

Sierra Update

Fourth Quarter 2015

19 Years of Excellence
1996-2015



MARKET REVIEW

The year 2015 was one of divergences: for the economy, for inflation, and for monetary policy both domestically and globally. Although data for the fourth quarter is incomplete, it appears that real Gross Domestic Product (GDP) in the U.S. will average around 2.4%, or little changed from 2014. Even if the annual pace of growth remains the same, the underlying components are going in different directions.

After beginning the year with a weather-depressed first quarter, growth in the U.S. accelerated to average nearly 3.0% for the second and third quarters. Abroad, the European economics continue to struggle following their financial crisis, near collapse of the Euro, and staggering unemployment statistics in many countries. It is expected that growth in the Euro-region will have averaged only 1.5% last year. In Asia, Japan is wavering on the edge of a recession and China's economy grew at the slowest pace in twenty-five years.

Domestic Equity

Our **Large Cap Intrinsic Value Equity (LCIV)** strategy posted a gross return of 5.1% for the quarter, compared with the Russell 1000 Value return of 5.6%. For Year-to-Date, we are in line with the Russell 1000 Value. We continue to have a value bias in our discipline despite the recent market tilt toward growth stocks, and believe there are several reasons investors should continue to favor a valuation bias. With the end of quantitative easing (the Federal Reserve has just begun raising rates), Value should enjoy a recovery. Also, we avoid investing in "cult stocks" with high valuations that are prone to sudden devaluation.

Our **U.S. Concentrated Growth** strategy for the calendar year 2015 returned 7.3%, significantly beating the Russell 1000 Growth benchmark of 5.7%, and also beating the S&P 500's 1.4% return. After a difficult third quarter, equities rebounded over the final three months of the year as earnings came in ahead of expectations and drove stocks higher, despite an interest rate increase by the Fed in mid-December. During the fourth quarter, growth stocks outperformed value stocks and large caps outperformed mid- and small-cap stocks.

For the year, our **Small Value Equity** portfolio significantly outperformed the benchmark Russell 2000 Value at -4.0% versus a -7.5% return for the benchmark. Strong security selection among nine out of ten economic sectors was primarily responsible for calendar year outperformance. Portfolio trading during the quarter was focused on reducing exposure to companies with earnings risk related to a slowing economic environment. We believe the portfolios are well-positioned entering 2016.

International Equity

In the fourth quarter, our **Global and Non-U.S. Value Equity** strategies delivered solid absolute gains. Annual performance was led by stock selection in Europe, Health Care, Materials and Financials. While we have not escaped the pressures impacting value stocks, we believe our brand of unconstrained global equity investing, characterized by fundamental stock selection, diversified portfolio management and patient time horizon has spared clients the worst of the value disappointment.

In **International and Global Growth Equity**, we felt the impact of the macroeconomic events that look to have dominated the markets in 2015, but also continued to see many of our

MARKET REVIEW (cont.)

portfolio holdings rewarded for posting strong financial results. While our portfolios have gained and lost from this volatility over the past few years, in 2015 they weathered it better than they had over the past few years. Regardless of the macroeconomic impact on markets, we remain focused on in-depth research to feed our concentrated, yet diversified portfolios. Diversification is a key tenet of our investment approach, and despite certain sectors being in or out of favor at present, we believe maintaining exposure across the market is prudent.

Fixed Income

In the **Fixed Income** market arena, the final quarter of 2015 impacted domestic fixed income with the global economic themes that had been in place throughout the year. U.S. Treasuries initially rallied as a result of “flight to safety” dynamics, but ultimately they were negated by the looming shadow of a near-term rate hike.

Weak commodity prices weighed heavily on the **High Yield** market again. While domestic equities generated substantially positive returns in the quarter, high yield spreads widened to 32 basis points. We think an allocation to high yield still makes sense with the caveat that continued volatility is likely.

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.

SIERRA HEADLINES

Thank You

We would like to extend our gratitude to the **Eighth District Electrical Pension Fund** for additional contributions to Sierra's Concentrated Growth Equity product, and to the **Plumbers and Pipefitters Local Union 51 Health and Welfare 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.

Outrigger Canoe Club

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 Honolulu and made this our most successful event so far. Congratulations to all of our Bingo winners!

