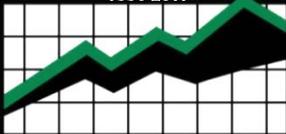


# 4Q17 SIERRA NEWSLETTER



21 YEARS OF EXCELLENCE  
1996-2017



SIERRA INVESTMENT  
PARTNERS, INC.®



## MARKET REVIEW

DURING 2017, SYNCHRONIZED RECOVERIES IN THE EURO-AREA, JAPAN, AND EMERGING ASIA HELPED PROVIDE A FAVORABLE BACKDROP FOR THE U.S. ECONOMY, PARTICULARLY THE MANUFACTURING SECTOR. A REVIVAL IN INDUSTRIAL PRODUCTION, ALONG WITH A RECOVERY IN BUSINESS CAPITAL INVESTMENTS, FUELED AN ACCELERATION IN THE GROSS DOMESTIC PRODUCT (“GDP”) GROWTH RATE DURING THE SECOND AND THIRD QUARTERS. DESPITE THE SHOCKS FROM HURRICANES AND WILDFIRES, THE ECONOMY POSTED GROWTH RATES OF 3.1% AND 3.2%, RESPECTIVELY, IN THE SECOND AND THIRD QUARTERS OF 2017.

A SURGE IN HOUSING ACTIVITY AND STRONG HOLIDAY SALES HELPED SUSTAIN THE GROWTH MOMENTUM INTO THE FOURTH QUARTER. THE HOUSING SECTOR, AFTER REMAINING DORMANT FOR MOST OF THE YEAR, CAME BACK TO LIFE IN THE FOURTH QUARTER. EXISTING HOME SALES AS WELL AS NEW HOME SALES REACHED POST-RECESSION HIGHS IN NOVEMBER. IMPORTANTLY, CONTINUED STRENGTH IN THE JOB MARKET HELPED CONSUMERS SET A NEW RECORD FOR HOLIDAY SALES IN THE FOURTH QUARTER.

## DOMESTIC EQUITY

OUR **LARGE CAP INTRINSIC VALUE EQUITY** STRATEGY RETURNED 8.6% (GROSS) DURING THE QUARTER, OUTPERFORMING THE RUSSELL 1000 VALUE AT 5.3%. FOR THE FULL YEAR, OUR STRATEGY WAS UP 26.7% (GROSS) VS. THE RUSSELL 1000 VALUE AT 13.7%. PERFORMANCE THIS YEAR STANDS IN STARK CONTRAST TO EARLY 2016, WHEN WE HAD BEEN LAGGING. INTERESTINGLY, OUR TURNOVER IS STILL ONLY ABOUT 30% ANNUALLY, SO FOR THE MOST PART, THIS IS THE SAME PORTFOLIO THAT HURT US EIGHTEEN MONTHS AGO – AGAIN, PATIENCE IS A VIRTUE. THE MARKET HAS SHIFTED TO REWARD OUR MANAGEMENT STYLE, AS IT HAS BECOME APPARENT THE FEDERAL RESERVE IS TRYING TO GET U.S. RATES BACK TO A MORE NORMAL LEVEL.

FOR THE QUARTER, OUR **U.S. CONCENTRATED GROWTH STRATEGY** (COMPOSITE) RETURNED 4.62% VERSUS THE 7.86% RETURN OF THE RUSSELL 1000 GROWTH INDEX. FOR THE YEAR, OUR U.S. CONCENTRATED GROWTH STRATEGY (COMPOSITE) RETURNED 23.89% VERSUS THE 30.21% RETURN OF THE RUSSELL 1000 GROWTH INDEX. SINCE INCEPTION (JANUARY 1, 1994), HOWEVER, OUR U.S. CONCENTRATED GROWTH STRATEGY (COMPOSITE) HAS RETURNED 11.64%,

SIGNIFICANTLY OUTPERFORMING THE RUSSELL 1000 GROWTH INDEX RETURN OF 9.35% DURING THAT PERIOD. OUR CONCENTRATED GROWTH PORTFOLIOS HAVE HISTORICALLY UNDERPERFORMED IN DRASTICALLY RISING MARKETS LIKE 2017, BUT ARE MUCH MORE DEFENSIVE IN MODERATE TO DECLINING EQUITY MARKETS, RESULTING IN LONG-TERM COMPOUNDED OUTPERFORMANCE.

OUR **SMALL VALUE EQUITY** PORTFOLIO SIGNIFICANTLY OUTPERFORMED ITS BENCHMARK FOR FOURTH QUARTER OF 2017, DELIVERING A TOTAL RETURN OF 6.0% VERSUS 2.0% FOR THE RUSSELL 2000 VALUE. FOR THE YEAR, THE PORTFOLIO RETURNED 19.5% OUTPACING THE BENCHMARK RETURN OF 7.8%. FURTHER, THE PORTFOLIO HAS OUTPERFORMED THE RUSSELL 2000 VALUE SINCE INCEPTION (MARCH 2005), DELIVERING AN AVERAGE ANNUAL RETURN OF 10.1% VERSUS 7.8% FOR THE BENCHMARK.

