MARKET REVIEW
SECOND QUARTER, 2017

INDEX	2ND QUARTER %	1 YEAR %	3 YEAR %	5 YEAR %
Dow Jones Industrials	4.90	21.98	10.37	16.34
NASDAQ Composite	4.16	28.30	13.02	17.36
Standard & Poor's 500	3.09	17.90	9.61	14.63
Russell 1000	3.06	18.03	9.26	14.67
Russell Midcap	2.70	16.48	7.69	14.72
Russell 2000	2.46	24.60	7.36	13.70
BBgBarc US Aggregate Bond	1.45	-0.31	2.48	2.21
MSCI World ex. US	5.63	19.49	0.67	8.15
MSCI Emerging Markets	6.27	23.75	1.07	3.96
COUNTY OF SAN BERNARDINO 457(b) PLAN PERFORMANCE	**3.59**	**17.95**	**7.04**	**12.73**
COUNTY OF SAN BERNARDINO 401(k) PLAN PERFORMANCE	**3.48**	**18.25**	**7.31**	**13.10**
COUNTY OF SAN BERNARDINO RMT PLAN PERFORMANCE	**3.22**	**14.00**	**5.73**	**10.32**

U.S. equities continued to rally into the mid-year, posting a positive 3 percent return for the second quarter (Russell 3000). Equity returns were bolstered by solid economic data and earnings growth. International equities posted even better performance than their U.S. equity counterparts, returning 6.4 percent over the quarter (MSCI EAFE). Following years of asset purchases, the Federal Reserve (the Fed) laid out long-term plans to reduce their balance sheet. Short-term rates increased as the Fed raised the fed-funds rate another 25 basis points in June, their fourth rate hike this cycle. Despite the Fed's rate increase, 10-year Treasury yields declined 9 basis points to 2.31 percent and the yield curve flattened during the quarter. The broad U.S. fixed income market posted a 1.4 percent gain for the quarter (Barclays Aggregate).

The foundation of the market remains on solid footing. The U.S. economic expansion continues with unemployment hitting a cycle low of 4.3 percent in May. First quarter U.S. GDP grew 1.4 percent and second quarter GDP is projected to accelerate above 2.5 percent. A stronger economy also translated into accelerating earnings growth with S&P 500 first quarter earnings reported up almost 14 percent year over year, the highest trajectory in about six years. The global economy is also heating up with the Global Purchasing Managers Index hitting recent highs and well into expansion territory. One area of significant improvement came from the Eurozone, which reported better-than-expected economic data throughout the second quarter. Additionally, a major cloud of geopolitical uncertainty was lifted with the outcome of the French presidential elections. Centrist and pro-European Union candidate Emanuel Macron decisively defeated the far-right nationalist candidate Marine Le Pen.

In light of improved global growth, international equities have recently outperformed U.S. equities following several years of underperformance. This serves as a good reminder of the importance of international equities in a diversified portfolio allocation. As the chart of the quarter shows, international equities account for about half of the global market capitalization of equities. Additionally, international equities have a relatively low correlation to U.S. equities. Relative performance of domestic and international equities tends to cycle over time and exposure to equities across the global spectrum can help smooth performance over the long term, providing better risk-adjusted returns.

U.S. Equity	International Equity	Fixed Income
U.S. equity posted a positive 3.0 percent return for the quarter (Russell 3000). All U.S. equity styles posted positive returns for the quarter as growth outperformed value. Large growth was again the best performing U.S. equity style, posting a positive 4.7 percent return (Russell 1000 Growth) and small value was the worst performing style, posting a positive 0.7 percent return (Russell 2000 Value).	Developed international equity outperformed U.S. equity, returning a positive 6.4 percent (MSCI EAFE) as growth outperformed value. The best performing region for the quarter was Europe ex UK which returned a positive 8.9 percent (MSCI Europe ex UK). Pacific ex Japan was the worst performing region, returning a positive 1.6 percent (MSCI Pacific ex Japan) for the quarter.	The broad U.S. fixed income market posted a positive 1.4 percent return for the quarter (Barclays U.S. Aggregate). U.S. Corporate Investment Grade was the best performing sector, returning a positive 2.5 percent (BC U.S. Corporate Investment Grade). Treasury Inflation Protected Securities (TIPS) was the worst performing sector, returning a negative 0.4 percent (BC TIPS).

