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.