

1Q17 SIERRA NEWSLETTER



MARKET REVIEW

GROWTH IN THE U.S. CONTINUES TO EXPAND NEAR TREND GROWTH (~2-2.5%) WITH SOLID UNDERLYING FUNDAMENTALS. THE LABOR MARKET CONTINUES TO BE STRONG, PROVIDING CONFIDENCE THAT THE U.S. CONSUMER CAN CONTINUE TO SUPPORT GROWTH. BROAD FINANCIAL CONDITIONS REMAIN EASY AND SUPPORTIVE OF RISK ASSETS AND GROWTH. SPREADS ARE NEAR LONG-TERM AVERAGES WHILE ACCESS TO CAPITAL IS ABUNDANT. GLOBAL CENTRAL BANK POLICY IS GENERALLY ACCOMMODATIVE (AND STABLE) AND FISCAL POLICY IS EXPECTED TO BECOME MORE SUPPORTIVE. THE U.S. DOLLAR WEAKENED SLIGHTLY AGAINST OTHER MAJOR CURRENCIES EVEN AFTER THE U.S. FEDERAL RESERVE ("FED") HIKED INTEREST RATES IN MARCH AND SIGNALLED IT COULD RAISE RATES AT LEAST TWICE MORE DURING THE YEAR.

POST-ELECTION EUPHORIA MAY BE FADING AS THE REALITY OF GOVERNING SETS IN. CONGRESSIONAL INACTION AND CONFLICTING STATEMENTS BY THE ADMINISTRATION MAY BEGIN TO ERODE CONFIDENCE. THE FAILURE OF CONGRESS TO PASS ANY KIND OF HEALTH CARE REFORM CALLED INTO QUESTION THEIR ABILITY TO PASS ANY SIGNIFICANT LEGISLATION, PARTICULARLY TAX REFORM, BUT TIME WILL TELL.

DOMESTIC EQUITY

OUR **LARGE CAP INTRINSIC VALUE EQUITY** STRATEGY RETURNED 6.2% (GROSS) DURING THE QUARTER, OUTPERFORMING THE RUSSELL 1000 VALUE (3.3%). OUR STRATEGY CONTINUES TO POINT US TOWARD MORE CYCLICALLY ORIENTED AREAS OF THE MARKET AS INVESTORS EXPECT BETTER ECONOMIC GROWTH IN THE U.S. AND ABROAD. THIS HELPED US TO BUILD ON RECENT OUTPERFORMANCE IN THE FIRST QUARTER, PARTICULARLY AGAINST THE RUSSELL 1000 VALUE. WE ARE NOW AHEAD OF THE RUSSELL 1000 VALUE INDEX ON A TRAILING ONE YEAR BASIS RETURNING 21.2% VERSUS 19.2%,

RESPECTIVELY, REPAIRING THE SHARP LOSSES WE EXPERIENCED IN THE FIRST HALF OF 2016.

FOR THE QUARTER, OUR **U.S. CONCENTRATED GROWTH** COMPOSITE RETURNED 8.40% VERSUS THE 8.91% RETURN FOR THE RUSSELL 1000® GROWTH INDEX. ALL OF THE UNDERPERFORMANCE OCCURRED IN JANUARY, WHEN STOCKS WITH HIGH GROWTH EXPECTATIONS POSTED THEIR BIGGEST GAINS OF THE QUARTER. HOWEVER, OUR STRATEGY DID OUTPERFORM THE INDEX IN FEBRUARY AND MARCH. THE STRATEGY'S OVERWEIGHT IN THE ENERGY AND CONSUMER STAPLES SECTORS DETRACTED FROM PERFORMANCE.

OUR **SMALL VALUE EQUITY** PORTFOLIO DELIVERED A RETURN OF 0.9% FOR THE QUARTER, OUTPERFORMING ITS BENCHMARK THE RUSSELL 2000 VALUE (-0.1%). STRONG SECURITY SELECTION AND ATTRACTIVE SECTOR ALLOCATION CONTRIBUTED TO OUTPERFORMANCE FOR THE THREE-MONTH PERIOD. SECURITY SELECTION BESTED THE BENCHMARK FOR THE MAJORITY OF ECONOMIC SECTORS.

