MARKET REVIEW

Economic growth and earnings estimates continued to rise throughout the quarter, fueling the outperformance of Cyclicals 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 set backs 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.