

2Q17 SIERRA NEWSLETTER



MARKET REVIEW

AFTER THE U.S. GROSS DOMESTIC PRODUCT (GDP) GREW ONLY 1.4% IN THE FIRST QUARTER, EXPECTATIONS WERE HIGH THAT GROWTH WOULD REBOUND TO 3.0% OR MORE FOR THE REMAINDER OF THE YEAR. INSTEAD “SOFT DATA” SUCH AS CONSUMER AND BUSINESS SURVEYS INDICATED CONFIDENCE STARTED TO SOFTEN, WHILE “HARD DATA” SUCH AS RETAIL SALES AND CONSTRUCTION SPENDING CONTINUED TO DISAPPOINT. IT NOW APPEARS THAT THE SECOND QUARTER GDP MAY BE CLOSER TO 2.0% THAN 3.0% AS THE “SOFT DATA” IS STARTING TO DISAPPOINT AS WELL.

WHILE ECONOMIC INDICATORS IN THE U.S. ARE SOFTENING AND THE POLITICAL ENVIRONMENT REMAINS HOSTILE, EUROPE IS SEEING AN ENCOURAGING COMBINATION OF GENUINE ECONOMIC MOMENTUM AND A POLITICAL CLIMATE NOW CONDUCIVE TO STRUCTURAL REFORM. TO THE FIRST POINT, UNEMPLOYMENT IN EUROPE RECENTLY HIT AN EIGHT-YEAR LOW, EUROPEAN GDP GROWTH IS OUTPACING THE U.S. FOR THE FIRST TIME SINCE THE GLOBAL FINANCIAL CRISIS OF 2007-2008, AND CORPORATE PROFITS ARE SOLIDLY ACCELERATING.

DOMESTIC EQUITY

OUR **LARGE CAP INTRINSIC VALUE EQUITY** STRATEGY RETURNED 3.6% (GROSS) DURING THE QUARTER, OUTPERFORMING THE RUSSELL 1000 VALUE INDEX RETURN OF 1.3%. OVER THE LAST 12 MONTHS, OUR STRATEGY IS UP 28.7% (GROSS) VERSUS THE RUSSELL 1000 VALUE AT 15.5%. DURING THIS TIME FRAME, OUR DISCIPLINE HAS STEERED US TOWARD MORE CYCLICALLY ORIENTED AREAS OF THE MARKET THAT SHOULD BENEFIT FROM BETTER ECONOMIC GROWTH. WE ARE REMINDED OF THE PERIOD POST THE INTERNET BUBBLE WHEN WE LOOK AT RECENT RESULTS.

FOR THE QUARTER, OUR **U.S. CONCENTRATED GROWTH** COMPOSITE RETURNED 4.98%, COMPARED TO THE 4.67% RETURN OF THE RUSSELL 1000 GROWTH INDEX. STOCK SELECTION WAS THE MAJOR DRIVER OF THE STRATEGY'S SLIGHT OUTPERFORMANCE OF THE INDEX THIS QUARTER. OUR STRATEGY HAS A CONSERVATIVE APPROACH TO

INVESTING IN LARGE-CAPITALIZATION STOCKS. THE BENEFITS OF THIS DIFFERENTIATING APPROACH CAN BE SEEN IN ITS HISTORICAL LONG-TERM CAPITAL APPRECIATION, DOWNSIDE RISK MANAGEMENT—ESPECIALLY DURING RECENT DIFFICULT MARKETS—AND PAST LOWER VOLATILITY THAN ITS BENCHMARK AND PEER UNIVERSE. WHILE OUR CONSERVATIVE APPROACH HAS HISTORICALLY WORKED WELL WHEN MARKETS DECLINE, IT CAN SOMETIMES RESULT IN THE STRATEGY NOT KEEPING PACE WITH THE BENCHMARK WHEN MARKETS ADVANCE SWIFTLY, AS WAS THE CASE FOR GROWTH STOCKS OVER THE FIRST HALF OF 2017.

