

4Q18 SIERRA NEWSLETTER



MARKET REVIEW

FINANCIAL MARKETS WERE VOLATILE DURING THE FOURTH QUARTER OF 2018, WITH ECONOMIC NEWS BEING PRIMARILY POSITIVE AS GDP GROWTH, WAGES, AND UNEMPLOYMENT ALL CONTINUED TO IMPROVE. IN ADDITION TO CHAIRMAN POWELL'S COMMENTS, HEADLINES OUT OF WASHINGTON, DC RATTLED MARKETS AND INCREASED UNCERTAINTY DUE TO CONTINUED TRADE TENSIONS WITH CHINA AS WELL AS THE ONGOING U.S. GOVERNMENT SHUTDOWN. EUROPEAN HEADLINES ALSO BROUGHT ABOUT VOLATILITY WITH RENEWED CONCERNS OVER THE ITALIAN ECONOMY/BUDGET AND MORE BREXIT TURMOIL. OVERALL, BONDS ENDED THE YEAR ON A POSITIVE NOTE, WHEREAS ALL MAJOR STOCK INDEXES ENDED NEGATIVE – ANOTHER REASON WHY ASSET ALLOCATION IS SO IMPORTANT.

DOMESTIC EQUITY

OUR **LARGE CAP INTRINSIC VALUE EQUITY** (LCIV) STRATEGY DECLINED -16.4% (GROSS) DURING THE QUARTER, UNDERPERFORMING THE RUSSELL 1000 VALUE (-11.7%). FOR 2018, OUR LCIVE STRATEGY WAS DOWN -13.7% (GROSS) VERSUS THE RUSSELL 1000 VALUE AT -8.3%. FOR THE FIVE-YEARS TRAILING, OUR LCIVE STRATEGY IS UP 6.2% VERSUS THE 6.0% RETURN OF THE RUSSELL 1000 VALUE. FOR THE TEN-YEARS TRAILING, OUR LCIVE STRATEGY IS UP 11.6% VERSUS THE 11.2% RETURN OF THE RUSSELL 1000 VALUE.

OUR **U.S. CONCENTRATED GROWTH** STRATEGY (COMPOSITE) RETURNED -12.0% (GROSS) FOR THE FOURTH QUARTER, COMPARED TO RUSSELL 1000 GROWTH INDEX PERFORMANCE OF -15.9%. FOR 2018, OUR PORTFOLIO RETURNED A POSITIVE 0.3% (GROSS) VERSUS A NEGATIVE -1.5% FOR THE RUSSELL 1000 GROWTH INDEX. SINCE INCEPTION (JANUARY 1, 1994), OUR U.S. CONCENTRATED GROWTH STRATEGY (COMPOSITE) HAS RETURNED 11.2% (GROSS) COMPARED TO THE 8.9% RETURN OF THE BENCHMARK RUSSELL 1000 GROWTH INDEX. THE DISCIPLINED EXECUTION OF THE STRATEGY'S INVESTMENT PHILOSOPHY – WHICH IS TO GENERATE ABOVE-AVERAGE RETURNS, WHILE LIMITING RISK, BY INVESTING IN HIGH QUALITY, LARGE CAPITALIZATION GROWTH STOCKS THAT TRADE AT A DISCOUNT TO THEIR INTRINSIC VALUE – PAID OFF IN THE FOURTH QUARTER OF 2018 AS OUR PORTFOLIO OUTPERFORMED ITS BENCHMARK.

OUR **SMALL VALUE EQUITY** PORTFOLIO (COMPOSITE) OUTPERFORMED THE BENCHMARK RUSSELL 2000 VALUE, ALTHOUGH IT WAS AN EXTREMELY NEGATIVE QUARTER FOR STOCKS. HOWEVER, FOR 2018, THE

PORTFOLIO RETURNED -15.1% (GROSS) VERSUS THE BENCHMARK RETURN OF -12.9%. WHILE THE PAST TWO YEARS HAVE BEEN A REAL CHALLENGE FOR VALUE MANAGERS, OUR PORTFOLIO POSTED A POSITIVE ANNUALIZED RETURN OF 0.7% (GROSS) VERSUS A NEGATIVE RETURN OF -3.1% FOR THE RUSSELL 2000 VALUE INDEX. OUR PORTFOLIO HAS ALSO OUTPERFORMED THE RUSSELL 2000 VALUE SINCE INCEPTION (MARCH 2005), POSTING AN AVERAGE ANNUAL RETURN OF 8.0% (GROSS) VERSUS 6.1% FOR THE BENCHMARK.

