

3Q16 SIERRA NEWSLETTER



MARKET REVIEW

CONSUMER SPENDING CONTINUES TO BE THE DRIVER FOR U.S. ECONOMIC GROWTH. IN THE LAST QUARTER OF 2015 AND THE FIRST TWO QUARTERS OF 2016, GROSS DOMESTIC PRODUCT (GDP) WOULD HAVE BEEN NEGATIVE IF NOT FOR THE CONTRIBUTION OF CONSUMPTION TO THE ECONOMY. IN THE SECOND QUARTER, GDP GREW AT A SLIGHTLY FASTER PACE OF 1.4% COMPARED TO 0.8% IN THE FIRST QUARTER. MUCH OF THE QUARTERS GROWTH CAN BE ATTRIBUTED TO A 4.3% GROWTH SPURT IN HOUSEHOLD SPENDING.

AFTER A SIZABLE POST-BREXIT BOUNCE TO START THE THIRD QUARTER AND AN INCREASED INVESTOR RISK APPETITE, MARKETS QUICKLY RETURNED TO THE SIDWAYS TRADING WE HAVE SEEN OVER THE PAST COUPLE OF YEARS AS ECONOMIC AND POLITICAL UNCERTAINTIES LINGER. THE THIRD QUARTER SAW INVESTORS SWING TOWARD MORE CYCLICALS AND OUT OF DEFENSIVES.

DOMESTIC EQUITY

OUR **LARGE CAP INTRINSIC VALUE EQUITY** STRATEGY REBOUNDED IN THE THIRD QUARTER TO GAIN 6.2% (GROSS) AND OUTPERFORM THE S&P'S GAIN OF 3.9%, AND RUSSELL 1000 VALUE RETURN OF 3.5%. A REVERSAL IN INVESTOR PREFERENCE FROM THE FIRST HALF OF THE YEAR HELPED TO BRING OUR VALUE DISCIPLINE BACK INTO FAVOR. THE UNWINDING LOW-VOLATILITY, HIGH YIELD TRADE GAVE WAY TO FUNDAMENTALS AND VALUE. INVESTORS HAVE BECOME MORE COMFORTABLE WITH THE IDEA OF SLOW GROWTH BEING SUSTAINABLE, WHICH HAS ALLOWED THEM THE COMFORT TO START LOOKING AT FUNDAMENTALS AGAIN.

STOCK SELECTION DROVE PERFORMANCE DURING THE QUARTER, PARTICULARLY WITHIN FINANCIAL, TECHNOLOGY, AND INDUSTRIAL SECTORS. FACTOR ANALYSIS SHOWS THAT VALUATION METRICS AND OUR MULTI-FACTOR RANKING HELPED TO DIFFERENTIATE BETWEEN WINNERS AND LOSERS. OUR UNDERWEIGHT POSITION IN THE HIGHER YIELDING SECTORS (CONSUMER STAPLES, UTILITIES, AND TELECOM) ALSO ADDED TO PERFORMANCE.

FOR THE QUARTER, OUR **U.S. CONCENTRATED GROWTH** CLOSELY TRAILED THE BENCHMARK RUSSELL 1000® GROWTH INDEX. THE UNDERPERFORMANCE WAS PRIMARILY DUE TO SECTOR ALLOCATION AND STOCK SELECTION IN THE CONSUMER STAPLES AND INFORMATION TECHNOLOGY SECTORS. CONSUMER STAPLES DECLINED DUE TO CONCERNS ABOUT VALUATIONS IN THE SECTOR AND COMPANY SPECIFIC ISSUES. INFORMATION TECHNOLOGY PERFORMED WELL, BUT THE STRATEGY WAS UNDERWEIGHT, AS THERE ARE RELATIVELY FEW COMPANIES IN THE SECTOR THAT MEET THE PORTFOLIO'S DEFINITION OF QUALITY.

OUR **SMALL VALUE EQUITY** PORTFOLIO DELIVERED A TOTAL RETURN OF 2.3% FOR THE QUARTER TRAILING THE 8.9% RETURN OF THE BENCHMARK RUSSELL 2000 VALUE. SINCE INCEPTION (MARCH 1, 2005), HOWEVER, OUR SMALL VALUE PORTFOLIO HAS EARNED AN 8.9% RETURN COMPARED TO THE 6.7% RETURN OF THE BENCHMARK RUSSELL 2000 VALUE. PERFORMANCE DURING THE QUARTER WAS NEGATIVELY IMPACTED BY WEAKNESS IN A HANDFUL OF INDIVIDUAL SECURITIES. ALTHOUGH SEVERAL STOCKS WITHIN OUR PORTFOLIO WERE DISAPPOINTING IN THE QUARTER, OUR ANALYSIS SUGGESTS THAT THEIR PROBLEMS ARE TEMPORARY AND THE LONG-TERM PROFITABILITY AND GROWTH POTENTIAL OF EACH BUSINESS IS INTACT.