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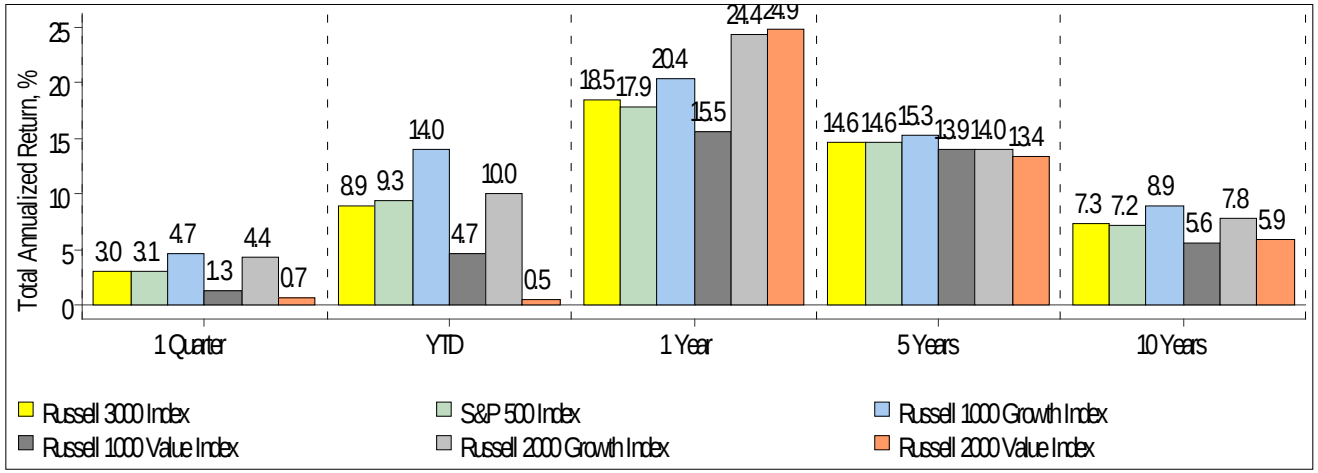
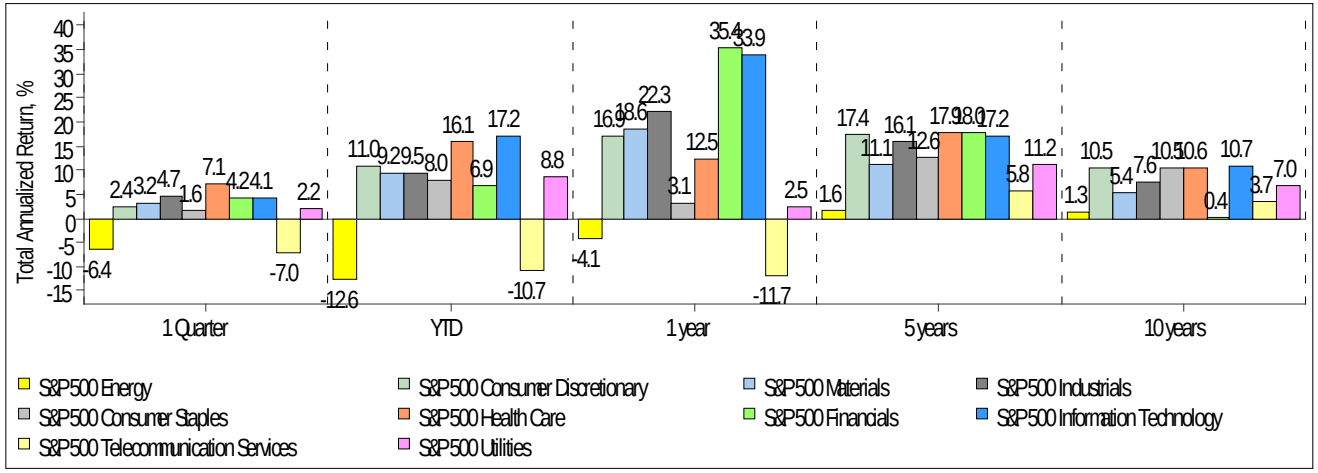
Domestic Equity Overview

