

2Q16 SIERRA NEWSLETTER



MARKET REVIEW

FOR THE THIRD YEAR IN A ROW, U.S. ECONOMIC GROWTH IN THE FIRST QUARTER OF THE YEAR SLOWED BELOW TREND. THE PRIMARY DRIVER OF GROWTH HAS BEEN THE CONSUMER, AND DURING THE FIRST THREE MONTHS OF THIS YEAR, WEAKER HOUSEHOLD CONSUMPTION REDUCED OVERALL GROWTH. FOR 2016, GROWTH COULD BE LESS THAN 2.0%. WE BELIEVE THIS SLOWER GROWTH MAY BE SECULAR IN NATURE, NOT CYCLICAL. CONSEQUENTLY, THE FEDERAL RESERVE SEEMS TO BE PUTTING FUTURE RATE HIKES ON HOLD.

THE DEFINING MOMENT OF THE SECOND QUARTER CAME ON JUNE 24, 2016, WHEN THE TALLY REVEALED THAT THE BRITISH PEOPLE VOTED TO LEAVE THE EUROPEAN UNION. CONCERNS ABOUT BREXIT CONTRIBUTED TO AN INCREASE IN MARKET VOLATILITY AT THE END OF THE QUARTER.

DOMESTIC EQUITY

OUR **LARGE CAP INTRINSIC VALUE EQUITY** STRATEGY POSTED A GROSS RETURN OF -2.4% FOR THE QUARTER, COMPARED TO THE RUSSELL 1000 VALUE RETURN OF 4.6%. WE CONTINUE TO MANAGE THE STRATEGY AS WE ALWAYS HAVE, BLENDING ATTRACTIVE VALUATION WITH INDICATIONS THAT EARNINGS TRENDS ARE SOLID AND THE MARKET ACTION IS CONSTRUCTIVE FOR STOCKS. OVER THE PAST NINE MONTHS, THIS HAS BEEN CYCLICALLY OUT OF FAVOR, BUT WE BELIEVE A RECOVERY SHOULD BE TAKING HOLD IN THE NEAR FUTURE. WE HAVE SEEN THE STRATEGY UNDERPERFORM LIKE THIS ONCE BEFORE, DURING THE INTERNET BUBBLE. INVESTORS' DESIRE FOR INTRINSIC VALUE WAS DIMINISHED DURING THAT EPISODE, AND STOCK PRICES DISCONNECTED FROM FUNDAMENTALS. THIS IS WHAT WE ARE CURRENTLY SEEING AS WELL. FOLLOWING THAT EPISODE, WE WENT ON TO OUTPERFORM THE S&P 500 FOR EIGHT OF THE NEXT NINE YEARS BETWEEN 2000 AND 2008. WE BELIEVE THIS EPISODE COULD PLAY OUT SIMILARLY.

OUR **U.S. CONCENTRATED GROWTH** STRATEGY INVESTS IN HIGH QUALITY GROWTH COMPANIES THAT TRADE AT A DISCOUNT TO THEIR INTRINSIC VALUES. QUALITY GROWTH STOCKS STRUGGLED IN THE QUARTER AS INVESTORS FAVORED INCOME-PRODUCING SECURITIES IN A DECLINING INTEREST RATE ENVIRONMENT. OUR STRATEGY DOES NOT TYPICALLY OWN COMPANIES IN INCOME-ORIENTED SECTORS BECAUSE THEY DO NOT MEET OUR DEFINITION OF QUALITY. DESPITE THE LACK OF EXPOSURE TO THESE AREAS, SECTOR ALLOCATION WAS POSITIVE OVERALL FOR THE QUARTER AS THE STRATEGY WAS OVERWEIGHT IN THE CONSUMER STAPLES AND ENERGY SECTORS, BOTH OF WHICH OUTPERFORMED. AS A WHOLE, OUR PORTFOLIO UNDERPERFORMED IN THE QUARTER, RETURNING -0.53% VERSUS 0.61% FOR THE RUSSELL 1000® GROWTH INDEX DUE TO OUR STOCK SELECTION IN A VARIETY OF INDUSTRIES.

OUR **SMALL VALUE EQUITY** PORTFOLIO DELIVERED A SOLID ABSOLUTE RETURN OF 5.5% FOR THE QUARTER, OUTPERFORMING THE BENCHMARK RUSSELL 2000 VALUE BY 120 BASIS POINTS. TOP ECONOMIC SECTORS CONTRIBUTING TO OUTPERFORMANCE INCLUDED INFORMATION TECHNOLOGY, CONSUMER STAPLES, AND UTILITIES. DURING THE QUARTER, OUR PORTFOLIO TRADING FOCUSED ON CONTINUED EFFORTS TO OWN COMPANIES WITH THE ABILITY TO GROW EARNINGS IN A SLOW ECONOMIC GROWTH ENVIRONMENT.

