

3Q18 SIERRA NEWSLETTER



MARKET REVIEW

AFTER CLOCKING 4.2% GROWTH IN THE SECOND QUARTER OF 2018, THE PACE OF ECONOMIC GROWTH LIKELY COOLED A BIT IN THE THIRD QUARTER. THE SLOWDOWN IS DUE TO THE REVERSAL OF A TEMPORARY SURGE IN EXPORTS THAT BOOSTED SECOND QUARTER GROWTH. NEVERTHELESS, PERSONAL CONSUMPTION, SUPPORTED BY STRENGTH IN INDUSTRIAL PRODUCTION AND BUSINESS INVESTMENTS, HELPED PROPEL THE ECONOMY AT A PACE ABOVE ITS LONG-TERM GROWTH RATE. ACCORDING TO THE CONSENSUS FORECAST, GROWTH IN THE THIRD QUARTER WAS LIKELY ABOVE 3.0%. THE UPTREND IN ECONOMIC ACTIVITY THAT BEGAN IN THE FOURTH QUARTER OF 2016 REMAINS STRONG. CONSUMER CONFIDENCE TOUCHED A NEW HIGH FOR THE CURRENT CYCLE. CONSUMER SPENDING CONTINUES TO REMAIN THE MAIN DRIVER OF GROWTH.

DOMESTIC EQUITY

OUR **LARGE CAP INTRINSIC VALUE EQUITY** (LCIV) STRATEGY INCREASED 4.46% (GROSS) DURING THE QUARTER, UNDERPERFORMING THE RUSSELL 1000 VALUE (5.70%). FOR THE TRAILING 12 MONTHS, OUR LCIV STRATEGY IS UP 12.18% (GROSS) VS. THE RUSSELL 1000 VALUE AT 9.45%. IN GENERAL, THE MARKET HAS FAVORED FACTORS INDICATING HIGHER QUALITY ON THE YEAR TO DATE AND QUARTERLY BASIS. OUR PROPRIETARY QUALITY RATING AS WELL AS THE GROSS PROFIT RETURN ON ASSETS WERE EACH AMONG THE TOP FOUR FACTORS OVER BOTH PERIODS. IN ADDITION, MEASURES INDICATING HIGHER GROWTH RATES AND BETTER MARKET ACTION (RELATIVE STRENGTH RATING) PERFORMED WELL.

OUR **U.S. CONCENTRATED GROWTH** STRATEGY (COMPOSITE) RETURNED 1.74% VERSUS THE 0.56% RETURN OF THE RUSSELL 1000 GROWTH INDEX FOR THE MONTH OF SEPTEMBER, AND FOR THE THIRD QUARTER OF 2018, OUR COMPOSITE PORTFOLIO RETURNED 9.37% VERSUS 9.17% FOR THE RUSSELL 1000 GROWTH INDEX. SINCE INCEPTION (JANUARY 1, 1994), OUR U.S. CONCENTRATED GROWTH STRATEGY (COMPOSITE) HAS RETURNED 11.86% COMPARED TO THE 9.75% RETURN OF THE BENCHMARK RUSSELL 1000 GROWTH INDEX.

OUR **SMALL VALUE EQUITY** PORTFOLIO (COMPOSITE) DELIVERED A TOTAL GROSS RETURN OF 1.57%, PERFORMING IN LINE WITH THE 1.60% RETURN FOR

THE BENCHMARK RUSSELL 2000 VALUE. FOR THE LAST TWELVE MONTHS, OUR PORTFOLIO RETURNED 9.80% (GROSS), OUTPACING THE BENCHMARK RETURN OF 9.33%. FURTHERMORE, OUR PORTFOLIO HAS OUTPERFORMED THE RUSSELL 2000 VALUE SINCE INCEPTION (MARCH 2005), POSTING AN AVERAGE ANNUAL RETURN OF 9.76% (GROSS) VERSUS 7.87% FOR THE BENCHMARK.

INTERNATIONAL EQUITY

IN **GLOBAL AND NON-U.S. VALUE EQUITY**, MARKET CONDITIONS WERE MIXED DURING THE QUARTER, WITH PROGRESS ON VARIOUS FRONTS AND SETBACKS ON OTHERS. THOUGH A NUMBER OF MARKET RISKS ESCALATED DURING THE PERIOD (E.G., TRADE WARS, EMERGING MARKET VOLATILITY, BREXIT DISCORD), INVESTORS LARGELY TOOK THEM IN STRIDE, WITH U.S. MARKETS LEADING GLOBAL INDEXES HIGHER AND INTERNATIONAL BENCHMARKS ADVANCING TO A LESSER EXTENT. IN THIS ENVIRONMENT, OUR TAX EXEMPT NON-U.S. EQUITY COMPOSITE DELIVERED GAINS DURING THE THIRD QUARTER, OUTPERFORMING ITS BENCHMARK MSCI ALL COUNTRY WORLD EX-U.S. INDEX.

