OF 9.54%. TWO STOCKS NOT HELD IN THE PORTFOLIO BUT HAVE SIGNIFICANT WEIGHTINGS IN THE BENCHMARK, ACCOUNTED FOR MUCH OF THE UNDERPERFORMANCE DURING THE CURRENT QUARTER.

OUR **SMALL VALUE EQUITY** PORTFOLIO PERFORMED GENERALLY IN LINE WITH ITS BENCHMARK FOR THE QUARTER, DELIVERING A TOTAL RETURN OF -2.9% VERSUS -2.7% FOR THE RUSSELL 2000 VALUE. FOR THE LAST TWELVE MONTHS, THE PORTFOLIO RETURNED 15.0%, OUTPACING THE BENCHMARK RETURN OF 5.1%. FURTHER, THE PORTFOLIO HAS OUTPERFORMED THE RUSSELL 2000 VALUE OVER THE TRAILING 3-YEAR AND 5-YEAR PERIODS AND DELIVERED A SINCE INCEPTION (MARCH 2005) AVERAGE ANNUAL RETURN OF 9.6% VERSUS 7.4% FOR THE BENCHMARK.

INTERNATIONAL EQUITY

IN **GLOBAL AND NON-U.S. VALUE EQUITY**, GLOBAL AND INTERNATIONAL EQUITIES DELIVERED THEIR WORST ANNUAL START SINCE 2009 DURING THE FIRST QUARTER OF 2018, AS FEARS OF TIGHTER MONETARY POLICY AND ESCALATING TRADE WARS REVIVED LONG-DORMANT VOLATILITY. WITHIN OUR PORTFOLIOS, WE HAVE BEEN PREPARING FOR THIS TRANSITION TO VOLATILITY BY TAKING PROFITS AMONG FULLY VALUED MARKET LEADERS AND REINVESTING INTO UNDERVALUED MARKET LAGGARDS. DESPITE THE MANY RECENT HEADWINDS FOR VALUE INVESTORS, ABSOLUTE RETURNS HAVE BEEN SUBSTANTIAL OVER THE COURSE OF THIS BULL MARKET. WE HAVE SEEN SIGNIFICANT APPRECIATION ACROSS THE PORTFOLIOS, AND VALUATIONS HAVE RISEN COMMENSURATELY AS WE'VE RIDDEN OUR WINNERS INTO WHAT WE BELIEVE IS FAIR VALUE TERRITORY.

IN **INTERNATIONAL AND GLOBAL GROWTH EQUITY**, OUR PORTFOLIOS CONTINUED TO FARE WELL AGAINST THEIR BENCHMARKS IN THE FIRST QUARTER. THE MARKET CORRECTION WAS NOT TERRIBLY SEVERE (FOR OUR INTERNATIONAL AND GLOBAL GROWTH EQUITY PORTFOLIOS) IN THE QUARTER, AND WE ANTICIPATE ANOTHER SOLID QUARTER FOR CORPORATE EARNINGS AS THE GLOBAL ECONOMY CONTINUES TO CHUG ALONG. AN OVERWEIGHT TO INFORMATION TECHNOLOGY AND CONSUMER DISCRETIONARY STOCKS, WHICH MANAGED TO POST GAINS IN THE QUARTER DESPITE THE AFOREMENTIONED ISSUES, WAS A FURTHER HELP TO PORTFOLIO PERFORMANCE. FOR THE ONE-YEAR TRAILING, OUR EAFE PLUS EQUITY COMPOSITE HAS RETURNED 23.27% COMPARED TO THE MSCI EAFE GROWTH RETURN OF 17.92%.

FIXED INCOME

IN THE **FIXED INCOME** MARKET ARENA, THE CORPORATE BOND MARKET HAD A ROUGH START TO THE YEAR. LEAD BY THE EQUITY MARKETS, DRAMATIC PRICE DECLINES STARTED MID-JANUARY AND INTENSIFIED IN FEBRUARY. A COMBINATION OF A MATERIAL SHIFT HIGHER IN RATES, SECTOR SPECIFIC NEWS, AND NEGATIVE MARKET SENTIMENT WIDENED SPREADS IN MOST SECTORS. IN PREVIOUS QUARTERS OF THIS RATE HIKE CYCLE, DURATION AFFORDED SOME PROTECTION. HOWEVER, THIS QUARTER, INTERMEDIATE MATURITIES SUFFERED AS THE TEN-YEAR TREASURY NOTE SHIFTED INTO A NEW HIGHER TRADING RANGE. THE EXCEPTIONS WERE SOME MONEY MARKET ELIGIBLE ISSUES WITH MATURITIES OF ABOUT ONE YEAR. MANY OF THESE MANAGED TO SQUEEZE OUT SMALL GAINS FROM COUPON INCOME.