INTERNATIONAL EQUITY

IN **GLOBAL AND NON-U.S. VALUE EQUITY**, INTERNATIONAL EQUITIES FLUCTUATED FOR MOST OF THE SECOND QUARTER, UNTIL THE BREXIT VOTE WHIPSAWED STOCKS DURING THE FINAL WEEK OF THE PERIOD, RESULTING IN A SLIGHT QUARTERLY GAIN FOR GLOBAL EQUITIES AND A SLIGHT QUARTERLY LOSS FOR INTERNATIONAL STOCKS. WE ARE CURRENTLY REASSESSING OUR POSITIONING ON A STOCK-BY-STOCK BASIS TO

MARKET REVIEW (CONT.)

ACCOUNT FOR THE LIKELY FUTURE IMPACT OF A BREXIT ON COMPANIES, INDUSTRIES, AND ECONOMIES. WE EXPECT VOLATILITY AND UNCERTAINTY TO CREATE ADDITIONAL LONG-TERM OPPORTUNITIES.

IN **INTERNATIONAL AND GLOBAL GROWTH EQUITY**, WE SAW A SPIKE IN VOLATILITY FOLLOWING THE UK BREXIT VOTE AT THE END OF JUNE. GLOBAL EQUITY MARKETS, AS REPRESENTED BY THE MSCI WORLD INDEX, ACTUALLY MANAGED A MODEST GAIN DURING THE SECOND QUARTER IN U.S. DOLLAR TERMS. HOWEVER, OUR PORTFOLIOS SUFFERED MORE THAN THE MARKET IN THE WAKE OF THE BREXIT VOTE. OUR CONCENTRATED PORTFOLIOS HAVE A GROWTH ORIENTATION AND TEND TO BE COMPRISED OF MORE FOCUSED MID- TO LARGE-CAP COMPANIES AS OPPOSED TO THE MEGA-CAP STOCKS THAT TYPICALLY DO WELL IMMEDIATELY FOLLOWING A SIGNIFICANT AND UNEXPECTED MACROECONOMIC OR POLITICAL EVENT.

FIXED INCOME

IN THE **FIXED INCOME** MARKET ARENA, CORPORATE BONDS HAD THE BEST TOTAL RETURN AMONG THE SECTORS OF THE INVESTMENT GRADE MARKET. IN PARTICULAR, BONDS WITH A QUALITY RATING OF BAA/BBB SIGNIFICANTLY OUTPERFORMED ALL OTHER RATED BONDS. WITHIN THE CORPORATE SECTOR, BONDS ISSUED BY INDUSTRIAL COMPANIES OUTPERFORMED ON A RELATIVE BASIS. DURATION ALSO OUTPERFORMED AS SECURITIES WITH LONGER DURATIONS RETURNED MORE THAN THOSE WITH A SHORTER MATURITY.

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

THE **HIGH YIELD** MARKET GENERATED IMPRESSIVE RETURNS DURING THE SECOND CALENDAR QUARTER, OUTPACING MOST MAJOR DOMESTIC ASSET CLASSES. HOWEVER, OUR PORTFOLIOS LAGGED THE BENCHMARK IN THE SECOND QUARTER, DUE TO OUR HIGHER QUALITY HOLDINGS. PERFORMANCE WAS DRIVEN PRIMARILY BY SECTOR ALLOCATION AND RATINGS QUALITY. AS A RESULT, WE HAVE USED THE RALLY IN THE COMMODITY SECTORS TO UPGRADE THE QUALITY OF OUR PORTFOLIOS AS A WHOLE.



THANK YOU

WE WOULD LIKE TO EXTEND OUR GRATITUDE TO THE **LOCAL 731, I. B. OF T., EXCAVATORS AND PAVERS PENSION TRUST FUND**, THE **NORTHEAST CARPENTERS ANNUITY FUND**, AND **NORTHEAST CARPENTERS HEALTH FUND VACATION BENEFITS ACCOUNT** FOR ALLOCATING A PORTION OF THEIR ASSETS TO SIERRA'S CONCENTRATED GROWTH EQUITY PRODUCT. ALSO, WE WOULD LIKE TO THANK THE **SAN DIEGO ELECTRICAL PENSION TRUST** FOR ADDITIONAL CONTRIBUTIONS TO SIERRA'S HIGH YIELD FIXED INCOME PRODUCT, THE **MIDWEST OPERATING ENGINEERS PENSION TRUST FUND** FOR ADDITIONAL CONTRIBUTIONS TO SIERRA'S INTERNATIONAL GROWTH EQUITY PRODUCT, AND THE **BAY AREA PAINTERS AND TAPERS PENSION PLAN** FOR ADDITIONAL CONTRIBUTIONS TO SIERRA'S LARGE CAP INTRINSIC VALUE 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.