

4Q19 SIERRA NEWSLETTER



MARKET REVIEW

AFTER POSTING A SOLID 3.1% GROWTH RATE IN THE FIRST QUARTER, THE U.S. ECONOMIC ENGINE DECELERATED TO A PACE OF ABOUT 2.0% FOR THE REMAINDER OF 2019. PERSISTENT DECLINE IN MANUFACTURING ACTIVITY AND BUSINESS INVESTMENT POSED HEADWINDS TO GROWTH. THIS WAS DUE TO SLOWING GLOBAL GROWTH AND TRADE POLICY UNCERTAINTY. THE HEADWINDS WERE OVERPOWERED, HOWEVER, BY SUSTAINED STRENGTH IN CONSUMER SPENDING AND A REVIVAL IN THE HOUSING SECTOR. THANKS TO THE STRONG JOB MARKET, AMERICAN CONSUMERS BOLSTERED THE LONGEST RUNNING ECONOMIC EXPANSION CYCLE IN HISTORY. THE HOUSING SECTOR EXPERIENCED A SIGNIFICANT BOOST FROM LOWER MORTGAGE RATES DURING THE YEAR. OVERALL, THE U.S. ECONOMY LIKELY MAINTAINED A GROWTH RATE OF APPROXIMATELY 2.0% DURING THE FOURTH QUARTER.

DOMESTIC EQUITY

OUR **LARGE CAP INTRINSIC VALUE EQUITY** STRATEGY BEGAN TO REGAIN TRACTION IN SEPTEMBER AFTER RECESSION CONCERNS PEAKED AND GLOBAL RATES BOTTOMED. THIS MOMENTUM CONTINUED THROUGH THE 4TH QUARTER AS WE SAW OUR STRATEGY OUTPERFORM THE RUSSELL 1000 VALUE. THE STRATEGY ACTUALLY PICKED UP OVER +6% VS. THE INDEX SINCE THE LOWS IN LATE-AUGUST/EARLY-SEPTEMBER, CLOSING THE GAP, AND PULLING FAR AHEAD OF THE RUSSELL 1000 VALUE THROUGH YEAR END. OUTPERFORMANCE OVER THE PAST FEW MONTHS HAS COINCIDED WITH AN EASING OF GLOBAL GROWTH CONCERNS AND RISING INTEREST RATES, ALBEIT FROM GENERATIONALLY LOW LEVELS. IF WE CONTINUE TO GET CONFIRMATION THAT GROWTH HAS BOTTOMED, THIS STRATEGY SHOULD CONTINUE TO REGAIN TRACTION. FOR THE YEAR ENDING 2019, OUR PORTFOLIO RETURNED 29.5% COMPARED TO THE 26.5% RETURN OF THE RUSSELL 1000 VALUE.

OUR **U.S. CONCENTRATED GROWTH** STRATEGY (COMPOSITE) RETURNED 3.1% VERSUS THE 3.0% RETURN OF THE RUSSELL 1000 GROWTH INDEX FOR THE MONTH OF DECEMBER 2019. FOR THE FOURTH QUARTER OF 2019, OUR PORTFOLIO RETURNED 8.9% VERSUS 10.6% FOR THE RUSSELL 1000 GROWTH INDEX. FOR THE YEAR, THE PORTFOLIO RETURNED 35.2% VERSUS 36.4% FOR THE RUSSELL 1000 GROWTH INDEX. GIVEN OUR FOCUS ON TRYING TO MITIGATE RISK, THE PORTFOLIO'S PERFORMANCE HAS TYPICALLY LAGGED THE BENCHMARK'S PERFORMANCE DURING PERIODS OF STRONG MARKET APPRECIATION. THIS OCCURS DUE TO OUR EFFORTS TO MAINTAIN THE PORTFOLIO'S DEFENSIVE CHARACTERISTICS, WHICH HISTORICALLY HAVE PROVIDED

DOWNSIDE RISK MITIGATION DURING PERIODS OF MARKET VOLATILITY. THE PROOF LIES IN OUR SINCE INCEPTION (JANUARY 1, 1994) NUMBER; OUR PORTFOLIO HAS EARNED A COMPOUNDED 12.0% RETURN, COMPARED TO THE 9.8% RETURN OF THE RUSSELL 1000 GROWTH INDEX AND THE 9.9% RETURN OF THE S&P 500.