IN THE **HIGH YIELD** MARKET, OUR CORE STRATEGY PERFORMED IN LINE WITH THE BENCHMARK AS SLIGHTLY POSITIVE SECURITY SELECTION WAS OFFSET BY A SIMILARLY-SIZED, BUT NEGATIVE, CONTRIBUTION FROM ALLOCATION. OUR HIGH YIELD COMPOSITE RETURNED -0.93% COMPARED TO THE -1.04% RETURN OF THE CITIGROUP HIGH YIELD BB/B EX B/C/C SPLIT RATINGS INDEX, AND -0.86% RETURN OF THE BLOOMBERG BARCLAYS U.S. CORPORATE HIGH YIELD INDEX. NOTABLY POSITIVE SELECTION WAS GENERATED IN RETAILERS AND WIRELINES, WITH BENEFICIAL RESULTS ALSO BEING SEEN IN BANKING AND ELECTRIC UTILITIES. OFFSETS TO THESE POSITIVES INCLUDED SELECTION FROM NATURAL GAS HOLDINGS IN INDEPENDENT ENERGY, LONG DURATION TECHNOLOGY EXPOSURE AND VARIOUS CONSUMER PRODUCTS POSITIONS.

DISCLOSURE

SIERRA INVESTMENT PARTNERS, INC. (SIERRA) IS A MANAGER OF MANAGERS AND USES EXCLUSIVE SUB-ADVISORY AND MARKETING RELATIONSHIPS TO MANAGE PLAN ASSETS. SIERRA'S SUB-ADVISORS ARE: AMUNDI PIONEER INSTITUTIONAL ASSET MANAGEMENT, INC. FOR CONCENTRATED GROWTH EQUITY; TODD ASSET MANAGEMENT LLC FOR LARGE CAP INTRINSIC VALUE EQUITY & INTRINSIC VALUE OPPORTUNITY; FRANKLIN TEMPLETON INSTITUTIONAL, LLC FOR FRANKLIN EAFE PLUS EQUITY & GLOBAL GROWTH EQUITY; TEMPLETON INSTITUTIONAL ASSET MANAGEMENT, LLC FOR NON-U.S. EQUITY & GLOBAL EQUITY; STONERIDGE PMG ADVISORS, LLC FOR FIXED INCOME; ROBERT W. BAIRD & CO. INCORPORATED FOR SMALL VALUE EQUITY; FORT WASHINGTON INVESTMENT ADVISORS, INC. FOR HIGH YIELD FIXED INCOME; AND EDINBURGH PARTNERS LIMITED FOR EMERGING MARKETS EQUITY. PERFORMANCE REFLECTS THAT OF OUR SUB-ADVISOR FOR EACH RESPECTIVE PRODUCT. RETURNS ARE CALCULATED AND PRESENTED GROSS OF FEES. GROSS OF FEES PERFORMANCE IS CALCULATED AFTER THE DEDUCTION OF TRADING COSTS, BUT BEFORE THE DEDUCTION OF MANAGEMENT FEES, CUSTODIAL FEES OR OTHER FEES. FEE SCHEDULES ARE DESCRIBED IN PART II OF SIERRA'S FORM ADV. SIERRA CLIENT RETURNS WOULD BE REDUCED BY INVESTMENT MANAGEMENT FEES. FOR EXAMPLE, A FIVE-YEAR GROSS ANNUALIZED RETURN OF 20.10% WOULD BE REDUCED TO 18.96% AFTER THE DEDUCTION OF ANNUALIZED FEES OF 1%. THE INFORMATION PROVIDED IS HISTORIC IN NATURE AND SHOULD NOT BE TAKEN AS ANY INDICATION OF FUTURE PERFORMANCE AS FUTURE INVESTMENTS WILL BE MADE UNDER DIFFERENT ECONOMIC CONDITIONS AND MAY UTILIZE DIFFERENT SECURITIES. RUSSELL 1000 VALUE INDEX IS A WIDELY RECOGNIZED INDEX OF MARKET ACTIVITY BASED ON THE AGGREGATE PERFORMANCE OF COMMON STOCKS FROM THE RUSSELL 1000 INDEX, WITH LOWER PRICE-TO-BOOK RATIOS AND LOWER FORECASTED GROWTH VALUES. THE PERFORMANCE DATA WAS SUPPLIED BY FRANK RUSSELL TRUST COMPANY. THE STANDARD & POOR'S 500 INDEX (S&P 500) IS AN INDEX OF 500 STOCKS CHOSEN FOR MARKET SIZE, LIQUIDITY AND INDUSTRY GROUPING, AMONG OTHER FACTORS. THE S&P 500 IS DESIGNED TO BE A LEADING INDICATOR OF U.S. EQUITIES AND IS MEANT TO REFLECT THE RISK/RETURN CHARACTERISTICS OF THE LARGE CAP UNIVERSE. THE S&P 500 