OUR **SMALL VALUE EQUITY** PORTFOLIO OUTPERFORMED ITS BENCHMARK DELIVERING A TOTAL RETURN OF 3.0% VERSUS 0.7% FOR THE RUSSELL 2000 VALUE. BOTH STRONG SECURITY SELECTION AND ATTRACTIVE SECTOR ALLOCATION CONTRIBUTED TO OUTPERFORMANCE FOR THE THREE-MONTH PERIOD. SECURITY SELECTION BESTED THE BENCHMARK FOR NINE OF THE ELEVEN ECONOMIC SECTORS. OUR BARBELL POSITIONING IN TERMS OF BETA SERVED THE PORTFOLIO WELL DURING A PERIOD WHICH REWARDED COMPANIES WITH SUPERIOR EARNINGS GROWTH PROFILES AS WELL AS THOSE WITH DEFENSIVE CHARACTERISTICS.

INTERNATIONAL EQUITY

IN **GLOBAL AND NON-U.S. VALUE EQUITY**, GLOBAL AND INTERNATIONAL EQUITIES GENERALLY ADVANCED DURING THE SECOND QUARTER OF 2017, CAPPING A STRONG FIRST HALF BUOYED BY RESILIENT CORPORATE EARNINGS, RECEDING POLITICAL ANXIETY AND A GATHERING ECONOMIC RECOVERY IN EUROPE. IN THIS ENVIRONMENT, OUR INTERNATIONAL EQUITY FUND SLIGHTLY UNDERPERFORMED ITS BENCHMARK, THE MSCI ALL COUNTRY WORLD ex-U.S. INDEX. DESPITE THE GENERALLY UPWARD BIAS IN EQUITIES, GLOBAL FINANCIAL MARKETS SENT MIXED SIGNALS ABOUT THE ECONOMIC AND MARKET OUTLOOK AS THE PERIOD PROGRESSED. WHILE STOCKS REGULARLY RECORDED NEW HIGHS AND VOLATILITY REMAINED MUTED, LEADERSHIP WITHIN EQUITY MARKETS REVERTED TO DEFENSIVE AND GROWTH-ORIENTED ISSUES.

IN **INTERNATIONAL AND GLOBAL GROWTH EQUITY**, THE U.S. EQUITY MARKET HAS TRADED IN A GENERAL UPWARD DIRECTION FOR NEARLY 18 MONTHS, AND BY MANY METRICS IS FULLY VALUED. WHILE THE FIRST HALF OF 2017 HAS PRODUCED STRONG EQUITY MARKET RETURNS, AS WE MOVE INTO THE SECOND HALF OF 2017 WE BELIEVE THE ODDS OF A POLITICALLY INDUCED MARKET CORRECTION HAVE INCREASED. GIVEN THESE LOFTIER U.S. VALUATIONS AND THE DIFFICULT TIME THE TRUMP ADMINISTRATION IS HAVING IN MAKING PROGRESS ON ITS PRO-GROWTH AGENDA, WE ANTICIPATE THAT EQUITY MARKETS COULD SEE GREATER SWINGS OVER THE NEXT FEW QUARTERS.

FIXED INCOME

IN THE **FIXED INCOME** MARKET ARENA, WEAKER INFLATION COMBINED WITH HIGHER SHORT-TERM INTEREST RATES RESULTED IN A FLATTER U.S. TREASURY CURVE. THE SPREAD BETWEEN 2- AND 10-YEAR NOTES CONTRACTED 23 BASIS POINTS (0.23%) TO END THE QUARTER AT 92 BPS COMPARED TO 114BPS AT THE END OF THE FIRST QUARTER. INTRA-QUARTER THAT SPREAD NARROWED TO AS LITTLE AS 77BPS. FOR THE SECOND TIME THIS YEAR, THE FEDERAL RESERVE INCREASED THE FEDERAL FUNDS RATE 25 BPS TO A RANGE OF 1.00% – 1.25%. AS A RESULT, SHORT-TERM RATES ROSE INCREMENTALLY; THE 2-YEAR TREASURY YIELD ROSE 13BPS FROM 1.26% TO END THE QUARTER AT 1.39%. ON THE OTHER END OF THE CURVE, MUTED INFLATION CAUSED LONGER TERM TREASURY YIELDS TO DECLINE. THE 10-YEAR TREASURY YIELD DECREASED 10 BPS FROM 2.40% TO 2.30% BY QUARTER'S END.

