Sierra Update

Fourth Quarter 2014

18 Years of Excellence
1996-2014

SIERRA INVESTMENT PARTNERS, INC.

MARKET REVIEW

The most striking feature of the fourth quarter in the markets was the breathtaking decline in oil prices. The 50% drop in crude oil prices from their mid-year high triggered a sharp drop in energy prices, which left families with “extra” spending money in their budget. Gains in household consumption were seen, also aided by improvement in the labor market and an increase in payrolls. Additionally, overall inflation as measured by the Consumer Price Index was brought down.

In 2014 U.S. economic growth accelerated, stocks made new highs about once a week on the average, and the U.S. dollar strengthened more than 10% against other major currencies, further deepening the divergence between the U.S. and the rest of the world. In Europe, deflationary pressure intensified and political discord resurfaced; in Japan, extraordinary monetary policy failed to prevent a triple-dip recession; and, in diverse emerging markets, economic growth cooled as commodities and currencies came under pressure.

Domestic Equity

Our **Large Cap Intrinsic Value Equity (LCIV)** strategy posted a gain of 5.7% in the quarter, outpacing the S&P 500 and Russell 1000 Value returns of 4.9% and 5.0%, respectively. The LCIV also excelled for the twelve months ending December 31, 2014, returning 16.1% compared to the S&P 500 and Russell 1000 Value returns of 13.7% and 13.5%, respectively. Both stock selection and sector allocation helped returns last quarter compared to the S&P 500, with an emphasis on sector allocation. Sector allocation also drove our outperformance compared to the Russell 1000 Value.

Our U.S. **Concentrated Growth** Composite also outperformed its benchmark, returning 6.39% in the fourth quarter while the benchmark Russell 1000 Growth Index returned 4.79%; and for the year returning 14.87% while the Russell 1000 Growth Index returned 13.05%. Stock selection, particularly in the Consumer Discretionary sector, and an overweight to Health Care were the main drivers of this outperformance.

For the quarter, our **Small Value Equity** portfolio finished with a solid absolute return of 4.0% but was unable to keep pace with the benchmark Russell 2000 Value. Despite this, we are pleased to report the small value representative account continues to deliver annualized outperformance versus the benchmark including 18.7% versus 18.3% over three-years, and 10.1% versus 7.2% since inception.

International Equity

World equity markets were challenged in 2014. In our **Global and Non-U.S. Value Equity** strategies, our U.S. underweight detracted from relative performance in our global portfolios, as the U.S.’s powerful economy and control of the world’s reserve currency made it the preferred destination for capital in a still-fragile global economy. The U.S. remains expensive to us on a headline basis, so, while we continue to find selective bargains in this diverse market, we cannot justify matching the global benchmark’s greater-than 50% allocation.

In **International and Global Growth Equity**, many equity markets outside the United States fell in U.S. dollar terms, with the MSCI EAFE Index ending the quarter at -3.53% and the year at -4.48%. The MSCI Europe returned 7.40% in euro-terms during the year, but as the currency

MARKET REVIEW (cont.)

declined approximately 12% against the dollar, the index fell -5.68% in U.S. dollar terms. The returns were positive for global equity portfolios because of the strength of the U.S. equity market which recorded double-digit positive returns for the S&P 500 of 13.7%.

Fixed Income

In the **Fixed Income** market arena, longer term rates were lower during 2014's fourth quarter while shorter term rates rose slightly as the yield curve flattened. The yield on 10-year Treasury notes declined 33 basis points to 2.18% while 2-year Treasury notes rose nine basis points, finishing the quarter yielding 0.67%. The Treasury yield curve narrowed 42 basis points ending the quarter at a spread of 151 basis points, the tightest spread in five years.

The **High Yield** market experienced significant volatility during the fourth quarter, resulting in negative total returns for the second consecutive quarter. The primary culprit was a sharp drop in the price of crude oil. The impact on the high yield market was meaningful in both direct and indirect ways. Nearly 15% of the high yield market is comprised of Energy issuers, many of which will experience reduced cash flow prospects while oil prices remain low. While we grant that the current price of oil creates challenges for many energy companies, we think that most of our issuers have financial flexibility to withstand a reasonable forecast in oil prices.

SIERRA HEADLINES

Thank You

We would like to extend our gratitude to the **Laborers Local Union No. 158 Pension Fund**, the **Local 705 I.B.T. Health & Welfare Fund**, and the **San Diego Electrical Pension Trust** for additional contributions to Sierra's Fixed Income product. We would also like to thank the **Hawaii Electricians Annuity Fund** and the **Hawaii Electricians Pension Fund** for additional contributions to Sierra's Concentrated Growth Equity product, and the **Bay Area Painters & Tapers Pension Plan** and the **Hawaii Masons & Plasterers Annuity Trust Fund** for additional contributions to Sierra's Intrinsic Value Equity product. Additionally, we would like to extend our appreciation to the **Bay Area Painters & Tapers Pension Plan** for allocating a portion of its assets to our Non-U.S. Equity commingled fund and the **Hawaii Electricians Health & Welfare Fund** for allocating a portion of its assets 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.

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.

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