IS A MARKET VALUE WEIGHTED INDEX WHERE EACH STOCKS WEIGHT IS PROPORTIONATE TO ITS MARKET VALUE. THE RUSSELL 1000 GROWTH INDEX MEASURES THE PERFORMANCE OF THE RUSSELL 1000'S GROWTH SEGMENT, WHICH IS DEFINED TO INCLUDE THE FIRMS WHOSE SHARE PRICES HAVE HIGHER PRICE-TO-BOOK RATIOS AND HIGHER EXPECTED EARNINGS GROWTH RATES. THE RUSSELL 2000 VALUE INDEX MEASURES THE PERFORMANCE OF THE SMALL-CAP VALUE SEGMENT OF THE U.S. EQUITY UNIVERSE. IT INCLUDES THOSE RUSSELL 2000 INDEX COMPANIES WITH LOWER PRICE-TO-BOOK RATIOS AND LOWER FORECASTED GROWTH VALUES. THE RUSSELL INDICES ARE A TRADEMARK OF THE FRANK RUSSELL COMPANY. INDICES ARE UNMANAGED AND ARE NOT AVAILABLE FOR DIRECT INVESTMENT. THE MSCI EAFE GROWTH INDEX IS A FREE FLOAT-ADJUSTED MARKET CAPITALIZATION WEIGHTED EQUITY INDEX COMPRISED OF SECURITIES IN MSCI'S DEVELOPED MARKET COUNTRY SPECIFIC-INDEXES, EXCLUDING THE U.S. AND CANADA, THAT HAVE MORE GROWTH-ORIENTED INVESTMENT STYLE CHARACTERISTICS. THE CITIGROUP HIGH YIELD BB/B EX B/C/C SPLIT RATINGS INDEX IS A U.S. DOLLAR-DENOMINATED INDEX, WHICH MEASURES THE PERFORMANCE OF HIGH YIELD DEBT ISSUED BY CORPORATIONS DOMICILED IN THE U.S. OR CANADA. RECOGNIZED AS A BROAD MEASURE OF THE NORTH AMERICAN HIGH-YIELD MARKET, THE INDEX INCLUDES CASH-PAY, DEFERRED-INTEREST SECURITIES AND DEBT ISSUED UNDER RULE 144A IN UNREGISTERED FORM. IT EXCLUDES SPLIT-RATED B/C/C SECURITIES. THE BLOOMBERG BARCLAYS U.S. CORPORATE HIGH YIELD BOND INDEX MEASURES THE USD-DENOMINATED, HIGH YIELD, FIXED-RATE CORPORATE BOND MARKET. SECURITIES ARE CLASSIFIED AS HIGH YIELD IF THE MIDDLE RATING OF MOODY'S, FITCH AND S&P IS BAI/BB+/BB+ OR BELOW. THE MSCI EMERGING MARKETS INDEX CAPTURES LARGE AND MID-CAP REPRESENTATION ACROSS 24 EMERGING MARKETS (EM) COUNTRIES, INCLUDING BRAZIL, CHILE, CHINA, COLOMBIA, CZECH REPUBLIC, EGYPT, GREECE, HUNGARY, INDIA, INDONESIA, KOREA, MALAYSIA, MEXICO, PAKISTAN, PERU, PHILIPPINES, POLAND, RUSSIA, QATAR, SOUTH AFRICA, TAIWAN, THAILAND, TURKEY AND UNITED ARAB EMIRATES. WITH 846 CONSTITUENTS, THE INDEX COVERS APPROXIMATELY 85% OF THE FREE FLOAT-ADJUSTED MARKET CAPITALIZATION IN EACH COUNTRY. THE INDICES CHOSEN TO COMPARE PERFORMANCE ARE NOT IDENTICAL IN STRUCTURE TO THE COMPOSITES AND ARE PROVIDED TO REPRESENT THE INVESTMENT ENVIRONMENT EXISTING DURING THE TIME PERIODS SHOWN. INDICES ARE UNMANAGED, FULLY INVESTED AND DO NOT INCLUDE DEDUCTION OF FEES OR EXPENSES. THIS INFORMATION IS ONLY AN EXPLANATION OF INVESTMENT PHILOSOPHY AND HISTORIC PERFORMANCE AND IS NOT MEANT TO BE AN INVESTMENT RECOMMENDATION. FOR A DISCLOSURE PREPARED IN COMPLIANCE WITH THE GLOBAL INVESTMENT PERFORMANCE STANDARDS (GIPS®) AND A LIST OF COMPOSITES AND PERFORMANCE RESULTS, PLEASE CALL OUR CORPORATE HEADQUARTERS AT (925) 941-6300. GIPS HAS NOT BEEN INVOLVED WITH THE PREPARATION OR REVIEW OF THIS REPORT. PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS.