- All U.S. equity styles were positive for the quarter
- Growth outperformed Value
  - Large growth was the best performing style, up 4.7%
  - Small value was the worst performing style, up 0.7%
- Best performing sectors for the quarter:
  - Health Care, up 7.1%
  - Industrials, up 4.7%
- Worst performing sectors for the quarter:
  - Telecomm Services, down 7.0%
  - Energy, down 6.4%

U.S. Equity Index Performance



U.S. Equity Sector Performance



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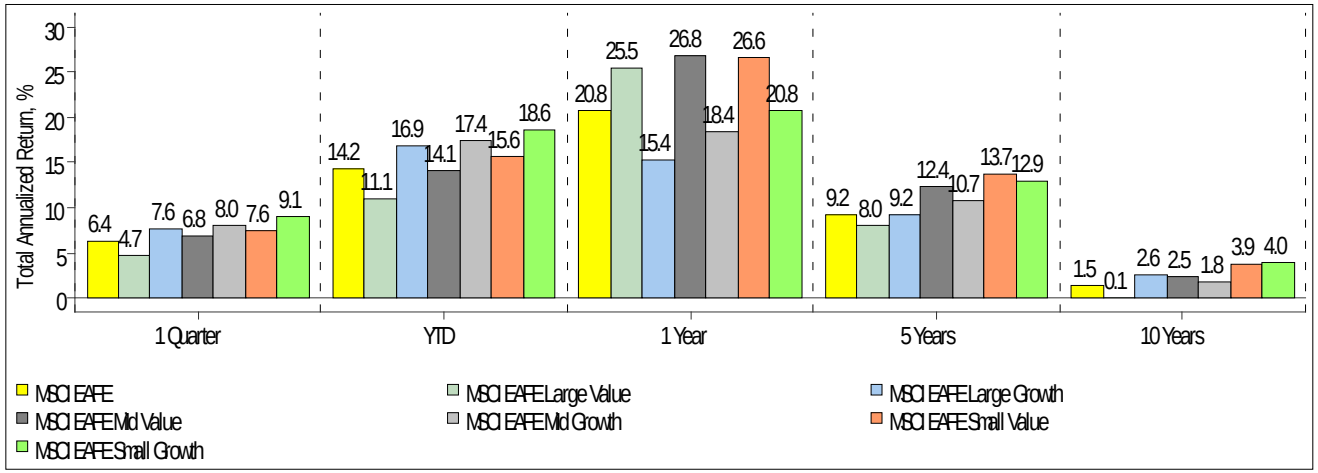
International Equity Overview