INTERNATIONAL EQUITY

IN **GLOBAL AND NON-U.S. VALUE EQUITY**, WE UNDERPERFORMED THE MSCI EAFE INDEX DURING THE YEAR, LARGELY DRIVEN BY EXPOSURE TO EUROPEAN FINANCIALS, AND CYCLICALS WHICH LAGGED DURING PERIODS OF INCREASED MARKET VOLATILITY. EUROPEAN STOCKS UNDERPERFORMED TO AN EXTENT TYPICALLY ASSOCIATED WITH CONTRACTION AND RECESSION. ALTHOUGH THERE WAS A SLOWDOWN FOR 2018, THE DATA WAS EXPANSIONARY AND GDP GROWTH REMAINS POSITIVE. OUR GOAL IS TO PRODUCE SUPERIOR LONG-TERM RISK ADJUSTED RETURNS. SINCE INCEPTION (JULY 31, 1989), OUR TAX-EXEMPT NON-U.S. EQUITY COMPOSITE HAS COMPOUNDED AT 7.8% (GROSS) VERSUS THE 4.5% RETURN OF THE MSCI EAFE INDEX AND THE 5.4% RETURN OF THE MSCI EAFE VALUE INDEX.

IN **INTERNATIONAL AND GLOBAL PLUS EQUITY**, THE RETREAT FROM RISKIER ASSETS LIKE EQUITIES, AND GROWTH-ORIENTED STOCKS IN PARTICULAR, HAD A NEGATIVE IMPACT ON OUR STRATEGIES' PERFORMANCE DURING THE FINAL QUARTER OF THE YEAR. A NUMBER OF FASTER GROWING AND MORE HIGHLY VALUED STOCKS WERE UNDULY IMPACTED BY THE SELLOFF DESPITE WHAT WE BELIEVE ARE THEIR CONTINUED STRONG FUNDAMENTAL CHARACTERISTICS. OUR COMPOSITE PERFORMED ROUGHLY IN LINE WITH ITS BENCHMARKS FOR THE TRAILING ONE YEAR – OUR EAFE PLUS EQUITY COMPOSITE RETURNED -13.2% (GROSS), VERSUS THE -13.4% RETURN OF THE MSCI EAFE INDEX, AND THE -12.8% FOR THE MSCI EAFE GROWTH (NET DIVIDENDS) INDEX. FOR THE TRAILING TEN YEARS, OUR EAFE PLUS EQUITY COMPOSITE HAS OUTPERFORMED, RETURNING 11.1% (GROSS) VERSUS THE 6.8% RETURN OF THE MSCI EAFE INDEX, AND THE 7.1% RETURN OF THE MSCI EAFE GROWTH (NET DIVIDENDS) INDEX.

FIXED INCOME

THERE WAS A MASSIVE RALLY IN THE **FIXED INCOME** MARKET ARENA DURING THE FOURTH QUARTER OF 2018. FOR THE QUARTER, OUR INTERMEDIATE COMPOSITE

PORTFOLIO RETURNED 1.8% COMPARED TO THE 1.7% OF THE BLOOMBERG BARCLAYS INTERMEDIATE G/C INDEX. OUR AGGREGATE COMPOSITE PORTFOLIO RETURNED 1.9% FOR THE QUARTER, COMPARED TO THE 1.6% RETURN OF THE BLOOMBERG BARCLAYS AGGREGATE INDEX.

