



SIERRA INVESTMENT
PARTNERS, INC.®

NEWSLETTER

25 Years of Excellence 1996-2021

1Q21

MARKET REVIEW

Economic growth and earnings estimates continued to rise throughout the quarter, fueling the outperformance of Cyclical and Value over Growth for the second quarter in a row. This increased optimism occurred despite some setbacks overseas as vaccine rollouts were fumbled in Europe. The dramatic rise in interest rates (U.S. 10yr Treasury rose from below 1% at year end to around 1.75% at the end of the quarter) caused some angst for investors. However, we believe the global economy is still in the early innings of a new economic expansion. These expansions tend to last many years and although there will be some normal setbacks and corrections along the way, we believe the long term future is bright for the equity markets.

DOMESTIC EQUITY

Our **Large Cap Intrinsic Value Equity** strategy continued to benefit from the rotation that began in November of last year, returning 13.1% (gross) for the quarter, outperforming the Russell 1000 Value's return of 11.2%. Our trailing 1-year return, which basically takes you back to the market bottom in March of 2020, is up +76% (gross) and has outperformed the Russell 1000 Value by more than +20%. For the trailing 5-years, our strategy has returned 15.1% (gross) compared to the 11.7% return of the Russell 1000 Value.

Our **U.S. Concentrated Growth Strategy** (composite) returned 2.66% for the first quarter of 2021, compared to the Russell 1000 Growth benchmark return of 0.94%. The prospect of a cyclical recovery and a steepening yield curve caused the equity market to broaden. Rising interest rates increased the cost of capital, which had a negative effect on valuations, especially for long duration assets, such as high-growth stocks (longer-duration investments have tended to be more sensitive to interest-rate factors than shorter-duration investments). Energy (+20%) was the best-performing sector in the Russell 1000 Growth Index during the first quarter of 2021, though energy

companies have represented less than 1% of the Index. Communication services (+8%) fared well, largely due to the performance of social media giants that could benefit from a potential recovery in advertising spending. Information technology, which includes a number of high-valuation stocks, was one of the worst performing sectors in the Russell 1000 Growth Index, returning -0.7%.

For the quarter, our **Small Cap Value Equity** Portfolio provided a gross return of 9.6% versus the benchmark Russell 2000 Value gross return of 21.2%. Since inception (March 1, 2005), our Small Cap Value Portfolio has provided a gross annual return of 8.8% vs 8.2% for the Russell 2000 Value. Portfolio attribution for the quarter looks like a carbon copy of the market ricochet off the lows following the Great Financial Crisis of 2009. Then, as now, an analysis of our benchmark showed evidence of extreme outperformance for companies with traits such as low profitability, high beta, and high valuations across each sector. It is the only other time we can recall lagging performance across most sectors with no meaningful individual stock distractors. In short, it is more evidence that our investment style was out of favor during the quarter.

INTERNATIONAL EQUITY

In **Global and Non-U.S. Value Equity**, the MSCI All Country World index posted a healthy 4.7% return over the quarter. With the stock market crash in early 2020 receding, the market was up 55.3% over the 12 months ended March 31, 2021, and 19.0% since its pre-COVID peak. For the quarter, our Non-U.S. Equity Select Composite returned 5.60% compared to the 3.60% return of the MSCI EAFE Index, and the 7.60% return of the MSCI EAFE Value Index, as we start to see our style come back into favor.

In **International and Global Plus Equity**, global equity markets rose in the first quarter, but the

advance was relatively narrow with only a handful of sectors contributing and value stocks leading the move. Our EAFE Plus Equity composite returned -2.39% for the first quarter of 2021, compared to the 3.48% return of the MSCI EAFE – Net Returns Index, and the -0.57% return of the MSCI EAFE Growth – Net Returns Index. Value stocks were up almost 10% in the quarter, as measured by the MSCI World Value Index, while their growth stock counterparts were basically flat. We continue to advocate that a focused yet highly diversified portfolio, with an emphasis on well-managed companies that have solid competitive advantages and good growth prospects, can provide investors with excellent outcomes over the longer term—during both uncertain and certain times. In fact, our EAFE Plus Equity composite has returned 10.22% over the last 10 years, versus the 5.52% return of the MSCI EAFE – Net Returns Index, and the 7.21% return of the MSCI EAFE Growth – Net Returns Index.

