

# Sierra Update



First Quarter 2015

19 Years of Excellence  
1996-2015

## MARKET REVIEW

U.S. stock and bond markets fluctuated in broad ranges in the first calendar quarter, but were relatively calm compared to the market action in crude oil prices and the euro, each of which posted a double-digit decline against the U.S. dollar.

As in last year, the weather seems to be the primary cause of weakness in the U.S. economy. After the middle two quarters of 2014 grew at an average rate of 4.8%, the fourth quarter Gross Domestic Product (GDP) moderated to 2.2%. Now it appears the first quarter of 2015 will be weak, with GDP possibly only growing 1.0%.

Meanwhile, investors are waiting to hear the future of Federal Reserve (Fed) policy. Based on language provided in the Fed's briefings, we believe the Fed is likely to increase rates during the summer or in early fall. That would possibly make the Fed the only major central bank to lift rates this year.

### Domestic Equity

Our **Large Cap Intrinsic Value Equity (LCIV)** strategy posted a 0.44% gross return in the quarter, outpacing the Russell 1000 Value loss of -0.72%. Our overweighting and selections in Consumer Discretionary stocks contributed positively to performance. The Energy sector also contributed to performance, benefitting from our underweighting and stock selection. Most of our positioning changes stemmed from the decrease in oil prices, increase in the dollar, and expectations for some shifts in the capital replacement cycle.

Our U.S. **Concentrated Growth** Composite underperformed its benchmark, the Russell

Growth index in the first quarter, returning 2.73% while the benchmark returned 3.84%; however, for the year our strategy outperformed spectacularly, returning 18.51% while the Russell 1000 Growth Index returned 16.09%. Stock selection results in the Consumer Discretionary sector made a solid contribution to the strategy's benchmark-relative returns this quarter, while sector weights, especially an overweight to Health Care, also contributed to the strategy's benchmark-relative performance.

For the quarter, our **Small Value Equity** portfolio delivered an absolute return of 1.7% for the quarter compared to the benchmark Russell 2000 Value return of 2.0%. The portfolio continues to deliver solid long-term absolute and relative performance, returning 15.1% versus 14.7% trailing 3-years, 14.3% versus 12.5% trailing 5-years, and 10.0% versus 7.2% since inception. The strategy, we believe, applied with discipline, yields attractive long-term returns for investors.

### International Equity

Global/international equities advanced in the first quarter of 2015 in an environment of continued policy accommodation and broadly muted economic and corporate profit growth. In our **Global and Non-U.S. Value Equity** strategies, the composites outperformed their respective benchmarks, the MSCI All Country World Index (5.03% vs. 3.59%) and MSCI All Country World ex-U.S. (2.92% vs. 2.44%) for the period.

In **International and Global Growth Equity**, corporate fundamentals continued to take a backseat to global central bank policy when it came to the primary influence on global equity market returns during the first quarter of 2015. After dominating global equity market returns

## MARKET REVIEW (cont.)

over the last five years, U.S. equities took a breather in the first quarter as investors generally turned their attention to the future of Fed policy. European markets dominated the MSCI World Index, while the MSCI Europe Index surged nearly 12% and the MSCI EMU Index (measuring eurozone equity markets) was up an even more impressive 18.6% in local currency terms during the quarter.

### Fixed Income

In the **Fixed Income** market arena, longer-term interest rates as measured by the 10-year U.S. Treasury note continued lower during the first quarter. Short-term rates (two-year Treasuries) fell less than the 10-year, flattening the yield curve further. In a declining interest rate environment, higher quality bonds generally outperform. This was not the case in the first quarter. Aaa-rated bonds underperformed U.S. Treasuries while A-rated bonds outperformed. Investment grade bonds with maturities of one to ten years meaningfully outperformed comparable Treasuries, while securities with longer maturities slightly underperformed Treasuries.

In the **High Yield** market, spreads tightened 15 basis points as market participants became increasingly comfortable that defaults will remain manageable. Additionally, confidence

## SIERRA HEADLINES

in a moderate normalization of interest rates orchestrated by the Fed also supported risky assets. Our portfolio outperformed due to meaningful attribution from security selection.

### Thank You

We would like to extend our gratitude to the **Electrical Workers Local No. 26 Pension Trust Fund** and the **Sacramento Area Electrical Workers Pension Trust Fund** for allocating a portion of their assets to Sierra's Concentrated Growth Equity product, and to the **Laborers Pension Trust Fund – Detroit and Vicinity** for allocating a portion of its assets to Sierra's Small Cap Value Equity product. Additionally, we would like to thank the **Painters & Allied Trades DC 35 Pension Fund** and the **San Mateo Electrical Workers Health Plan** for additional contributions to Sierra's Fixed Income product, the **Hawaii Masons & Plasterers Pension Trust Fund** for an additional contribution to Sierra's Intrinsic Value Equity product, and the **Bay Area Painters & Tapers Pension Plan** and the **Local 734 Pension Fund** for additional contributions to our Non-U.S. 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.

## DISCLOSURE

Sierra Investment Partners, Inc. (Sierra) is a manager of managers and uses exclusive sub-advisor relationships to manage plan assets. Sierra's sub-advisors are: Pioneer Institutional Asset Management, Inc. for Concentrated Growth Equity; Todd Asset Management, LLC for Large Cap Intrinsic Value Equity & Intrinsic Value Opportunity; Franklin Equity Group for Franklin Non-U.S. Equity & Global Growth Equity; Templeton for Non-U.S. Equity & Global Equity; PMG Advisors, LLC for Fixed Income; Robert W. Baird & Co. Incorporated for Small Value Equity; and Fort Washington Investment Advisors, Inc. for High Yield Fixed Income. Performance reflects that of our exclusive 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 Large Cap Intrinsic Value Equity composite includes all fully discretionary, non-taxable portfolios invested in the equity strategy. The Russell 1000 Index is a market capitalization weighted index that consists of the 1,000 largest securities in the Russell 3000 Index. The S&P 500 Index is a market capitalization weighted index that contains approximately 500 industrial, transportation, utility and financial companies regarded as generally representative of the U.S. stock market. Investments are not limited to the companies in the Russell 1000 or the S&P 500. The Small Value Equity composite includes all fully discretionary, institutional portfolios over \$5.0 million invested in the Small Value Equity strategy benchmarked against the Russell 2000. The Russell 2000 is a market capitalization weighted index which measures the performance of approximately 2000 companies that are between the 1000th and 3000th largest in the market. The Russell 2000 Value Index measures the performance of those Russell 2000 companies with lower price/book ratios and lower forecasted growth values. Investments are not limited to the companies in the Russell 2000 or Russell 2000 Value. 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. Information contained herein should be used for one-on-one presentations only and should be accompanied by this performance disclosure. 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.