



SIERRA INVESTMENT  
PARTNERS, INC.®

# NEWSLETTER

*25 Years of Excellence 1996-2021*

**3Q21**

AUM: \$5.4 billion

## MARKET REVIEW

During the first half of 2021, the U.S. economy grew robustly and surpassed its pre-pandemic output level. Personal consumption was the main driver of growth, surging at double digit rates. As we entered the second half of the year, personal spending shifted from goods to services. Foot traffic was brisk in malls and restaurants. Pent up travel demand helped revive the domestic leisure and hospitality sector. However, as the quarter progressed, the delta-variant virus reared its head. The combined impact of rising inflation and the resurgent virus shook consumer confidence. The volume of people dining out and attending live events started declining, and personal consumption slowed. As a result, the economy decelerated in the third quarter.

The growth surge of the first half of 2021 was driven by fiscal stimulus, which pulled demand forward. Hence, a slowdown was to be expected in the third quarter. But the pandemic flareup was also a factor. The economy likely slowed to approximately 3.5% during the third quarter. As the current wave of the pandemic subsides, we can expect growth momentum to pick up in the fourth quarter.

## DOMESTIC EQUITY

Our **Large Cap Intrinsic Value Equity** strategy performed in-line with the Russell 1000 Value Index for the third quarter of 2021. For the one year trailing, our strategy returned 39.9% compared to the Russell 1000 Value Index return of 35%. For the five years trailing, our strategy has returned 15.3% compared to the 10.9% return of the Russell 1000 Value Index. For the ten years trailing, our strategy has returned 14.4% compared to the Russell 1000 Value Index return of 13.5%.

Our **U.S. Concentrated Growth Strategy** (composite) slightly outperformed in September 2021, returning -5.16% compared to the -5.60% return of the Russell 1000 Growth Index. For the third quarter of 2021, our strategy underperformed,

returning 0.19% compared to the Russell 1000 Growth Index return of 1.16%. Since Inception (January 1, 1994), our strategy has compounded at 12.74% compared to the 11.01% return of the Russell 1000 Growth Index.

For the quarter, our **Small Cap Value Equity** Portfolio outperformed the benchmark, providing a gross return of -0.95% versus the Russell 2000 Value gross return of -2.98%. Since inception (March 1, 2005), our Small Cap Value Portfolio has provided a gross annual return of 8.67% vs 7.99% for the Russell 2000 Value.

## INTERNATIONAL EQUITY

In **Global and Non-U.S. Value Equity**, our valuation discipline caused us to largely miss a “quality” rally that in reality looked an awfully lot like a rotation back into expensive tech stocks. When value did begin to recover toward the end of the quarter it was due to hawkish policy pivots, which steepened the yield curve and benefited banks and resource stocks more than the consumer cyclicals and “reopening” plays where we have been finding value more recently. Regionally, however, these trends benefited Japan and (parts of) Europe late in the period, so we were reasonably well positioned geographically. That helped the portfolios stage significant recoveries in the latter half of the quarter and finish the period closer to their benchmarks.

In **International and Global Plus Equity**, our EAFE Plus Equity composite returned -2.92% for the third quarter of 2021, underperforming the -0.45% return of the MSCI EAFE – Net Returns Index and the 0.07% return of the MSCI EAFE Growth – Net Returns Index. For the five years trailing, our EAFE Plus Equity composite has compounded at 16.69% compared to the 8.81% return of the MSCI EAFE – Net Returns Index and the 11.41% return of the MSCI EAFE Growth – Net Returns Index. Despite the recent weakness in performance, we believe our strategy of investing in high-quality companies tied

to long-term secular growth trends should continue to perform well over an entire market cycle.

## FIXED INCOME

In the **Fixed Income** market arena, U.S. Treasury yields rose for most maturities during the third quarter, with the exception of the 30-year Treasury. The slope of the Treasury yield curve, 2-year vs. 10-year, was 121 basis points at the end of third quarter – mostly unchanged from the level that prevailed at the end of the second quarter. The 5-year yield rose 8 basis points and the 10-year yield rose 2 basis points to 0.96% and 1.49% respectively, while the 30-year bond fell 5 basis points to 2.04%. Rising inflation as well as concerns related to the Federal Reserve's possible tapering later this year of the purchases of Treasuries and mortgage-backed securities has the bond market on edge. Much will hinge on upcoming economic and employment data. Economic growth, which is expected to have slowed in Q3, has helped keep the 10-year Treasury yield in our previously forecasted range of 1.25% to 1.75% at least for now.

Our **High Yield** Fixed Income strategy returned 1.38% on a gross basis compared to the 0.89% return of the Bloomberg U.S. Corporate High Yield Index for the third quarter of 2021. Sector allocation was slightly positive, with overweights to Independent Energy and Oil Field Services being additive. An overweight to Cable Satellite detracted as large sector constituents were laggards in the quarter. Security selection was materially positive due to one standout contributor and numerous, smaller outperformers. A restructured equity position in an Oil Field Services company continued to rally on substantial debt reduction and sharply rising natural gas prices benefitting the company's E&P gas assets. Holdings in a California utility performed poorly as an early and severe fire season in that state drove the capital structure lower.

## PUNCH BOWL SOCIAL

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 Denver, Colorado. It was great seeing all of our awesome clients!



## THANK YOU

We would like to thank the **Resilient Floor Covering Pension Plan** for additional contributions to Sierra's Concentrated Growth Equity product, the **Laborers District Council Construction Industry Pension Fund** for additional contributions to Sierra's High Yield Fixed Income product, the **Bricklayers and Allied Craftsmen Local 1 of MD, VA and DC Baltimore Chapter Pension Fund** for additional contributions to Sierra's High Yield Fixed Income LLC fund, the **Laborers Pension Trust Fund of Northern Nevada, Operating Engineers Local #101 Pension Fund** and the **Steelworkers Pension Trust** for additional contributions to Sierra's Fixed Income product, and the **Central Pennsylvania Teamsters Pension Fund – Retirement Income Plan 1987** for additional contributions to Sierra's EAFE Plus Equity (International Equity) commingled fund.

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 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 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. 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 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.