



SIERRA INVESTMENT
PARTNERS, INC.®

NEWSLETTER

24 Years of Excellence 1996-2020

3Q20

MARKET REVIEW

As we entered the third quarter, the COVID-19 pandemic continued to rage with infections growing in many states. The hotspots shifted from the Northeast to the South and the West. Large states such as California, Florida, and Texas had to pause or dial back the reopening and there was no quick reprieve for Main Street. Small businesses have borne the brunt of the pandemic-induced disruptions. Though federal aid offered a temporary lifeline, business activity has not returned to normal for many businesses. Intra-quarter data provided clear evidence that economic activity snapped back sharply in recent months in recovery from the dramatic actions taken earlier in 2020 to quell the spread of COVID-19. That said, the +32% annualized GDP growth figure estimated for 3Q20 partially regained some of the ground lost in the recent slowdown. Unlike what was experienced repeatedly in the first half of 2020, market moving events were lacking in the prior quarter. However, the U.S. election, approaching vaccine targets, and winter weather's potential impact on the spread of the virus are likely to generate volatility in the upcoming quarters.

DOMESTIC EQUITY

Our **Large Cap Intrinsic Value Equity** strategy continued to outperform the Russell 1000 Value during the third quarter of 2020 as economic conditions improved. Our Strategy returned 6.4% for the quarter compared to the Russell 1000 Value's return of 5.6%, and more impressively, our strategy is +4.3% for the trailing 12 months, compared to the Russell 1000 Value index return of -5.0%.

Our **U.S. Concentrated Growth Strategy** (composite) returned -3.7% for the month of September 2020, while the Russell 1000 Growth Index returned -4.7% and the S&P 500 Index returned -3.8%. For the third quarter of 2020, our Strategy returned 11.5%, while the Russell 1000 Growth Index has returned 13.2% and the S&P 500 Index returned 8.9%. Year-to-date, our Strategy returned 15.7%, while the Russell 1000 Growth Index has returned 24.3% and the S&P 500 Index returned 5.6%. Stylistically, our U.S. Concentrated Growth Strategy sits on the core side of the growth universe, given our defensive approach to growth investing. In the current market environment, where the disparity between the performance of the Russell 1000 Growth

Index and the S&P 500 Index has reached record levels in recent months, we had expected the performance of the Strategy to fall approximately halfway between the two indices (between growth and core). That is exactly how the Strategy performed in the third quarter of 2020, and how it has fared year-to-date through September 30, 2020.

For the quarter, our **Small Cap Value Equity** Portfolio trailed the benchmark Russell 2000 Value with a gross return of -1.8% versus 2.6% for the benchmark. Year-to-date, the Portfolio remains ahead of its benchmark with a return of -19.4% gross of fees versus the benchmark Russell 2000 Value return of -21.5%. Since inception (March 1, 2005), our Small Cap Value Equity Portfolio has provided a gross annual return of 6.8% vs. 5.1% for the Russell 2000 Value.

INTERNATIONAL EQUITY

In **Global and Non-U.S. Value Equity**, our Templeton institutional portfolios lagged the momentum-driven rally at the beginning of the period but improved relative to their benchmarks in September. Our Tax-Exempt Non-U.S. Equity Composite returned 1.6% for the quarter, beating the MSCI EAFE Value Index return of 1.3%. That said, there has never been a larger gap between value and growth investing returns. In time, every dog has its day.

In **International and Global Plus Equity**, global equity markets continued to climb in the third quarter of 2020, gaining about 8% as measured by the MSCI World Index in U.S. dollar terms. Most regional markets posted gains over the period, with the U.S. market running slightly hotter than markets in Europe and Japan. Underneath the headline advance, sector performance was much more varied, continuing to underscore the importance of bottom-up, research-driven stock picking that focuses on high-quality growth companies. For the third quarter of 2020, our EAFE Plus Equity portfolios (composite) returned 10.2%, outperforming the MSCI EAFE Index (net return) return of 4.8% and the 8.4% return of the MSCI EAFE Growth Index (net return). Year-to-date, our EAFE Plus Equity portfolios (composite) returned 15.8%, compared to the -7.1% of the MSCI EAFE Index (net return) and the 4.6% MSCI EAFE Growth Index (net return).

