

# Sierra Update

First Quarter 2016

20 Years of Excellence  
1996-2016



## MARKET REVIEW

U.S. economic growth at the end of 2015 was weaker than expected. After Gross Domestic Product (GDP) rebounded in the second quarter, growth slowed and ended the year at a 1.4% pace. The consumer sector once again accounted for the growth. The U.S. economy is off to a sluggish start this year, and growth in the past two quarters is estimated to have been below the 2% trend rate. Some of the slowdown reflects the lagged effects of a tightening of financial conditions that began in mid-2015, which has been partly reversed in the last month and a half, and some reflects a drawdown in inventories, which is nearly complete.

As has been the case over the last number of years, the U.S. market buoyed overall global returns as Japanese and European equities fell during the quarter. U.S. equities, conversely, have continued to tick higher over the past few years as U.S. economic data, while somewhat inconsistent, has been stronger than data from other regions.

### Domestic Equity

Our **Large Cap Intrinsic Value Equity** strategy posted a gross return of -2.8% for the quarter, compared with the Russell 1000 Value return of 1.6%. We have seen this kind of underperformance in the past, and believe performance is likely to recover. Growth disciplines have been in favor for some time, as central bank intervention prompted investors to seek growth at the expense of other factors. The bad news about this is that our performance has lagged as value disciplines have been out of favor. The good news is that we usually rebound from this type of extreme level and go on to outperform for some time after that.

Our **U.S. Concentrated Growth** strategy for the twelve-month trailing period returned 5.0%, significantly beating the Russell 1000 Growth benchmark of 2.5%, and also beating the S&P 500's 1.7% return. The strategy's benchmark-relative returns in the first quarter boiled down to a tale of two half-quarters. Consistent with our investment objective of protecting on the downside during difficult markets, the strategy significantly outperformed its benchmark from the start of the first quarter through February 11, when the equity markets bottomed. After that, however, the strategy underperformed as fears of an imminent recession somewhat subsided.

Our focus for the past three quarters in our **Small Value Equity** portfolio (SVE) has been to own companies with less downside earnings risk presented by the global problems. We believe this effort has been successful and will earn superior returns in coming quarters. For the twelve-month trailing period the SVE significantly outperformed the Russell 2000 Value benchmark, returning -4.7% versus -7.7% for the benchmark. The SVE outperformed significantly during the first half of the quarter, but gave up that relative performance during the subsequent rally.

### International Equity

In **Global and Non-U.S. Value Equity**, China, so long an engine of global growth, has more recently become a major source of global financial instability. Global markets opened trading on the first day of 2016 to news of trouble in Chinese equity markets. China's considerable heft ensures that its vicissitudes have global repercussions. In a market lacking conviction, we believe it is well to remember that buying and holding value stocks has been an effective investment strategy over time.

## MARKET REVIEW (cont.)

In **International and Global Growth Equity**, we saw a range of performance results among portfolio holdings in the first quarter. Our portfolios that held U.S. biotechnology stocks were more heavily impacted in January when investors were particularly risk averse. Our holdings fared better across February and March, as earnings season brought solid data points on a number of companies whose stock prices had taken a hit on sentiment and perceived risk in these uncertain economic times. Our focus remains on the longer term and underlying company fundamentals, not short-term news flow or tomorrow's stock price.

### Fixed Income

In the **Fixed Income** market arena, the flight to safety in U.S. Treasuries was historic. It lasted the entire month of January and a good part of February. By mid-January, the Barclays U.S. Treasury Index has returned 1.5%, compared to 0.8% for all of 2015. For the full month of January duration outperformed. Long U.S. Treasuries (20 years and longer) returned in excess of 5%, while the bellwether ten-year Treasury returned 3.25%. The demand for safe havens was also reflected in a record inflow of nearly \$32 billion to fixed income funds in the first quarter.

## 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; StoneRidge 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.

## SIERRA HEADLINES

While returns for U.S. risk assets for the first calendar quarter of 2016 might suggest an uneventful period, there was considerable volatility throughout. Our portfolios struggled to keep up in this market. We continue to feel comfortable with an allocation to **High Yield**. Valuations are moderately attractive with yields and spreads that are wide for non-recessionary periods. Importantly, we feel that a recession seems unlikely in the next 12-18 months.

### Thank You

We would like to extend our gratitude to the **Cement Masons Pension Trust Fund for Northern California** and the **Local 731, I. B. of T., Excavators and Pavers Pension Trust Fund** for allocating a portion of their assets to Sierra's Concentrated Growth Equity product, as well as the **Laborers Pension Trust Fund of Northern Nevada** for allocating a portion of its assets to Sierra's High Yield Fixed Income product. Also, we would like to thank the **I.B.T. Local No. 705 Pension Fund** for additional contributions to Sierra's Small Cap Value Equity product, and the **San Diego Electrical Health and Welfare Trust** for additional contributions to Sierra's High Yield 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.