EMERGING MARKETS

EMERGING MARKETS BEGAN THE YEAR IN EXUBERANT FASHION, BEFORE CONCERNS ABOUT INTEREST RATE HIKES IN THE USA. SOON AFTER, LOOMING TRADE TENSIONS REMOVED MOST OF THE INITIAL GAINS. THE PORTFOLIO DID NOT PARTICIPATE IN THE RALLY IN JANUARY AND FEBRUARY, HAVING MOVED TO A MORE DEFENSIVE TACK THROUGH 2017, BUT RECOUPED SOME OF THOSE RELATIVE LOSSES IN MARCH. OVER THE QUARTER THE PORTFOLIO RETURNED 0.78%, COMPARED WITH THE MSCI EMERGING MARKETS INDEX RETURN OF 1.47%.

THANK YOU

WE WOULD LIKE TO EXTEND OUR GRATITUDE TO THE **MICHIGAN LABORERS PENSION FUND** FOR ALLOCATING A PORTION OF ITS ASSETS TO SIERRA'S EAFE PLUS EQUITY (INTERNATIONAL EQUITY) COMMINGLED FUND AND TO THE **SAN MATEO ELECTRICAL WORKERS HEALTH PLAN** FOR ALLOCATING A PORTION OF ITS ASSETS TO SIERRA'S CORE FIXED INCOME PRODUCT. ALSO, WE WOULD LIKE TO THANK THE **LABORERS LOCAL UNION NO. 158 PENSION FUND** FOR ADDITIONAL CONTRIBUTIONS TO SIERRA'S FIXED INCOME PRODUCT, THE **PACIFIC NORTHWEST FIELD IRONWORKERS ANNUITY TRUST FUND** FOR ADDITIONAL CONTRIBUTIONS TO SIERRA'S FIXED INCOME PRODUCT, THE **SAN DIEGO ELECTRICAL HEALTH AND WELFARE TRUST** FOR ADDITIONAL CONTRIBUTIONS TO SIERRA'S HIGH YIELD FIXED INCOME PRODUCT, AND THE **UFCW LOCAL 655 FOOD EMPLOYERS JOINT PENSION PLAN** FOR ADDITIONAL CONTRIBUTIONS TO SIERRA'S INTERNATIONAL EQUITY COMMINGLED FUND. WE AT SIERRA INVESTMENT PARTNERS, INC., VALUE EACH OF OUR CLIENTS AND ARE GRATEFUL FOR THE OPPORTUNITY TO MANAGE A PORTION OF YOUR ASSETS.