INTERNATIONAL EQUITY

IN **GLOBAL AND NON-U.S. VALUE EQUITY**, OUR PORTFOLIO DELIVERED A TOTAL RETURN OF 7.39% FOR THE QUARTER, COMPARED TO THE 6.5% RETURN OF THE BENCHMARK MSCI EAFE. IN OUR VIEW, THE THIRD QUARTER OFFERED A GLIMPSE OF THE TURNAROUND POTENTIAL INHERENT IN A "PATIENT VALUE STRATEGY" AS SOME OF THE MARKET'S BIGGEST RECENT LAGGARDS REBOUNDED SHARPLY. MATERIALS WAS ONE SUCH EXAMPLE, LED BY MINING STOCKS, WHICH RECOVERED AFTER FIVE YEARS OF UNDERPERFORMANCE. WE HAVE IDENTIFIED SELECT VALUE OPPORTUNITIES IN THE SECTOR IN RECENT QUARTERS, INCREASING EXPOSURE TO A ROUGHLY MARKET-WEIGHTED POSITION.

IN **INTERNATIONAL AND GLOBAL GROWTH EQUITY**, THE RISING MARKETS IN THE THIRD QUARTER WERE POSITIVE FOR OUR STRATEGIES AS INVESTOR SENTIMENT FAVORED OUR PORTFOLIO POSITIONING, GIVEN THE PORTFOLIOS' OVERWEIGHT EXPOSURE TO THE IN FAVOR INFORMATION TECHNOLOGY SECTOR AND LIMITED EXPOSURE TO THE OUT OF FAVOR CONSUMER STAPLES, UTILITIES AND TELECOMMUNICATION SERVICES SECTORS. STRONG EARNINGS REPORTS FROM A NUMBER OF PORTFOLIO HOLDINGS WERE ALSO BENEFICIAL FOR RELATIVE PERFORMANCE. AS A RESULT, OUR PORTFOLIO DELIVERED A TOTAL RETURN OF 8.01% FOR THE QUARTER, COMPARED TO THE 4.96% RETURN OF THE BENCHMARK MSCI EAFE GROWTH.

FIXED INCOME

IN THE **FIXED INCOME** MARKET ARENA, THE U.S. TREASURY TEN-YEAR YIELD INTRADAY FELL AS LOW AS 1.32% ON LOWERED GLOBAL GROWTH EXPECTATIONS AFTER GREAT BRITAIN ANNOUNCED THEIR INTENTION TO DEPART FROM THE EUROPEAN UNION (BREXIT). A VERY WEAK JUNE EMPLOYMENT NUMBER VALIDATED THE SENTIMENT AS DID YIELDS OF LONGER DATED BONDS OF MORE COUNTRIES TURNING NEGATIVE. HOWEVER, AS THE QUARTER UNFOLDED, SIGNS OF STRENGTH IN U.S. ECONOMIC DATA BEGAN TO EMERGE. AFTER TWO SUBPAR QUARTERS OF REAL GROWTH IN THE FIRST HALF OF THE YEAR, THIRD QUARTER GDP IS NOW EXPECTED TO COME IN AROUND 2.5%. THIS DEVELOPMENT CAUSED INTEREST RATES TO RISE ACROSS THE BOARD AS THE MARKET BEGAN DISCOUNTING THE INCREASED LIKELIHOOD OF A LATE DECEMBER RATE HIKE BY THE FEDERAL RESERVE. THE NET RESULT OF THE TWO CONTRASTING SENTIMENTS WAS THAT INTEREST RATES ROSE AND THE YIELD CURVE FLATTENED.

THE **HIGH YIELD** MARKET CONTINUED ITS IMPRESSIVE RUN DURING THE THIRD QUARTER. OUR CORE STRATEGY LAGGED THE BENCHMARK PRIMARILY DUE TO OUR UNDERWEIGHT ALLOCATION IN BOTH LOWER QUALITY SECURITIES AND THE CYCLICAL COMMODITY SECTORS. POSITIVE CONTRIBUTORS TO OUR PERFORMANCE WERE WELL DISTRIBUTED AMONG SECTOR AND SECURITY SELECTION WHILE NEGATIVE CONTRIBUTORS WERE FOCUSED AROUND OUR SECTOR UNDERWEIGHT TO METALS & MINING AND OUR LACK OF LOWER QUALITY EXPOSURE IN ENERGY. AS A RESULT, WE CONTINUE TO USE THE RALLY IN HIGH YIELD TO GRADUALLY UPGRADE THE QUALITY OF OUR PORTFOLIOS AS WE BELIEVE THAT WE ARE IN THE LATER STAGES OF THE CREDIT CYCLE AND DO NOT FIND THAT COMPENSATION FOR EXCESS CREDIT RISK IS ADEQUATE TO JUSTIFY A STEP-DOWN IN QUALITY.

THANK YOU

WE WOULD LIKE TO EXTEND OUR GRATITUDE TO THE **SHEET METAL WORKERS LOCAL 265 PENSION FUND** FOR ALLOCATING A PORTION OF THEIR ASSETS TO SIERRA'S CONCENTRATED GROWTH EQUITY PRODUCT. ALSO, WE WOULD LIKE TO THANK THE **HAWAII MASONS AND PLASTERERS ANNUITY FUND** AND THE **SAN DIEGO ELECTRICAL PENSION TRUST** FOR ADDITIONAL CONTRIBUTIONS TO SIERRA'S FIXED INCOME PRODUCT, THE **I.B.T. LOCAL No. 705 PENSION FUND** FOR ADDITIONAL CONTRIBUTIONS TO SIERRA'S FIXED INCOME AND INTERNATIONAL GROWTH EQUITY PRODUCTS, AND THE **MIDWEST OPERATING ENGINEERS PENSION TRUST FUND** FOR AN ADDITIONAL CONTRIBUTION TO SIERRA'S INTERNATIONAL 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.

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.