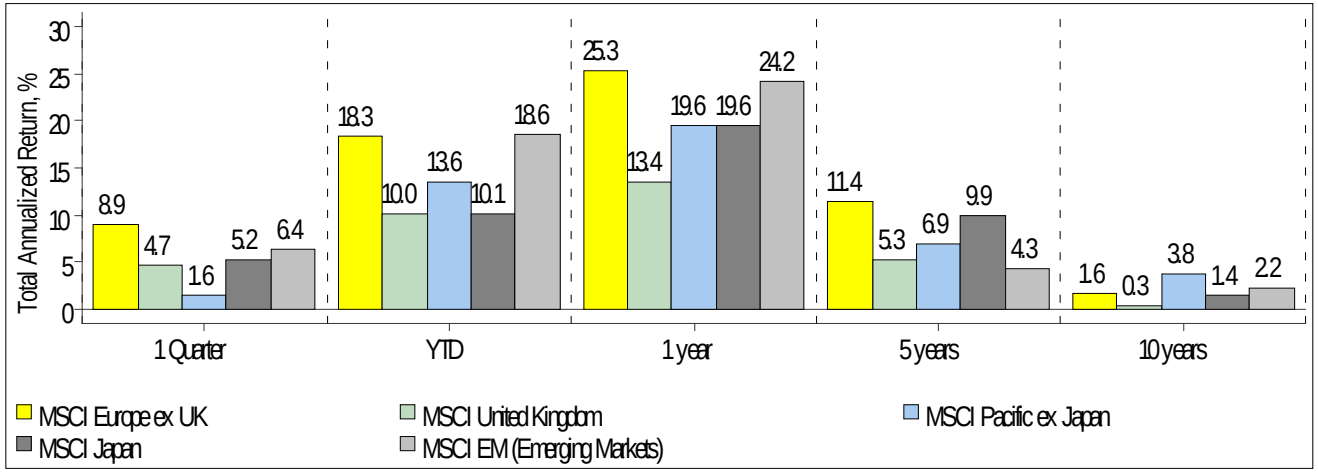
- All international equity styles posted strong returns for the quarter
- The best performing international equity style for the quarter:
  - Small growth, up 9.1%
- The worst performing style for the quarter:
  - Large value, up 4.7%

International Index Performance by Style and Capitalization



- Best performing region for the quarter:
  - Europe ex UK, up 8.9%
- Worst performing region for the quarter:
  - Pacific ex Japan, up 1.6%

International Index Performance by Region



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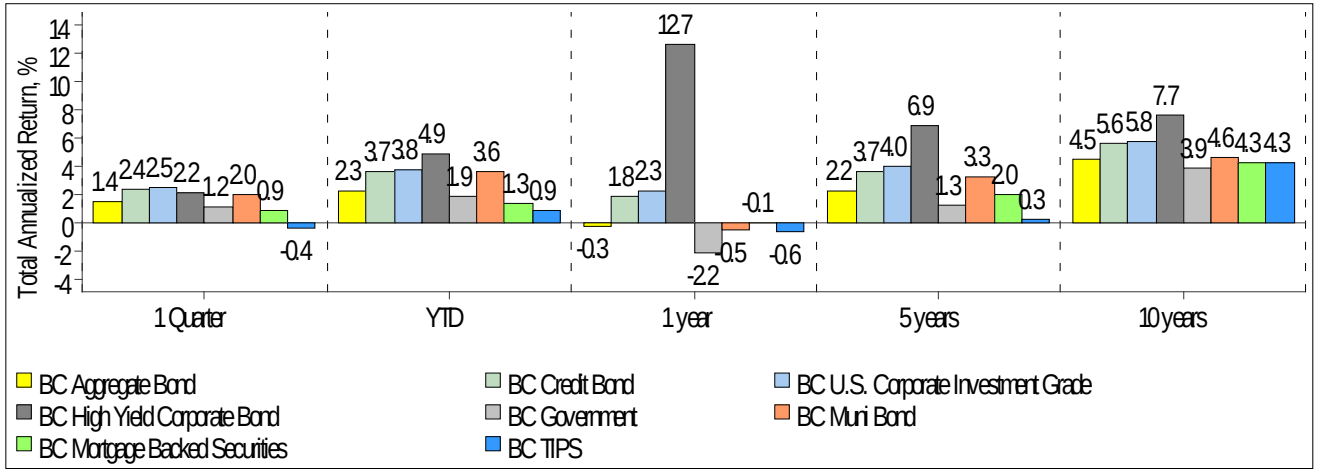
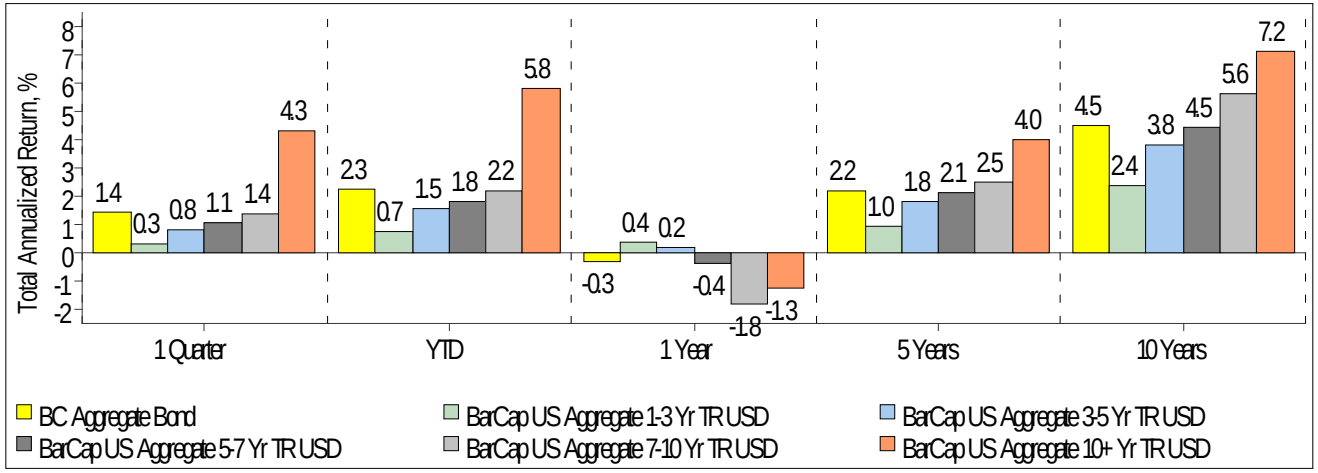
Fixed Income Overview