FIXED INCOME

In the **Fixed Income** market arena, U.S. Treasury yields were mostly higher during the first quarter of 2021. While longer maturities suffered, two-year Treasury notes were mostly spared from the quarter's pain as the two-year yield rose only a modest 4 basis points (0.04%). Excessive systematic cash including high balances at the Treasury caused bill yields to fall further from already low levels. Consequently, money market funds earned near zero returns. The possibility of negative returns in U.S. T-bills, sometime this year, remains a concern. But further out on the curve, it is a different story. The five-year Treasury yield rose 58 bps (0.58%), ending the quarter at 0.94%. The yield on the ten-year notes rose 83 bps (0.83%) to 1.74%, and the 2-10 Treasury yield-curve spread steepened 79 bps above year-end level to reach 158 bps. The Federal Reserve continues to remain active, supporting short-term Treasuries with maturities less than 5 years. The U.S. Treasury's financing needs, along with stronger economic performance aided by fiscal

stimulus, were principal contributors to the higher yields and steeper yield curve. The 10-year Treasury yield touched a high of 1.77% late in the first quarter and we expect ten-year notes to trade in a new higher range of 1.5% to 2.0%.

Our **High Yield Fixed Income** strategy returned 0.15% on a gross basis or -70bps to the index return of 0.85%. Sector allocation was slightly negative and heavily influenced by underweights to sectors severely impacted by COVID-19 and are now rebounding including Oil Field Services and Leisure. An overweight to Electric Utilities also detracted, in part due to relatively long positioning. However, a lack of exposure to Health Insurance, a long duration sector, and tightly trading Wireless benefitted performance. In security selection, themes present in the second half of 2020 repeated, though to a lesser magnitude. Energy led on a material increase in the price of oil and the lower quality CCC-rated issuers performed well (which we do not purchase) as did companies directly impacted by COVID-19. The higher quality positioning of our portfolios and limited exposure to these sectors generated negative security selection.

THANK YOU

We would like to thank the **Northeast Carpenters Health Fund Vacation Benefits Account** for additional contributions to Sierra's Concentrated Growth Equity product, the **Northern California Glaziers, Architectural Metal and Glass Workers Pension Plan** for additional contributions to Sierra's Small Cap Value Equity product, the **San Mateo Electrical Workers Health Plan** for additional contributions to Sierra's Fixed Income product, and the **Steelworkers Pension Trust** for additional contributions to Sierra's Fixed Income product.

We at Sierra Investment Partners, Inc., value each of our Taft-Hartley Fund clients and are grateful for the opportunity to manage a portion of your assets.

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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. The MSCI World Index is a free float-adjusted market capitalization weighted equity index comprised of securities in MSCI's developed market country-specific indexes. The secondary benchmark is the MSCI World Growth Index. The MSCI World Growth Index is a free float-adjusted market capitalization weighted equity index comprised of securities in MSCI's developed market country-specific indexes that have more growth-oriented investment style characteristics. The MSCI EAFE Index is an equity index calculated by MSCI. The index measures the total returns (gross dividends are reinvested) of equity securities in the developed markets in Europe, Australasia and the Far East. Securities included in the index are weighted according to their Free Float adjusted market capitalization (Price x Shares outstanding x Foreign Inclusion Factor). The MSCI EAFE Growth is a free float-adjusted market capitalization weighted equity index comprised of securities in MSCI's developed and emerging market country-specific indexes, excluding the U.S. and Canada. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield. The Russell 2000 Value Index is a free float-adjusted market capitalization weighted equity index comprised of securities in MSCI's developed market country-specific indexes. The MSCI EAFE Value Index captures large and mid-cap securities exhibiting overall value style characteristics across Developed Markets countries around the world, excluding the U.S. and Canada. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield. The 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 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 Ba1/BB+ or below. The Bloomberg Barclays Int. Gov't/Credit Index is a market capitalization weighted index consisting of all U.S. dollar denominated public obligations of U.S. and foreign Governments, their agencies and instrumentalities and all corporate issuers of fixed rate, non-convertible, investment grade bonds having maturities of greater than one year and less than 10 years. The Bloomberg Barclays Gov't/Credit Index is a market capitalization weighted index consisting of all U.S. dollar denominated public obligations of U.S. and foreign Governments, their agencies and instrumentalities and all corporate issuers of fixed rate, non-convertible, investment grade bonds having maturities of greater than one year. The Bloomberg Barclays Aggregate Bond Index is a market value-weighted index that tracks the daily price, coupon, pay-downs, and total return performance of fixed rate, publicly placed, dollar-denominated, and non-convertible investment grade debt issues with at least \$250 million par amount outstanding and with at least one year to final maturity. The indexes 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. Indexes 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. 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