FOR THE QUARTER, OUR **SMALL VALUE EQUITY** PORTFOLIO UNDERPERFORMED THE BENCHMARK RUSSELL 2000 VALUE WITH A GROSS RETURN OF 4.8% VERSUS 8.5% FOR THE BENCHMARK. THE PORTFOLIO WAS PERFORMING IN LINE WITH THE RUSSELL 2000 VALUE FOR THE QUARTER THROUGH LATE NOVEMBER. THE PUSH INTO THE YEAR END, HOWEVER, FAVORED ENERGY, BANKS AND INDUSTRIALS; THREE AREAS WHERE THE PORTFOLIO HAS LESS EXPOSURE THAN THE BENCHMARK. FOR THE YEAR, THE PORTFOLIO RETURNED 18.1% GROSS OF FEES VERSUS THE BENCHMARK RUSSELL 2000 VALUE RETURN OF 22.4%. FOR THE THREE YEARS TRAILING, THE PORTFOLIO RETURNED 6.3% GROSS OF FEES VERSUS 4.8% FOR THE RUSSELL 2000 VALUE. SINCE INCEPTION (MARCH 1, 2003), THE PORTFOLIO HAS RETURNED 8.7% VERSUS THE 7.1% RETURN OF THE RUSSELL 2000 VALUE.

INTERNATIONAL EQUITY

IN **GLOBAL AND NON-U.S. VALUE EQUITY**, OUR GLOBAL EQUITY COMPOSITE AND TAX EXEMPT NON-U.S. EQUITY COMPOSITE DELIVERED DOUBLE-DIGIT ABSOLUTE GAINS IN 2019, BUT FAILED TO KEEP PACE WITH THEIR BENCHMARKS, THE MSCI ALL COUNTRY WORLD INDEX AND THE MSCI ALL COUNTRY WORLD ex-U.S., DURING A YEAR WHEN THE VALUE FACTOR EXPERIENCED A FULL-FLEDGED MELTDOWN, UNDERPERFORMING GROWTH BY >12% GLOBALLY AND >11% INTERNATIONALLY. THOSE RESULTS CAME DESPITE A DRAMATIC—IF SHORT-LIVED—SHIFT IN SEPTEMBER, WHEN MOMENTUM DELIVERED LOSSES ON PAR WITH ITS WORST 2% OF HISTORICAL MONTHLY RETURNS WHILE VALUE FINISHED THE MONTH IN THE TOP 3% OF HISTORICAL GAINS.

IN **INTERNATIONAL AND GLOBAL PLUS EQUITY**, EQUITY MARKETS SPIKED HIGHER IN THE FOURTH QUARTER OF 2019, WITH THE MSCI WORLD INDEX INCREASING 8.6% IN U.S. DOLLAR TERMS. WHILE WE DID SEE SOME RELIEF ON GEOPOLITICAL AND MACROECONOMIC ISSUES DURING THE QUARTER, THE MAGNITUDE OF THE SPIKE WAS HARD TO RATIONALIZE. GLOBAL EQUITY MARKETS, AS MEASURED BY THE MSCI WORLD INDEX, ENDED THE DECADE AT RECORD HIGHS AND WERE ABOUT 9% ABOVE THE LAST HIGH SEEN IN EARLY SEPTEMBER 2018. THE RALLY IN THE FOURTH QUARTER WAS BROAD BASED, WITH INFORMATION TECHNOLOGY AND HEALTH CARE SECTORS PACING THE ADVANCE. IT WAS A VERY STRONG YEAR FOR

OUR PORTFOLIOS, WITH OUR EAFE PLUS EQUITY COMPOSITE RETURNING 39.4% FOR THE YEAR 2019, VERSUS THE 22.7% RETURN OF THE MSCI EAFE INDEX AND THE 28.4% RETURN OF THE MSCI EAFE GROWTH INDEX.

