SIERRA INVESTMENT PARTNERS, INC.®

NEWSLETTER

24 Years of Excellence 1996-2020

4Q20

MARKET REVIEW

As we entered the fourth quarter, consumer spending was resilient and factories were busy fulfilling orders for durable goods such as cars, refrigerators, and washing machines. Home sales and residential construction continued apace. Simultaneously, the economic crosscurrents from the pandemic intensified. Job losses persisted at an elevated rate, and the pace of job creation petered out swelling the ranks of the long-term unemployed. Total non-farm payroll remained well below its pre-pandemic level. Unlike the swift response in March, negotiations on the next policy action dragged on for months. Amidst the uncertainty, personal income and consumer confidence declined. Retail spending softened during the holiday season as consumers refrained from crowding into malls. The expiration of unemployment benefits loomed large. Finally, on December 21st a pandemic relief package was passed by Congress along with the federal budget. But a last-minute twist prolonged the uncertainty until the legislation was signed into law six days later.

The silver lining of this extraordinary year was the breakthrough development of COVID-19 vaccines, signaling light at the end of the tunnel. This helped sustain bullish market sentiment for risk assets. Overall, GDP likely grew at approximately a 4.5% pace in the fourth quarter. We look forward to a post-vaccination growth cycle, but risks remain.

DOMESTIC EQUITY

Our **Large Cap Intrinsic Value Equity** (gross) strategy was a beneficiary of several positive developments in the quarter that lifted markets broadly, outperforming the Russell 1000 Value by +2% during the fourth quarter of 2020. November was an active month, as the U.S. election was followed by COVID-19 vaccine announcements from Pfizer and Moderna that showcased a remarkable level of efficacy. This cleared the table for market performance to broaden out from a handful of Mega-cap names and reignited momentum the strategy has had since the market bottomed. For the full calendar year 2020, we returned 10.4% and the Russell 1000 Value returned 2.8%.

Our **U.S. Concentrated Growth Strategy** (composite) returned 10.80%, while the S&P 500 returned 12.15%, and the Russell 1000 Growth Index returned 11.39%. All of the relative underperformance in the fourth quarter derived from not holding shares of Tesla Inc, which returned more than 60% for the quarter, but traded at 189 times estimated 2021 earnings-per-share. It was for those valuation reasons, and because of Tesla Inc's low returns-on-capital, that we chose to avoid the stock. Sector allocation results also detracted from relative returns this quarter, primarily due to the Portfolio's overweight in financials stocks, which underperformed the Russell 1000 Growth Index, as shares of consumer discretionary and information technology companies continued to move higher. For 2020, the Strategy returned 28.20%, while the S&P 500 Index returned 18.40%, and the Russell 1000 Growth Index returned 38.49%. The benchmark-relative underperformance for the full calendar year compared to the Russell 1000 Growth Index is entirely consistent with our valuation-disciplined, conservative-growth investment approach. Through all of the different market cycles since the strategy's inception in 1994, we have compounded at 12.61% versus the 10.17% return of the S&P 500 Index and the 10.79% return of the Russell 1000 Growth Index. We remain steadfast in our proven philosophy and discipline.

For the quarter, our **Small Cap Value Equity** Portfolio provided a gross return of 27.6% versus the benchmark Russell 2000 Value gross return of 33.4%. For the year, the Portfolio provided a return of 2.8% gross of fees versus the benchmark Russell 2000 Value return of 4.6%. Since inception (March 1, 2005), our Small Cap Value Portfolio has provided a gross annual return of 8.3% vs 7.0% for the Russell 2000 Value.

INTERNATIONAL EQUITY

In **Global and Non-U.S. Value Equity,** over the year as a whole, the MSCI All Country World Value index lagged its growth sibling by an astonishing 33.9%. The challenge today is whether the vaccine-induced "value" rally that started in November last year has legs or not. We believe the history books will cite

2020 as a tipping point for some of the major forces that will increasingly come to define the world in which we live.

In **International and Global Plus Equity**, global equity markets rose to all-time highs. Almost all stock markets advanced by mid-teen percentages, with the benchmark MSCI World Index advancing around 14% in U.S. dollar terms. Markets rose despite a surge in coronavirus cases, especially in the United States and Europe, that could put some near-term pressure on the global economy. We had a very strong 2020 with our composite returning **30.23%** (gross) vs the MSCI EAFE Index – Net Returns return of 7.82% and the MSCI EAFE Growth Index – Net Returns return of 18.29%.

Fixed Income

In the **Fixed Income** market arena, U.S. investment grade corporate credit had a strong quarter, closing out a tumultuous year with a decidedly risk-on sentiment. The sector outperformed Treasuries by 4.11% in the quarter and 0.49% for the year. The pandemic themes underpinned corporate credit returns during the final quarter of 2020 as well as for the full year. The combination of fiscal action and the Federal Reserve's implicit support of the financial markets created a steady demand for spread product across the rating spectrum. Expectations for an extended period of ultra-low interest rates fueled the hunt for yield. Corporate bonds offered greater value to investors relative to other options. That demand helped absorb the deluge of bonds that were issued in 2020, a record breaking $2.5 trillion in the U.S. alone. As in the third quarter, marginal credit, specifically the lowest rung of IG (BBB-), produced a return of 3.60% besting every other Investment Grade rating by a wide margin. Counter-intuitively, given the challenges of the recessionary environment, the highest rated AAA debt produced a negative return of 0.27%.

Our **High Yield** Fixed Income strategy returned 5.77% on a gross basis for the quarter or -68bps to the Bloomberg Barclays U.S. Corporate High Yield Index return of 6.45%. Sector allocation was negative, though with no real outliers. With Energy sectors leading in the quarter, underweights to Oil Field Services and Independent Energy were a drag on allocation. A large overweight to Midstream was a partially offsetting factor. Underweights to stable sectors including Health Insurance, Wireless and Packaging drove positive contributions in the quarter. Multiple themes were present in security selection including Energy dominating leadership, but also strong performances from CCC-rated issuers and companies directly impacted by COVID-19. A lack of or limited exposure to these market segments led security selection to be negative. Several large holdings in Media Entertainment benefitted from investors' risk on behavior and were stand out performers in 4Q20. Low quality issuers were top performers in the quarter causing the strategy's higher quality bent to impede performance for a second consecutive quarter.

Thank You

We would like to extend our gratitude to the **Electrical Welfare Trust Fund (Local 26)** for allocating a portion of its assets to Sierra's Concentrated Growth Equity product. Also, we would like to thank the **Bay Area Painters and Tapers Pension Plan** for additional contributions to Sierra's Intrinsic Value Equity product; the **Laborers Pension Trust Fund of Northern Nevada** for additional contributions to Sierra's Small Cap Value Equity product; the **Ohio Laborers District Council-Ohio Contractors Association Insurance Fund** and the **Teamsters Union 25 Health Services and Insurance Plan** for additional contributions to Sierra's High Yield Fixed Income commingled fund; the **International Brotherhood of Teamsters Local No. 705 Health and Welfare Fund**, the **Laborers Pension Trust Fund of Northern Nevada**, the **San Diego Electrical Pension Trust**, 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 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 county-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 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 county-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 stocks 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.*