OUR **HIGH YIELD** STRATEGY EXCEEDED THE BENCHMARK IN 4Q18, WITH BOTH SECTOR ALLOCATION AND SECURITY SELECTION BEING POSITIVE. THE LARGEST DRIVERS OF PERFORMANCE WERE THE SIGNIFICANT UNDERWEIGHT TO CCC-RATED SECURITIES AS WELL AS HIGHER QUALITY HOLDINGS WITHIN THE ENERGY SECTORS. OUR HIGH YIELD PORTFOLIO (COMPOSITE) RETURNED -3.9% (GROSS) WHICH OUTPERFORMED THE UNDERLYING BLOOMBERG BARCLAYS U.S. CORPORATE HIGH YIELD INDEX RETURN OF -4.5% BY +59BPS. AN UNDERWEIGHT TO INDEPENDENT ENERGY AND OVERWEIGHTS TO FOOD & BEVERAGE AND CABLE/SATELLITE WERE HELPFUL TO ALLOCATION, WHILE AN UNDERWEIGHT TO PHARMACEUTICALS WAS A SLIGHT DETRACTOR. WITHIN SECURITY SELECTION, ENERGY POSITIONING WAS BROADLY POSITIVE AS WAS SELECTION WITHIN HEALTH CARE AND CONSUMER SERVICES.

EMERGING MARKETS

INCREASING CONCERNS OVER A POTENTIAL TRADE WAR BETWEEN THE U.S. AND CHINA, AND UNCERTAINTY OVER MONETARY POLICY CAUSED THE SLIDE IN EMERGING MARKETS TO ACCELERATE IN THE FOURTH QUARTER OF 2018. THE MSCI EMERGING MARKET INDEX FELL, RETURNING -7.4% FOR THE QUARTER. OUR

EMERGING MARKETS EQUITY PORTFOLIO (COMPOSITE) FARED marginally better, returning -7.1% (GROSS).

THANK YOU

WE WOULD LIKE TO EXTEND OUR GRATITUDE TO THE **BAY AREA PAINTERS AND TAPERS PENSION FUND** FOR ADDITIONAL CONTRIBUTIONS TO SIERRA'S INTERNATIONAL VALUE EQUITY PRODUCT, THE **CAROLINAS ELECTRICAL WORKERS RETIREMENT FUND** FOR ADDITIONAL CONTRIBUTIONS TO SIERRA'S CONCENTRATED GROWTH EQUITY PRODUCT, THE **CHICAGO AREA INTERNATIONAL BROTHERHOOD OF TEAMSTERS PENSION TRUST FUND** FOR ADDITIONAL CONTRIBUTIONS TO SIERRA'S EAFE PLUS EQUITY PRODUCT, THE **INTERNATIONAL BROTHERHOOD OF TEAMSTERS LOCAL NO. 705 HEALTH AND WELFARE FUND** FOR ADDITIONAL CONTRIBUTIONS TO SIERRA'S FIXED INCOME PRODUCT, THE **LABORERS DISTRICT COUNCIL CONSTRUCTION INDUSTRY PENSION FUND** FOR ADDITIONAL CONTRIBUTIONS TO SIERRA'S HIGH YIELD FIXED INCOME PRODUCT, THE **NORTHERN CALIFORNIA GLAZIERS ARCHITECTURAL METAL AND GLASS WORKERS PENSION PLAN** FOR ADDITIONAL CONTRIBUTIONS TO SIERRA'S LARGE CAP INTRINSIC VALUE EQUITY PRODUCT, THE **OHIO LABORERS DISTRICT COUNCIL/OHIO CONTRACTORS ASSOCIATION INSURANCE FUND** FOR ADDITIONAL CONTRIBUTIONS TO SIERRA'S HIGH YIELD FIXED INCOME PRODUCT, AND THE **SAN MATEO ELECTRICAL WORKERS HEALTH PLAN** 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.

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 PLUS 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 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 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 (NET DIVIDENDS) 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 INDICES ARE NET OF FOREIGN WITHHOLDING TAXES ON DIVIDENDS. 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 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. INDICES 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.