- Fixed income was slightly positive for the quarter
- The best performing sector for the quarter:
  - Corporate IG, up 2.5%
- The worst performing sector for the quarter:
  - TIPS, down 0.4%
- Performance was positive across all maturities. Longer dated maturities performed better

Fixed Income Sector Performance



Fixed Income Performance by Maturity



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Kaleidoscope: Changing Leadership

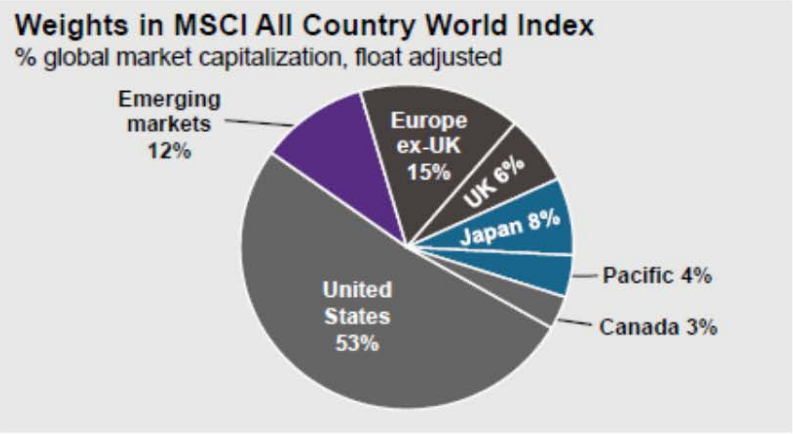
The following chart exhibits the volatility of asset class returns from year to year by ranking certain key indices in order of performance. Also included in the chart is a balanced index, which represents a mix of U.S. equity, international equity and fixed income indices. The chart graphically displays the volatility of asset class returns from year to year, highlighting the importance of diversification. Top-performing asset classes in a given year do not tend to repeat their stellar performance in subsequent years. Accordingly, the worst performing asset classes in a given year often tend to outperform in future years. Said differently, past performance is not a good indicator of future performance. Diversification, demonstrated by the balanced index, helps reduce volatility and the uncertainty that accompanies trying to pick the best asset class (or avoid the worst) in any given year.

