Sierra Update

Third Quarter 2015

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1996-2015

SIERRA INVESTMENT PARTNERS, INC.

MARKET REVIEW

It was a very rough quarter for the U.S. markets. Currency appreciation, decreasing oil related capital expenditures, constrained consumer finances, and limited government spending crimped earnings expectations. All the market needed was an excuse to decline, and the Chinese devaluation provided that. A muddied Federal Reserve ("Fed") message provided the excuse for the retest of the August lows during the month of September.

Other global equity markets were down pretty much across the board in the third quarter as well, with the declines driven mainly by investors' concerns about slowing economic growth in China, the impact of falling commodity prices, and the uncertainty surrounding the timing of a potential interest rate hike by the U.S. All in all, it made for a very difficult third quarter of 2015.

Domestic Equity

Our **Large Cap Intrinsic Value Equity (LCIV)** strategy underperformed the Russell 1000 Value during the quarter. Year-to-date we are ahead of the Russell 1000 Value. Most of the shortfall came from stock selection, as valuation factors fared poorly during the quarter. LCIV has a distinct value bias in stock selection, which has hurt us thus far this year. We would describe the quarter as a "failure to launch." What does that mean? Investors grew impatient as central bank actions seemed not to be helping economic growth. We believe that the market should get back on track before the end of the year.

Our **U.S. Concentrated Growth** Composite significantly outperformed its benchmark, the Russell 1000 Growth Index, both in the third quarter and year-to-date. The strategy returned -4.23% for the quarter versus -5.29% for the benchmark, and -0.19% versus -1.54% year-to-date. Stock selection was the main reason for the outperformance, with selections in Health Care, Information Technology, and Materials being the strongest.

We reassessed the holdings in our **Small Value Equity** portfolio due to the potential for a meaningful slowdown beyond our current expectations for Chinese and global growth that could lead to another leg down in energy markets. A number of portfolio changes were made, the most significant during the third quarter was the reduction of exposure to Information Technology by more than 1000 basis points. We significantly outperformed for the quarter, returning -6.46% versus the benchmark Russell 2000 Value Index which returned -10.73%.

International Equity

Equities posted the biggest quarterly decline in four years amid fears of a global economic slowdown. In our **Global and Non-U.S. Value Equity** strategies, our underweight to expensive Consumer Staples issues detracted from relative returns. Value stocks traded at their widest discount to growth stocks since the peak of the technology, media and telecommunications (TMT) bubble. Following record weakness, value should, in our view, eventually benefit from economic and monetary policy normalization over our long-term investment horizon.

In **International and Global Growth Equity**, investor jitters began to affect global markets in mid-August after China's government devalued its currency. Capital flight – both by foreign and local investors – we believe, is the primary issue facing China and many other emerging

MARKET REVIEW (cont.)

markets. The Fed specifically cited economic uncertainties outside the United States as the key reason behind its decision not to raise interest rates. Across equity and bond markets, quarterly returns would indicate to us that investors were in a risk-off, or defensive posture. This defensive posture created some challenges for our portfolios during the quarter, even as stock selection has been more or less positive.

Fixed Income

In the **Fixed Income** market arena, U.S. Treasury securities performed well in the third quarter largely due to an extended and rather severe decline in global equity markets. Additionally, when the rate hike failed to materialize at the Fed's September meeting and data releases began to suggest a slower U.S. economy, interest rates declined yet again closing out the quarter with another rally in the Treasury market.

There has been a record amount of corporate bond issuance during this period of low interest rates. The returns on corporate bonds continued to underperform other sectors of the fixed income market during the quarter, primarily due to the record amount of new issuance. Also, the auto industry took a hit with the news of emission fraud by VW.

SIERRA HEADLINES

Our **High Yield** portfolio underperformed during the quarter due to our overweight allocation to Energy. While we have historically performed well in times of increased volatility, idiosyncratic risk within Energy significantly impacted returns. The sharp drop in the price of oil has stressed a number of E&P companies and service providers. We continue with our Energy overweight, but have made modest alterations to improve the risk-return profile of our exposure.

Thank You

We would like to extend our gratitude to the **International Painters and Allied Trades Industry Pension Fund** for allocating a portion of their assets to Sierra's Concentrated Growth Equity product. Additionally, we would like to thank the **Electrical Workers Local No. 26 Pension Trust Fund** for additional contributions to Sierra's Concentrated Growth Equity product, to the **IBEW Local No. 150 Pension Fund** for additional contributions to our High Yield Fixed Income product, and to the **Roofers Union Local 30 Combined Pension Fund** for additional contributions to our 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