## INTERNATIONAL EQUITY

IN **GLOBAL AND NON-U.S. VALUE EQUITY**, STOCKS RALLIED IN 2017 AS INVESTORS LOOKED BEYOND POLITICAL TURMOIL AND U.S. FEDERAL RESERVE BOARD TIGHTENING AND WAGERED INSTEAD ON GLOBAL GROWTH AND FISCAL STIMULUS. YET, DESPITE A LOT GOING RIGHT IN 2017 AND THE PORTFOLIOS DELIVERING SIZABLE ABSOLUTE GAINS, THE RESULTS WERE A LITTLE DISAPPOINTING, WITH OUR NON-U.S. EQUITY COMPOSITE RETURNING 23.11% (GROSS) FOR THE YEAR, COMPARED TO THE 22.12% RETURN OF THE MSCI EAFE VALUE INDEX, AND THE 25.62% RETURN OF THE MSCI EAFE (BROAD) INDEX. WHILE THE COMPOSITES BROADLY BENEFITED FROM SECTOR AND REGIONAL POSITIONING, WE FACED A BOTTOM-UP HEADWIND AT THE STOCK LEVEL.

IN **INTERNATIONAL AND GLOBAL GROWTH EQUITY**, OUR PORTFOLIOS PERFORMED EXTREMELY WELL IN 2017, WITH OUR EAFE PLUS EQUITY (INTERNATIONAL EQUITY) COMPOSITE RETURNING 36.99% (GROSS) COMPARED TO THE MSCI EAFE GROWTH INDEX RETURN OF 29.34% AND THE MSCI EAFE (BROAD) INDEX RETURN OF 25.62%, BENEFITING FROM THE POSITIVE CONVERGENCE OF FAVORABLE MARKET TRENDS AND STRONG EXECUTION FROM MANY INDIVIDUAL HOLDINGS. WITH NON-U.S. MARKETS AND SMALLER-CAP STOCKS BOTH OUTPERFORMING THE BROAD GLOBAL EQUITY MARKET, OUR INTERNATIONAL AND GLOBAL GROWTH EQUITY STRATEGIES WERE ALIGNED WITH MARKET TRENDS IN 2017.

**FIXED INCOME**

IN THE **FIXED INCOME** MARKET ARENA, THE BOND MARKET SOLD OFF AGAIN IN LATE DECEMBER ON STRONGER THAN EXPECTED THIRD QUARTER GDP GROWTH OF 3.2%. ALSO, THE ADMINISTRATION'S SUCCESS IN PASSING TAX REFORM PUSHED YIELDS HIGHER AS THE QUARTER ENDED. THE THIRD AND FINAL RATE HIKE OF 2017 OCCURRED AS EXPECTED IN DECEMBER IN SPITE OF MUTED INFLATION DATA. HIGHER SHORT- AND INTERMEDIATE-TERM INTEREST RATES AND INVESTORS' CONTINUED DEMAND FOR INCOME PRESSED CREDIT SPREADS TIGHTER. CREDIT OUTPERFORMED TREASURIES AND AGENCIES AS NARROWING CORPORATE SPREADS OFFSET THE NEGATIVE PRICE RETURNS OF RISING INTEREST RATES. LONGER-TERM CORPORATE BONDS CONTRIBUTED TO THE OUTPERFORMANCE DUE TO RATES RISING MORE IN THE FRONT END OF THE CURVE.

IN THE **HIGH YIELD** MARKET, OUR CORE STRATEGY SLIGHTLY TRAILED THE BENCHMARKS FOR THE QUARTER PRIMARILY DUE TO SECURITY SELECTION. SIGNIFICANTLY POSITIVE SELECTION WAS GENERATED ACROSS A WIDE VARIETY OF SECTORS, MOST NOTABLY MIDSTREAM, CABLE, AND OIL FIELD SERVICES; HOWEVER, DISTINCTIVE CREDIT SELECTION WITHIN TELECOMMUNICATIONS (WIRELINE AND WIRELESS), FINANCIALS, AND RETAILING WERE ENOUGH TO OFFSET THESE POSITIVE RESULTS. FOR THE FULL CALENDAR YEAR OF 2017, OUR HIGH YIELD COMPOSITE RETURNED 7.44% COMPARED TO THE 6.40% RETURN OF THE CITIGROUP HIGH YIELD BB/B EX B/CCC SPLIT RATINGS INDEX, AND 7.50% RETURN OF THE BLOOMBERG BARCLAYS U.S. CORPORATE HIGH YIELD INDEX.