THE **HIGH YIELD** MARKET GENERATED ITS SIXTH CONSECUTIVE QUARTER OF STRONG PERFORMANCE IN 2Q17. OUR CORE STRATEGY LED THE BENCHMARK BY 30BPS FOR THE QUARTER, DUE TO

OUR UNDERWEIGHT TO CCC-RATED SECURITIES AND AN OVERWEIGHT TO HIGHER QUALITY AND SLIGHTLY LONGER DURATION (+0.21 YEARS) BONDS. OUTPERFORMANCE FOR THE QUARTER WAS BROAD BASED AND ALMOST ENTIRELY DUE TO CREDIT SELECTION. OUR HIGHER QUALITY POSITIONING WITHIN COMMODITY BASED SECTORS (ENERGY AND METALS & MINING) AND BROAD BASED SECURITY SELECTION WITHIN MEDIA WERE THE LARGEST CONTRIBUTORS WHILE POSITIONS WITHIN MIDSTREAM TRAILED.

EMERGING MARKETS

SIERRA INVESTMENT PARTNERS, INC. IS PROUD TO ANNOUNCE A NEW PRODUCT OFFERING TO OUR CLIENTS. SIERRA HAS PARTNERED WITH EDINBURGH PARTNERS LIMITED TO OFFER AN EMERGING MARKETS EQUITY PRODUCT. PLEASE CONTACT OUR OFFICES WITH ANY INQUIRIES!

THANK YOU

WE WOULD LIKE TO EXTEND OUR GRATITUDE TO THE **CARPENTERS PENSION AND ANNUITY FUND OF PHILADELPHIA AND VICINITY** AND THE **CAROLINAS ELECTRICAL WORKERS RETIREMENT FUND** FOR ALLOCATING A PORTION OF THEIR ASSETS TO SIERRA'S CONCENTRATED GROWTH EQUITY PRODUCT. ALSO, WE WOULD LIKE TO THANK THE **HAWAII ELECTRICIANS ANNUITY FUND**, **INTERNATIONAL PAINTERS AND ALLIED TRADES INDUSTRY PENSION FUND**, AND THE **NORTHEAST CARPENTERS HEALTH FUND VACATION BENEFITS ACCOUNT** FOR ADDITIONAL CONTRIBUTIONS TO SIERRA'S CONCENTRATED EQUITY GROWTH PRODUCT AND THE **IBEW LOCAL 595 PENSION PLAN** 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.

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: 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 NON-U.S. EQUITY & GLOBAL GROWTH 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 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 EX U.S. INDEX IS AN EQUITY INDEX CALCULATED BY MORGAN STANLEY CAPITAL INTERNATIONAL (MSCI). THE INDEX MEASURES THE TOTAL RETURN (GROSS DIVIDENDS ARE REINVESTED) OF EQUITY SECURITIES AVAILABLE TO FOREIGN (NONLOCAL) INVESTORS IN THE DEVELOPED AND EMERGING MARKETS GLOBALLY EXCLUDING THE UNITED STATES. SECURITIES INCLUDED IN THE INDEX ARE WEIGHTED ACCORDING TO THEIR FREE FLOAT ADJUSTED MARKET CAPITALIZATION (PRICE X SHARES OUTSTANDING X FOREIGN INCLUSION FACTOR). 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.