ALTHOUGH OUR **INTERNATIONAL AND GLOBAL GROWTH EQUITY** PORTFOLIO HOLDINGS CONTINUE TO DEMONSTRATE STRONG GROWTH, WITH A NUMBER OF COMPANIES PLUGGED INTO DURABLE LONG-TERM STRUCTURAL TRENDS, WE SAW A FEW RECENT STRONG PERFORMERS GIVE BACK SOME OF THIS YEAR'S GAINS. A BIAS TOWARD U.S. STOCKS; GREATER SKEPTICISM ABOUT EUROPEAN STOCKS, GIVEN THE POLITICAL CONCERNS; AND WORRIES ABOUT A SLOWDOWN IN CHINA WERE ALSO HEADWINDS FOR PERFORMANCE. ON THE POSITIVE SIDE, INDUSTRIALS HOLDINGS HAD A GOOD QUARTER ON BOTH SOLID EXECUTION AND EASING FEARS ABOUT THE OVERALL IMPACT OF A TRADE WAR.

FIXED INCOME

IN THE **FIXED INCOME** MARKET ARENA, OUR FIXED INCOME BENCHMARK INDEXES WERE SLIGHTLY POSITIVE FOR THE QUARTER. CREDIT OUTPERFORMED U.S. TREASURIES, AS U.S. TREASURIES CONTINUED TO BE PRESSURED BY THE INEVITABLE MOVE HIGHER IN SHORT-TERM RATES. SINCE DECEMBER 2015, THE FEDERAL RESERVE HAS RAISED RATES A TOTAL OF

FIXED INCOME CONT.

SEVEN TIMES. AS WE HAVE SEEN FOR MUCH OF THE YEAR, HIGHER COUPON BONDS CONTINUE TO BUFFER PRICE DECLINES AT THE FRONT OF THE CURVE.

OUR **HIGH YIELD** STRATEGY (COMPOSITE) RETURNED 2.16% VERSUS THE BENCHMARK BLOOMBERG BARCLAYS U.S. CORPORATE HIGH YIELD BOND INDEX RETURN OF 2.40%. FUNDAMENTALS, AS EVIDENCED BY 2Q18 EARNINGS, ARE ROBUST AND WERE STRONG ENOUGH FOR U.S. RISK ASSETS TO POWER THROUGH ALL NEGATIVE NEWS THAT AROSE IN THE QUARTER. HIGH YIELD SPREADS ENDED AT THE 14TH PERCENTILE HISTORICALLY, WITH ALL RATINGS CATEGORIES AT SIMILAR LEVELS. CONSISTENT WITH RECENT REPOSITIONING, PURCHASE ACTIVITY IN 3Q18 WAS WEIGHTED TOWARDS BBS. WHILE THE ENVIRONMENT INCLUDES SOLID FUNDAMENTALS AND MINIMAL DEFAULT ACTIVITY, SPREADS HAVE ALSO BEEN DRIVEN TO CYCLE LOWS BY AN EXTENDED PERIOD OF NET NEGATIVE SUPPLY. AS A RESULT, OUR CASE TO IMPROVE THE QUALITY OF THE PORTFOLIO IS INCREASINGLY BEING SUPPORTED.

EMERGING MARKETS

A BACKDROP OF STEADILY RISING INTEREST RATES AND CONTINUING TRADE TENSIONS MEANT THAT EMERGING MARKET EQUITIES CONTINUED TO DRIFT IN THE THIRD QUARTER OF 2018, WITH THE BENCHMARK MSCI EMERGING MARKETS INDEX RETURNING -0.9%. OUR **EMERGING MARKETS EQUITY** COMPOSITE EARNED A POSITIVE RETURN OF 0.2%. THE AVOIDANCE OF COUNTRIES WITH SIGNIFICANT CURRENT ACCOUNT DEFICITS WAS UNDOUBTEDLY POSITIVE FOR INVESTMENT PERFORMANCE.

THANK YOU

WE WOULD LIKE TO EXTEND OUR GRATITUDE TO THE **INTERNATIONAL BROTHERHOOD OF TEAMSTERS LOCAL NO. 705 PENSION FUND** FOR ADDITIONAL

CONTRIBUTIONS TO SIERRA'S INTERNATIONAL EQUITY PRODUCT, THE **LABORERS LOCAL UNION NO. 158 PENSION FUND** FOR ADDITIONAL CONTRIBUTIONS TO SIERRA'S FIXED INCOME PRODUCT, THE **LABORERS PENSION TRUST FUND OF NORTHERN NEVADA** FOR ADDITIONAL CONTRIBUTIONS TO SIERRA'S FIXED INCOME PRODUCT, THE **NORTHERN CALIFORNIA GLAZIERS, ARCHITECTURAL METAL AND GLASS WORKERS PENSION TRUST** FOR ADDITIONAL CONTRIBUTIONS TO SIERRA'S SMALL CAP VALUE EQUITY PRODUCT, AND THE **NORTHWEST IRONWORKERS RETIREMENT TRUST** FOR ADDITIONAL CONTRIBUTIONS TO SIERRA'S LARGE CAP INTRINSIC VALUE BALANCED PRODUCT. WE AT SIERRA INVESTMENT PARTNERS, INC., VALUE EACH OF OUR CLIENTS AND ARE GRATEFUL FOR THE OPPORTUNITY TO MANAGE A PORTION OF YOUR ASSETS.

THE NATIONAL WWII MUSEUM

WE WANT TO EXTEND A SINCERE THANK YOU TO ALL OF YOU WHO HONORED US WITH YOUR PRESENCE AT OUR ANNUAL COCKTAIL PARTY DURING THE INTERNATIONAL FOUNDATION OF EMPLOYEE BENEFIT PLANS CONFERENCE IN NEW ORLEANS, LOUISIANA. CONGRATULATIONS TO ALL OF OUR BINGO WINNERS!



DISCLOSURE

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