**DISCLOSURE**

SIERRA INVESTMENT PARTNERS, INC. (SIERRA) IS A MANAGER OF MANAGERS AND USES EXCLUSIVE SUB-ADVISORY AND MARKETING RELATIONSHIPS TO MANAGE PLAN ASSETS. SIERRA'S SUB-ADVISORS ARE: AMUNDI PIONEER INSTITUTIONAL ASSET MANAGEMENT, INC. FOR CONCENTRATED GROWTH EQUITY; TODD ASSET MANAGEMENT LLC FOR LARGE CAP INTRINSIC VALUE EQUITY & INTRINSIC VALUE OPPORTUNITY; FRANKLIN TEMPLETON INSTITUTIONAL, LLC FOR FRANKLIN EAFE PLUS EQUITY & GLOBAL GROWTH EQUITY; TEMPLETON INSTITUTIONAL ASSET MANAGEMENT, LLC FOR NON-U.S. EQUITY & GLOBAL EQUITY; STONERIDGE PMG ADVISORS, LLC FOR FIXED INCOME; ROBERT W. BAIRD & CO. INCORPORATED FOR SMALL VALUE EQUITY; FORT WASHINGTON INVESTMENT ADVISORS, INC. FOR HIGH YIELD FIXED INCOME; AND EDINBURGH PARTNERS LIMITED FOR EMERGING MARKETS EQUITY. PERFORMANCE REFLECTS THAT OF OUR SUB-ADVISOR FOR EACH RESPECTIVE PRODUCT. RETURNS ARE CALCULATED AND PRESENTED GROSS OF FEES. 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 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 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 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 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 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 MSCI EAFE GROWTH INDEX 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 CITIGROUP HIGH YIELD BB/B EX B/CCC SPLIT RATINGS INDEX IS A U.S. DOLLAR-DENOMINATED INDEX, WHICH MEASURES THE PERFORMANCE OF HIGH YIELD DEBT ISSUED BY CORPORATIONS DOMICILED IN THE U.S. OR CANADA. RECOGNIZED AS A BROAD MEASURE OF THE NORTH AMERICAN HIGH-YIELD MARKET, THE INDEX INCLUDES CASH-PAY, DEFERRED-INTEREST SECURITIES AND DEBT ISSUED UNDER RULE 144A IN UNREGISTERED FORM. IT EXCLUDES SPLIT-RATED B/CCC SECURITIES. 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 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.

**EMERGING MARKETS**

THE COMBINATION OF STRONGER ECONOMIC GROWTH IN ALL THE WORLD'S MAJOR ECONOMIES AND WEAKNESS IN THE U.S. DOLLAR CAUSED AN UPSURGE IN INVESTOR ENTHUSIASM FOR **EMERGING MARKETS** DURING THE QUARTER. FUND FLOWS INTO THE ASSET CLASS, WHICH HAD BEEN STRONG ALL YEAR, ACCELERATED IN THE FINAL MONTHS OF 2017. THIS ALLOWED THE PORTFOLIO TO MAKE GOOD PROGRESS OVERALL. HOWEVER, THE BENCHMARK (MSCI EMERGING MARKETS INDEX) OUTPERFORMED, PRIMARILY DUE TO STOCK SELECTION OF A FEW NOTABLE SECURITIES THAT WE BELIEVE DO NOT REPRESENT GOOD VALUE.

**THANK YOU**

WE WOULD LIKE TO EXTEND OUR GRATITUDE TO THE **IBEW LOCAL 595 PENSION PLAN** FOR ALLOCATING A PORTION OF ITS ASSETS TO SIERRA'S EAFE PLUS EQUITY (INTERNATIONAL EQUITY) COMMINGLED FUND. ALSO, WE WOULD LIKE TO THANK THE **HAWAII ELECTRICIANS ANNUITY FUND** AND THE **HAWAII ELECTRICIANS PENSION FUND** FOR ADDITIONAL CONTRIBUTIONS TO SIERRA'S EAFE PLUS EQUITY (INTERNATIONAL EQUITY) COMMINGLED FUND, THE **ELECTRICAL WORKERS LOCAL NO. 26 PENSION TRUST FUND** FOR ADDITIONAL CONTRIBUTIONS TO SIERRA'S CONCENTRATED GROWTH EQUITY PRODUCT, THE **SAN DIEGO ELECTRICAL HEALTH AND WELFARE TRUST** FOR ADDITIONAL CONTRIBUTIONS TO SIERRA'S HIGH YIELD FIXED INCOME PRODUCT, AND THE **LABORERS LOCAL UNION NO. 158 PENSION FUND** AND THE **STEELWORKERS PENSION TRUST** FOR ADDITIONAL CONTRIBUTIONS TO SIERRA'S FIXED INCOME 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.