2006	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*YTD*
26.86 MSCI EAFE USD	11.81 Russell 1000 Growth	5.24 BarCap US Agg	37.21 Russell 1000 Growth	29.09 Russell 2000 Growth	7.84 BarCap US Agg	18.05 Russell 2000 Value	43.30 Russell 2000 Growth	13.45 Russell 1000 Value	5.67 Russell 1000 Growth	31.74 Russell 2000 Value	14.22 MSCI EAFE USD
23.48 Russell 2000 Value	11.63 MSCI EAFE USD	-22.48 Balanced Index*	34.47 Russell 2000 Growth	24.50 Russell 2000 Value	3.04 Balanced Index*	17.90 MSCI EAFE USD	34.52 Russell 2000 Value	13.05 Russell 1000 Growth	0.59 Balanced Index*	17.34 Russell 1000 Value	13.99 Russell 1000 Growth
22.25 Russell 1000 Value	7.05 Russell 2000 Growth	-28.92 Russell 2000 Value	32.46 MSCI EAFE USD	16.71 Russell 1000 Growth	2.64 Russell 1000 Growth	17.51 Russell 1000 Value	33.48 Russell 1000 Growth	8.15 Balanced Index*	0.55 BarCap US Agg	11.32 Russell 2000 Growth	9.97 Russell 2000 Growth
13.35 Russell 2000 Growth	6.97 BarCap US Agg	-36.85 Russell 1000 Value	20.58 Russell 2000 Value	15.51 Russell 1000 Value	0.39 Russell 1000 Value	15.26 Russell 1000 Growth	32.53 Russell 1000 Value	5.97 BarCap US Agg	-0.39 MSCI EAFE USD	7.56 Balanced Index*	6.77 Balanced Index*
12.17 Balanced Index*	6.61 Balanced Index*	-38.44 Russell 1000 Growth	20.05 Balanced Index*	12.47 Balanced Index*	-2.91 Russell 2000 Growth	14.59 Russell 2000 Growth	23.29 MSCI EAFE USD	5.60 Russell 2000 Growth	-1.38 Russell 2000 Growth	7.08 Russell 1000 Growth	4.66 Russell 1000 Value
9.07 Russell 1000 Growth	-0.17 Russell 1000 Value	-38.54 Russell 2000 Growth	19.69 Russell 1000 Value	8.21 MSCI EAFE USD	-5.50 Russell 2000 Value	11.79 Balanced Index*	17.42 Balanced Index*	4.22 Russell 2000 Value	-3.83 Russell 1000 Value	2.65 BarCap US Agg	2.27 BarCap US Agg
4.33 BarCap US Agg	-9.78 Russell 2000 Value	-43.06 MSCI EAFE USD	5.93 BarCap US Agg	6.54 BarCap US Agg	-11.73 MSCI EAFE USD	4.22 BarCap US Agg	-2.02 BarCap US Agg	-4.48 MSCI EAFE USD	-7.47 Russell 2000 Value	1.51 MSCI EAFE USD	0.54 Russell 2000 Value

**Balanced Index comprised of 50% Russell 3000, 10% MSCI EAFE and 40% Barclays Capital U.S. Aggregate, rebalanced quarterly.*

International Equities

The below charts show that international equities account for about half of the global market capitalization of equities. Additionally, domestic and international equities have a relatively low correlation so exposure to equities across the global spectrum can help smooth performance providing better risk-adjusted returns.



Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management.
All return values are MSCI Gross Index (official) data. Chart is for illustrative purposes only. Past performance is not indicative of future results. Please see disclosure page for index definitions. Countries included in global correlations include Argentina, South Africa, Japan, UK, Canada, France, Germany, Italy, Australia, Austria, Brazil, China, Colombia, Denmark, Finland, Hong Kong, India, Malaysia, Mexico, Netherlands, New Zealand, Peru, Philippines, Portugal, Korea, Spain, Taiwan, Thailand, Turkey, United States.
Guide to the Markets – U.S. Data are as of June 30, 2017.
Source: J.P. Morgan's 3Q'17 Guide to the Markets.

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Disclosures

Performance of indexes reflects the unmanaged result for the market segment the selected stocks represent. Indexes are unmanaged and not available for direct investment.
Citigroup Corporate Bond is an index which serves as a benchmark for corporate bond performance. You cannot invest directly in an index.

Citigroup Mortgage Master is an index which serves as a benchmark for U.S. mortgage-backed securities performance.

Citigroup WGBI Index is an index which serves as a benchmark for global bond performance, including 22 different government bond markets.

Credit Suisse High Yield Index is an unmanaged, trader priced index constructed to mirror the characteristics of the high yield bond market.

BC (Barclays Capital) U.S. Aggregate Bond Index represents securities that are U. S., domestic, taxable, and dollar denominated. The index covers the U. S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

BC Credit Bond Index includes publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered.

BC U.S. Corporate Investment Grade represents investment grade corporate securities that are U. S., domestic, taxable, and dollar denominated.

BC High Yield Corporate Bond represents below investment grade corporate securities that are U. S., domestic, taxable, and dollar denominated.

BC TIPS Index includes publicly issued U.S. government treasury inflation protected securities that meet the specified maturity, liquidity and other requirements.

BC Mortgage Backed Securities covers agency mortgage-backed pass-through securities (both fixed-rate and hybrid ARMs) issued by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

BC Muni Bond covers the USD-denominated long term tax exempt bond market with four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds.

BC Government Index includes publicly issued U.S. government securities that meet the specified maturity, liquidity and other requirements.

BarCap U.S. Aggregate 1-3 Yr. TR USD Index represents securities in the BC U.S. Aggregate Index that have maturity dates over the next 1 to 3 years.

BarCap U.S. Aggregate 3-5 Yr. TR USD Index represents securities in the BC U.S. Aggregate Index that have maturity dates over the next 3 to 5 years.

BarCap U.S. Aggregate 5-7 Yr. TR USD Index represents securities in the BC U.S. Aggregate Index that have maturity dates over the next 5-7 years.

BarCap U.S. Aggregate 7-10 Yr. TR USD Index represents securities in the BC U.S. Aggregate Index that have maturity dates over the next 7 to 10 years.

BarCap U.S. Aggregate 10+ Yr. TR USD Index represents securities in the BC U.S. Aggregate Index that have maturity dates over 10 years.

DJW 5000 (Full Cap) Index measures the performance of all U.S. common equity securities, and serves as an index of all stock trades in the United States.

MSCI FI Emerging Markets is a rules-based index which serves as a benchmark for emerging country fixed income performance.

MSCI FI EAFE International is a rules-based index which serves as a benchmark for developed international country fixed income performance.

MSCI EAFE Index is listed for foreign stock funds (EAFE refers to Europe, Australia, and Far East). Widely accepted as a benchmark for international stock performance, it is an aggregate of 21 individual country indexes.

MSCI EAFE Large Value represents the large cap value stocks within the MSCI EAFE Index.

MSCI EAFE Large Growth represents the large cap growth stocks within the MSCI EAFE Index.

MSCI EAFE Mid Value represents the mid cap value stocks within the MSCI EAFE Index.

MSCI EAFE Mid Growth represents the mid cap growth stocks within the MSCI EAFE Index.

MSCI EAFE Small Value represents the small cap value stocks within the MSCI EAFE Index.