INTERNATIONAL EQUITY

IN **GLOBAL AND NON-U.S. VALUE EQUITY**, DESPITE POSTING ABSOLUTE GAINS, VALUE STOCKS LAGGED GROWTH STOCKS DURING THE QUARTER AS HEIGHTENED POLITICAL UNCERTAINTY AND RISING EQUITY RISK PREMIUMS WEIGHED ON LOWLY VALUED STOCKS. IN THIS ENVIRONMENT, OUR GLOBAL EQUITY AND NON-U.S. EQUITY COMPOSITES OUTPERFORMED THEIR VALUE BENCHMARKS (THE MSCI ALL COUNTRY WORLD VALUE INDEX AND THE MSCI ALL COUNTRY WORLD ex-U.S. VALUE INDEX) BUT TRAILED THEIR OFFICIAL BENCHMARKS (THE MSCI ALL COUNTRY WORLD INDEX AND THE MSCI ALL COUNTRY WORLD ex-U.S. INDEX). GIVEN THE TRANSITIONAL NATURE OF THE QUARTER, FEW DISTINCTIVE SECTOR THEMES EMERGED, BRINGING THE IMPORTANCE OF STOCK SELECTION INCREASINGLY INTO FOCUS. THIS

WAS AN ENCOURAGING DEVELOPMENT FOR BOTTOM-UP STOCK-PICKERS AND THIS STOCK SELECTION CONTRIBUTED TO PERFORMANCE.

IN INTERNATIONAL AND GLOBAL GROWTH EQUITY, THE REVERSAL OF THE FOURTH-QUARTER VALUE TRADE AND STRONG CORPORATE EARNINGS WERE VERY BENEFICIAL TO OUR SIERRA PORTFOLIOS DURING THE FIRST QUARTER OF 2017. WE SAW STRONG STOCK PERFORMANCE ACROSS THE PORTFOLIO IN A WIDE RANGE OF SECTORS, WITH SUBSTANTIALLY MORE CONTRIBUTORS THAN DETRACTORS. DURING THE QUARTER OUR INTERNATIONAL GROWTH COMPOSITE OUTPERFORMED THE INDEX, RETURNING 11.98% (GROSS), COMPARED TO THE 8.52% RETURN OF THE MSCI EAFE GROWTH. WHILE IT IS HARD TO GET OVERLY EXCITED ABOUT A SINGLE QUARTER, PARTICULARLY IN THE CURRENT MARKET ENVIRONMENT WHERE LEADERSHIP SEEMS TO CHANGE EVERY FEW MONTHS, AFTER THE BRUISING FOURTH QUARTER IT IS ENCOURAGING TO SEE A REBOUND IN RELATIVE RESULTS AND TO SEE MANY OF OUR STOCKS FINALLY REWARDED FOR POSTING CONTINUED ROBUST EARNINGS RESULTS.

FIXED INCOME

IN THE **FIXED INCOME** MARKET ARENA, IMPROVED INVESTOR CONFIDENCE IN THE FIRST QUARTER MEANT RISK ASSETS WERE IN HIGH DEMAND IN SPITE OF THE FED ENTERING A SUSTAINED PATH TO HIGHER RATES IN 2017. OPTIMISM FROM CONTINUED STRONG STOCK MARKET PERFORMANCE SPREAD INTO THE BOND MARKETS, TIGHTENING CREDIT SPREADS. INTEREST RATES ROSE IN THE FRONT END OF THE CURVE IN THE FIRST QUARTER OF 2017,

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.

FIRST ON EXPECTATIONS OF A FED RATE HIKE THEN AGAIN WITH THE ACTUAL 25 BASIS POINT (0.25%) INCREASE ON MARCH 15.

THE **HIGH YIELD** MARKET GENERATED ITS FIFTH CONSECUTIVE QUARTER OF STRONG PERFORMANCE IN THE FIRST QUARTER OF 2017. OUR CORE STRATEGY TRAILED THE BENCHMARK SLIGHTLY, DELIVERING A TOTAL RETURN OF 2.52% (GROSS) THIS QUARTER. THIS IS PRIMARILY DUE TO OUR UNDERWEIGHT ALLOCATION TO LOWER QUALITY SECURITIES. THE PORTFOLIO'S EXPOSURE TO CCC AND BELOW PAPER IS APPROXIMATELY ONE-QUARTER THAT OF THE INDEX. WITH FEW EXCEPTIONS, BOTH POSITIVE AND NEGATIVE CONTRIBUTORS TO PERFORMANCE WERE WELL DISTRIBUTED.

THANK YOU

WE WOULD LIKE TO EXTEND OUR GRATITUDE TO THE **OPERATING ENGINEERS LOCAL 324 DEFINED CONTRIBUTION PENSION PLAN AND THE OPERATING ENGINEERS LOCAL 324 PENSION PLAN** FOR ALLOCATING A PORTION OF THEIR ASSETS TO SIERRA'S CONCENTRATED GROWTH EQUITY PRODUCT. ALSO, WE WOULD LIKE TO THANK THE **SAN DIEGO ELECTRICAL PENSION TRUST** FOR ADDITIONAL CONTRIBUTIONS TO SIERRA'S HIGH YIELD FIXED INCOME PRODUCT AND THE **IBEW LOCAL 595 PENSION PLAN** FOR ADDITIONAL CONTRIBUTIONS TO SIERRA'S CONCENTRATED GROWTH EQUITY 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.