

Sierra Update

Third Quarter 2014

18 Years of Excellence
1996-2014



MARKET REVIEW

The domestic economy recovered in spectacular fashion from a weather-depressed first quarter growing at a 4.6% pace in the second quarter, more than erasing the 2.1% decline in the first. A rebound in consumer spending and capital investment accounted for much of the increase. As sales increased, businesses responded by building inventories. Inventory accumulation contributed 1.4% to the gain in GDP in the second quarter.

The labor markets continued to improve during the third quarter. Payrolls added 671,000 jobs and the unemployment rate fell to 5.9%, the lowest level since July 2008. Improved labor markets have not led to wage pressures. Average hourly earnings grew at a steady 2.0% pace over the twelve months ended in September.

Things are not looking as healthy in the rest of the world. Growth in China is slowing as the government there tries to curtail credit growth. Russia, in light of the evolving situation in the Ukraine, also presents risks to global stability and economic growth. Recent developments in the Middle East could also adversely affect the financial markets, either directly through the price of oil, or indirectly in terms of risk premiums associated with various asset classes. Europe looked to be stabilizing as the year began, but recently has slowed and now appears to be on the verge of another recession. Japan is most likely already in a recession, and European central banks have been keeping short-term rates low in an attempt to prevent an outright recession.

Domestic Equity

Our **Large Cap Intrinsic Value Equity (LCIV)** strategy posted a gain of 1.10% in the

quarter, exceeding the Russell 1000 Value benchmark return of -0.19% for the quarter. This outperformance of over a percent was attributable to both stock selection and sector allocation. Stock selections in Health Care and Industrials as well as our underweighting in Energy helped performance. The higher ranked sectors continue to be the economically sensitive and growth oriented sectors. Technology is a real standout in our recent runs, and we are actively looking at new ideas in that area. Telecoms, Utilities and Staples continue to have low rankings in our work and we remain underweighted in those sectors.

Our U.S. **Concentrated Growth** Composite outperformed in the third quarter, returning 2.13% while the benchmark Russell 1000 Growth Index returned 1.49%. Security selection drives the strategy's sector allocations, which changed little from the previous quarter.

For the quarter, our **Small Value Equity** composite outperformed the benchmark Russell 2000 Value Index, returning -5.79% versus -8.58%. The portfolio was even versus the benchmark in July, but significantly outperformed in August and September. It is important to remember that over the longer term, small caps have historically provided the best equity returns.

International Equity

Our **Global and Non-U.S. Equity** strategies were exposed to the weak euro. Outside of Europe, Asian and emerging market holdings outperformed, highlighting some success among newer value opportunities in these regions. We continued to use intermittent weakness for bargain hunting across diverse emerging markets, most notably in China, Korea, and Russia.

MARKET REVIEW (cont.)

We are cautiously optimistic about the outlook for credit growth in coming quarters as euro bank deleveraging comes to an end.

In **International and Global Growth Equity**, renewed concerns about the global economy have put pressure on global equities broadly. With the increasing economic disparity between the U.S. economy and those in Europe, Japan and China, we anticipate that the U.S. may remain the equity market leader for an extended period.

Fixed Income

In the **Fixed Income** market arena during the third quarter, longer-term rates as measured by the ten-year Treasury note were mostly unchanged. U.S. Treasuries outperformed all other investment grade bonds, a very rare occurrence. All of this outperformance occurred during the month of September.

The **High Yield** portfolio essentially tracked the market during the third quarter. We experienced a pickup in economic activity, but a fair amount of volatility with respect to risky assets. Attribution from sector allocation was neutral while attribution from security selection was positive. In our view, the modest market correction to risky assets was not supported by fundamentals.

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.

SIERRA HEADLINES

Thank You

We would like to extend our appreciation to the **San Mateo Electrical Workers Health Plan** for an additional contribution to Sierra's 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.

U.S.S. Constitution Museum

We want to extend a sincere thank you to all of you who honored us with your presence at our annual cocktail party during the International Foundation of Employee Benefit Plans conference in Boston. Many of you were able to tour the oldest active naval vessel afloat, the U.S.S. Constitution, and also enjoyed the displays in our venue, the U.S.S. Constitution Museum.