MSCI EAFE Small Growth represents the small cap growth stocks within the MSCI EAFE Index.

MSCI EM (Emerging Markets) Index serves as a benchmark for each emerging country. The average size of these companies is (U.S.) $400 million, as compared with $300 billion for those companies in the World index.

MSCI World Index is a rules-based index that serves as a benchmark for the developed global equity markets.

MSCI Europe ex UK Index is a rules-based index that serves as a benchmark for the Europe's equity markets, excluding the United Kingdom.

MSCI Pacific ex Japan Index is a rules-based index that serves as a benchmark for Asia Pacific's equity markets, excluding Japan.

MSCI United Kingdom Index is a rules-based index that serves as a benchmark for the United Kindgom's equity markets.

MSCI Japan is a rules-based index that serves as a benchmark for Japan's equity markets.

Nareit All Reit Index includes all tax-qualified REITs with common shares that trade on the New York Stock Exchange, the American Stock Exchange or the NASDAQ National Market List.

3-Month T-bills (90 Day T-Bill Index) are government-backed short-term investments considered to be risk-free and as good as cash because the maturity is only three months.

Russell 1000 Growth Index is a market-capitalization weighted index of those firms in the Russell 1000 with higher price-to-book ratios and higher forecasted growth values.

Russell 1000 Value Index is a market-capitalization weighted index of those firms in the Russell 1000 with lower price-to-book ratios and lower forecasted growth values.

Russell Top 200 Growth Index is a market-capitalization weighted index of those firms in the Russell Top 200 with higher price-to-book ratios and higher forecasted growth values.

Russell Top 200 Value Index is a market-capitalization weighted index of those firms in the Russell Top 200 with lower price-to-book ratios and lower forecasted growth values.

Russell 2000 Growth Index is a market-weighted total return index that measures the performance of companies within the Russell 2000 Index having higher price-to-book ratio and higher forecasted growth values.

Russell 2000 Index consists of the smallest 2000 companies in the Russell 3000 Index, representing approximately 7% of the Russell 3000 total market capitalization.

Russell 2000 Value Index is a market-weighted total return index that measures the performance of companies within the Russell 2000 Index having lower price-to-book ratios and lower forecasted growth values.

Russell MidCap Growth Index is a market-weighted total return index that measures the performance of companies within the Russell MidCap Index having higher price-to-book ratios and higher forecasted growth values.

Russell Mid-Cap Index includes firms 201 through 1000, based on market capitalization, from the Russell 3000 Index.

Russell MidCap Value Index is a market-weighted total return index that measures the performance of companies within the Russell MidCap index having lower price-to-book ratios and lower forecasted growth values.

Russell Top 200 Index consists of the 200 largest securities in the Russell 3000 Index.

Russell 3000 Index is a market-capitalization weighted index, consisting of 3,000 U.S. common equity securities, reflective of the broad U.S. equity market.

Salomo n 1-10 Yr. Governments is an index which serves as a benchmark for U.S. Government bonds with maturities ranging from 1 to 10 years.

S&P 500 Index measures the performance of the largest 500 U.S. common equity securities, and serves as an index of large cap stocks traded in the United States.

S&P 500 Energy Index measures the performance of the energy sector in the S&P 500 Index.

S&P 500 Industrials measures the performance of the industrial sector in the S&P 500 Index.

S&P 500 Financials measures the performance of the financials sector in the S&P 500 Index.

S&P 500 Utilities measures the performance of the utilities sector in the S&P 500 Index.

S&P 500 Consumer Discretionary Index measures the performance of the consumer discretionary sector in the S&P 500 Index.

S&P 500 Consumer Staples Index measures the performance of the consumer staples sector in the S&P 500 Index.

S&P 500 Information Technology measures the performance of the information technology sector in the S&P 500 Index.

S&P 500 Materials measures the performance of the materials sector in the S&P 500 Index.

S&P 500 Health Care measures the performance of the health care sector in the S&P 500 Index.

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