FIXED INCOME

In the **Fixed Income** market arena, corporate credit outperformed U.S. Treasuries in the third quarter with nearly every sector producing a positive excess return. Outperformance came in spite of record issuance and was muted by the risk-off period in September. As we have seen all year, excess performance among sectors generally had a pandemic theme. For example, some of the best performers were Packaging (+4.2%) and Paper (+3.9%). Clearly these enjoyed increased demand from online retail activity and restaurant take-out. Fitting into that theme also is Transportation Services which enjoyed an excess return of 4.6%. The interruption of supply chains created by COVID increased demand for truck transportation. Surprisingly the airline sector also showed some strength with an excess return of 3.9% for the quarter. It is by no means out of the woods but the decent excess returns during the quarter acknowledge the resumption of flying, however limited, by many airlines.

Sector allocation led to our **High Yield** strategy underperforming slightly in 3Q20. The portfolio returned +4.4% on a gross basis or -20bps to the index return of +4.6%. Overweights to Consumer Cyclical Services and Finance Companies, both of which lagged the initial recovery in 2Q20, were beneficial to performance. Low quality issuers were top performers in the quarter causing the strategy's higher quality bent to impede performance for the first time since 2018.

EMERGING MARKETS

The trends that were established in global financial markets in second quarter continued into the third. In the face of fluctuating news about the persistence of COVID-19 in some countries, and the resulting risks to earnings, loose monetary policy continued to support markets. Our **Emerging Markets Equity** composite advanced during the quarter, but unfortunately trailed the benchmark, MSCI Emerging Markets Index.

IFEBP

Due to the COVID-19 pandemic, the International Foundation of Employee Benefit Plans ("IFEBP") had to make the difficult decision to cancel the annual

conference in Honolulu, Hawaii. As a result, Sierra cancelled our annual cocktail party as well. We hope you enjoy your Sierra face mask, and we look forward to seeing everyone in Denver, Colorado next year!



THANK YOU

We would like to extend our gratitude to the **Carpenters Health and Welfare Fund of Philadelphia and Vicinity**, and the **Michigan Laborers Pension Fund** for allocating a portion of their assets to Sierra's Concentrated Growth Equity product; and to the **Sheet Metal Workers Local 10 Pension Fund** and the **Sheet Metal Workers Local 10 Supplemental Retirement Plan** for allocating a portion of their assets to Sierra's High Yield Fixed Income commingled fund.

Also, we would like to thank the **Bay Area Painters and Tapers Pension Plan** for additional contributions to Sierra's Intrinsic Value Equity product, the **Laborers District Council and Contractors Pension Fund of Ohio** for additional contributions to Sierra's High Yield Fixed Income product, the **Ohio Laborers District Council-Ohio Contractors Association Insurance Fund** for additional contributions to Sierra's High Yield Fixed Income commingled fund, the **Ohio Operating Engineers Pension Fund** for additional contributions to Sierra's Global Plus Equity product, and the **West Virginia Laborers Pension Trust Fund** for additional contributions to Sierra's EAFE Plus Equity (International Equity) commingled fund.

Additionally, we have one large new client that wants to remain anonymous, but we would be remiss if we did not thank them, too!

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

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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. 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 market country-specific indexes, excluding the U.S. and Canada, that have more growth-oriented investment style characteristics. The MSCI All Country World Index is a free float-adjusted market capitalization weighted equity index comprised of securities in MSCI's developed and emerging market country-specific indexes. The MSCI All Country World ex-U.S. Index is 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. 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 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 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 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 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 stock's weight is proportionate to its market value. 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+/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 nonconvertible investment grade debt issues with at least \$250 million par amount outstanding and with at least one year to final maturity. 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 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. GIPS has not been involved with the preparation or review of this report. Past performance is no guarantee of future results.