

4Q16 SIERRA NEWSLETTER



MARKET REVIEW

VOLATILITY AND UNEXPECTED OUTCOMES WERE CERTAINLY THE HALLMARK OF 2016. THE YEAR WAS MARKED BY SEVERAL UNEXPECTED MACRO EVENTS WHICH ROILED MARKETS. THIRD QUARTER REAL GROSS DOMESTIC PRODUCT (GDP) GREW AT AN ABOVE-CONSENSUS RATE OF 3.5% FOLLOWING TWO SUBPAR QUARTERS THAT AVERAGED ONLY 1.1% DURING THE FIRST HALF OF 2016. ECONOMIC DATA INDICATES THAT CONSUMER SPENDING WAS STILL STRONG INTO THE FOURTH QUARTER.

IN A YEAR RIFE WITH THE UNEXPECTED POLITICAL EVENTS AND GROWING POLICY UNCERTAINTY, MARKETS HELD THE LINE IN THE FOURTH QUARTER. WITH THE SURPRISING BREXIT VOTE AND LATER U.S. PRESIDENTIAL ELECTION, THE YEAR OFTEN LEFT INVESTORS FEELING UNSETTLED. FOLLOWING PRESIDENT-ELECT DONALD TRUMP'S UNEXPECTED WIN IN NOVEMBER, GLOBAL FINANCIAL MARKETS WERE OVERRUN BY INVESTORS SPECULATING ON WHAT A TRUMP ADMINISTRATION COULD MEAN FOR REAL ASSETS.

DOMESTIC EQUITY

OUR INTRINSIC VALUE STRATEGIES LAGGED THEIR BENCHMARKS IN THE FIRST HALF OF 2016 TO AN EXTENT WE HAVE NOT SEEN SINCE THE INTERNET BUBBLE DISTORTED INVESTMENT REALITIES IN THE LATE 1990S. FOLLOWING THAT BUBBLE, WHEN REALITY RETURNED, OUR DOMESTIC STRATEGY WENT ON TO OUTPERFORM THE S&P 500 FOR EIGHT OF THE NEXT NINE YEARS. THE DISTORTION IN THIS CURRENT EPISODE FEELS COMPARABLE AND COULD BE DESCRIBED AS THE YIELD BUBBLE. OUR **LARGE CAP INTRINSIC VALUE EQUITY** STRATEGY WAS UP A WHOPPING +10.2% (GROSS) DURING THE QUARTER, OUTPERFORMING BOTH THE S&P 500 (+3.8%) AND RUSSELL 1000 VALUE (+6.7%). WE ARE VERY PLEASED WITH THESE RESULTS, AS THEY INDICATE THAT THE MARKET IS GETTING PAST THE IMPACT OF THE YIELD BUBBLE.

FOR THE QUARTER, OUR **U.S. CONCENTRATED GROWTH** RETURNED 0.37% VERSUS A 1.01% RETURN FOR THE RUSSELL1000® GROWTH INDEX. THE STRATEGY'S HIGH QUALITY BIAS HURT RELATIVE RETURNS AS THE PORTFOLIO UNDER-

PERFORMED IN A MARKET GENERALLY LED BY LOWER QUALITY COMPANIES THAT ARE MORE CYCLICALLY EXPOSED.

OUR **SMALL VALUE EQUITY** PORTFOLIO DELIVERED A RETURN OF 6.7%, TRAILING THE 14.1% RETURN FOR THE BENCHMARK RUSSELL 2000 VALUE. SINCE INCEPTION (MARCH 1, 2005), HOWEVER, OUR SMALL VALUE PORTFOLIO HAS EARNED A 9.3% COMPOUNDED RETURN COMPARED TO THE 7.8% RETURN OF THE BENCHMARK RUSSELL 2000 VALUE INDEX. OVER THE PAST 17 YEARS, WE HAVE EXPERIENCED THREE OTHER SPECULATIVE MARKETS WHEN LOW QUALITY STOCKS OUTPERFORMED BY SUCH A WIDE MARGIN. POST THESE SHORT-LIVED, INTENSE PERIODS OF SPECULATION, WE HAVE HISTORICALLY OUTPERFORMED FOR MULTI-YEAR PERIODS AND ALSO ON A CUMULATIVE BASIS.

INTERNATIONAL EQUITY

IN **GLOBAL AND NON-U.S. VALUE EQUITY**, GLOBAL STOCKS GAINED AND INTERNATIONAL EQUITIES DECLINED DURING THE FOURTH QUARTER, THOUGH BOTH FINISHED THE YEAR WITH THEIR BEST ANNUAL RETURNS SINCE 2013 AND MANY MAJOR STOCK MARKETS FINISHED NEAR RECORD HIGHS. OUR INTERNATIONAL/GLOBAL COMPOSITES RECOVERED STRONGLY AS THE FINAL PERIOD OF 2016 PROGRESSED, SIGNIFICANTLY OUTPACING THEIR RESPECTIVE BENCHMARKS, THE MSCI ALL COUNTRY WORLD INDEX AND THE MSCI ALL COUNTRY WORLD ex-U.S. INDEX, IN THE SECOND HALF AND FOURTH QUARTER. HOWEVER, THE LATE SURGE WAS INSUFFICIENT TO FULLY RECOVER EARLIER RELATIVE LOSSES, AND OUR INTERNATIONAL/GLOBAL COMPOSITES LAGGED FOR THE FULL YEAR IN REVIEW.