FIXED INCOME

IN THE **FIXED INCOME** MARKET ARENA, DURING THE FOURTH QUARTER, THE NEGATIVE SPREAD BETWEEN THREE-MONTH TREASURY BILLS AND TEN-YEAR TREASURY NOTES REVERSED SIGNIFICANTLY. AFTER BEING INVERTED AS MUCH AS 21 BPS EARLY IN THE QUARTER, THE CURVE STEEPENED TO A POSITIVE 41 BPS MID-QUARTER. MONETARY POLICY, WHICH IS CURRENTLY NEUTRAL AT WORST, COMBINED WITH STRONG EQUITY AND CREDIT PERFORMANCE TO PUSH LONGER MATURITY RATES HIGHER ACROSS THE CURVE. FOR THE QUARTER, TWO-YEAR TREASURIES DECLINED 6 BPS TO 1.56% WHILE TEN-YEAR NOTES ROSE 24 BPS TO END 2019 YIELDING 1.91%. IN THE FINAL QUARTER OF 2019, WE SAW A REVERSAL IN THE RELATIVE PERFORMANCE TREND OF U.S. TREASURIES. CORPORATE BONDS DRAMATICALLY OUTPERFORMED TREASURIES. THIS WAS A RESULT OF THE BACKUP IN TREASURY RATES AND THE FEDERAL RESERVE'S INTEREST RATE POLICY REVERSAL.

OUR **HIGH YIELD** STRATEGY UNDERPERFORMED IN 4Q19 DRIVEN BY A MIXTURE OF SECURITY SELECTION AND SECTOR ALLOCATION. THE PORTFOLIO RETURNED 2.2% (GROSS) OR -40 BPS TO THE BLOOMBERG BARCLAYS U.S. CORPORATE HIGH YIELD INDEX RETURN OF 2.6%. IDIOSYNCRATIC FACTORS LED TO NEGATIVE SECURITY SELECTION. WITHIN HIGH YIELD, BBs AND Bs LED FOR MOST OF THE QUARTER AS CCCs CONTINUED TO LAG; HOWEVER, STARTING IN LATE NOVEMBER, CCCs TIGHTENED 132 BPS AND ENDED UP BEING THE BEST PERFORMING CREDIT RATING CATEGORY AT +3.7%.

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 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 STOCKS WEIGHT IS PROPORTIONATE TO ITS MARKET VALUE. 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 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 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 INDEXES ARE NET OF FOREIGN WITHHOLDING TAXES ON DIVIDENDS. 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.

HOWEVER, FOR THE YEAR 2019, HIGHER QUALITY BBB- AND B- RATED SECURITIES PERFORMED WELL AND OUR PORTFOLIOS WERE UP 15.3% BEATING THE 14.3% RETURN OF THE BLOOMBERG BARCLAYS U.S. CORPORATE HIGH YIELD INDEX.

EMERGING MARKETS

A THAW IN THE TRADE DISPUTE BETWEEN THE USA AND CHINA COMBINED WITH CONTINUING MONETARY EASING BY THE U.S. FEDERAL RESERVE ALLOWED EMERGING MARKETS TO RALLY STRONGLY IN THE FINAL TWO MONTHS OF 2019. AS A RESULT, THE MSCI EMERGING MARKETS INDEX GAINED 11.9% IN THE FOURTH QUARTER OF THE YEAR, AND OUR **EMERGING MARKETS** PORTFOLIO GAINED 8.8% DURING THE QUARTER. THE AGGREGATE VALUATION OF THE PORTFOLIO HAS INCREASED IN LINE WITH THE MOVEMENT IN MARKETS AND STANDS AT 9.9 TIMES FY5 EARNINGS. THIS IS AT THE HIGHER END OF THE NORMAL RANGE, BUT THE COMPANIES IN THE PORTFOLIO ARE GENERALLY SHOWING SIGNS OF RESILIENT TRADING AND THE CASH BALANCE IS HIGH IN ANTICIPATION OF BETTER NEW BUYING OPPORTUNITIES.

THANK YOU

WE WOULD LIKE TO THANK **IBEW LOCAL 648 PENSION PLAN** FOR ALLOCATING A PORTION OF ITS ASSETS TO SIERRA'S HIGH YIELD FIXED INCOME PRODUCT, **LOCAL 697 IBEW AND ELECTRICAL INDUSTRY PENSION FUND** AND **TEAMSTERS UNION 25 HEALTH SERVICES AND INSURANCE PLAN** FOR ALLOCATING A PORTION OF THEIR ASSETS TO SIERRA'S CONCENTRATED GROWTH EQUITY PRODUCT, AND **LABORERS PENSION TRUST FUND OF NORTHERN NEVADA** FOR ALLOCATING A PORTION OF ITS ASSETS TO SIERRA'S EAFE PLUS EQUITY (INTERNATIONAL EQUITY) COMMINGLED FUND. WE AT SIERRA INVESTMENT PARTNERS, INC., VALUE EACH OF OUR CLIENTS AND ARE GRATEFUL FOR THE OPPORTUNITY TO MANAGE A PORTION OF YOUR ASSETS.