IN **INTERNATIONAL AND GLOBAL GROWTH EQUITY**, THE SHIFTING BACKDROP AND LEVEL OF UNCERTAINTY PROVED CHALLENGING FOR OUR PORTFOLIOS IN THE FOURTH QUARTER. WHILE THE THIRD QUARTER PROVED TO BE A SOLID ONE FOR OUR HOLDINGS AS THE DUST FROM THE BREXIT VOTE SETTLED, THE STRONG VALUE STYLE OUTPERFORMANCE OVER GROWTH AND THE NARROWNESS IN MARKET LEADERSHIP PROVED A

CHALLENGE, PARTICULARLY GIVEN OUR RELATIVELY LOWER WEIGHTINGS IN U.S. BANKS AND ENERGY COMPANIES. AS WE HAVE SEEN IN THE PAST FEW YEARS, NEITHER THE MARKETS NOR OUR PERFORMANCE OPERATE IN A STRAIGHT LINE. WHILE IT PROVED TO BE A TOUGH QUARTER, WE REMAIN FOCUSED ON THE LONG-TERM FUNDAMENTALS OF OUR HOLDINGS AND BELIEVE THESE COMPANIES CONTINUE TO DEMONSTRATE SOLID GROWTH, SUPPORTED BY SUSTAINABLE BUSINESS MODELS AND ROBUST FREE CASH FLOW GENERATION.

FIXED INCOME

IN THE FIXED INCOME MARKET ARENA, WE SAW A SUDDEN MOVE HIGHER IN RATES ACROSS THE CURVE AFTER THE ELECTION. ON ELECTION DAY THE 10-YEAR TREASURY NOTE YIELDED 1.62%. POST-ELECTION, THE MARKET PROCEEDED TO OVERSHOOT ON THE DOWNSIDE PUSHING THE 10-YEAR YIELD TO 2.64% BEFORE FINALLY REBOUNDED AFTER THE FED'S LONG-AWAITED INCREASE IN SHORT-TERM INTEREST RATES. OVER THE QUARTER, THE 10-YEAR TREASURY NOTE ROSE 83 BPS (0.83%) ENDING THE YEAR YIELDING 2.43%. SHORTER TERM TREASURY NOTES WITH A TWO-YEAR MATURITY ROSE 44 BPS TO 1.20%.

THE HIGH YIELD MARKET CONTINUED ITS POSITIVE RUN IN THE FOURTH QUARTER. OUR CORE STRATEGY LAGGED THE BENCHMARK PRIMARILY DUE TO OUR UNDERWEIGHT ALLOCATION TO LOWER QUALITY SECURITIES, OUR UNDERWEIGHT TO METALS/MINING, AND OUR MODEST OVERWEIGHT TO HEALTHCARE. POSITIVE CONTRIBUTORS TO OUR PERFORMANCE WERE WELL DISTRIBUTED AMONG SECTORS, WITH MIDSTREAM ENERGY STANDING OUT AS A LARGE POSITIVE FOR SECURITY SELECTION. OUR MINIMAL EXPOSURE TO CCCS AND CC RATED SECURITIES DETRACTED FROM OUR

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.

RELATIVE PERFORMANCE. WE ARE TAKING THE OPPORTUNITY TO SELL DOWN SOME BBB CREDIT EXPOSURE IN PORTFOLIOS AND ROLL THOSE PROCEEDS INTO HIGH QUALITY BB/B NAMES.

THANK YOU

WE WOULD LIKE TO EXTEND OUR GRATITUDE TO THE **IBEW 595 PENSION PLAN, IUOE EASTERN PENNSYLVANIA AND DELAWARE PENSION FUND, AND THE LABORERS DISTRICT COUNCIL PENSION AND DISABILITY TRUST FUND NO. 2** FOR ALLOCATING A PORTION OF THEIR ASSETS TO SIERRA'S CONCENTRATED GROWTH EQUITY PRODUCT, AND ALSO THE **CEMENT MASONS ANNUITY TRUST FUND FOR NORTHERN NEVADA** FOR ALLOCATING PORTIONS OF ITS ASSETS TO SIERRA'S CONCENTRATED GROWTH EQUITY AND SIERRA'S FIXED INCOME PRODUCTS. WE AT SIERRA INVESTMENT PARTNERS, INC., VALUE EACH OF OUR CLIENTS AND ARE GRATEFUL FOR THE OPPORTUNITY TO MANAGE A PORTION OF YOUR ASSETS.

DEWEY'S INDOOR GOLF & SPORTS GRILL

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 ORLANDO, FLORIDA. CONGRATULATIONS TO ALL OF OUR BINGO WINNERS!

