MARKET REVIEW
SECOND QUARTER, 2015

INDEX	2ND QUARTER %	1 YEAR %	3 YEAR %	5 YEAR %
Dow Jones Industrial	-0.29	7.21	13.77	15.41
NASDAQ Composite	1.75	13.13	19.33	18.78
Standard & Poor's 500	0.28	7.42	17.31	17.34
Russell 1000	0.11	7.37	17.73	17.58
Russell Midcap	-1.54	6.63	19.26	18.23
Russell 2000	0.42	6.49	17.81	17.08
Barclay US Aggregate Bond	-1.68	1.86	1.83	3.35
MSCI World ex. US	0.48	-5.28	11.15	8.97
MSCI Emerging Markets	0.69	-5.12	3.71	3.68
COUNTY OF SAN BERNARDINO 457(b) PLAN PERFORMANCE	**-0.03**	**4.83**	**16.05**	**15.17**
COUNTY OF SAN BERNARDINO 401(k) PLAN PERFORMANCE	**-0.05**	**5.10**	**16.33**	**15.44**
COUNTY OF SAN BERNARDINO RMT PLAN PERFORMANCE	**-0.36**	**3.78**	**12.79**	**12.79**

The second quarter witnessed increased market volatility amid rising rates in the U.S. and Europe. In the U.S., the 10-year Treasury hit a high of 2.50 percent for the year, settling in at 2.35 percent by the quarter end, 41 basis points higher than a quarter ago. This environment negatively impacted fixed income and the broad U.S. fixed income market posted a negative 1.7 percent return over the quarter (Barclays Aggregate Bond Index). Longer dated fixed income posted even sharper declines, with 10-year Treasuries experiencing a negative 7.5 percent return over the quarter (BarCap US Aggregate 10+ Yr). U.S. equities posted a small positive 0.1 percent return (Russell 3000 Index) for the quarter. International equities outperformed both U.S. equities and fixed income, posting a positive 0.8 percent return for the quarter (MSCI EAFE).

International equities were helped in part by the improved performance of key foreign currencies relative to the U.S. dollar. Specifically, there was less downside volatility from the Euro, limiting the negative return U.S. – based investors experienced due to currency effect. International equities experienced more volatility near the end of the quarter, driven by volatility in emerging markets, Greece and China. The debt crisis intensified in Greece as they missed a debt payment at the quarter end. A primary concern among investors was the impact of a default and a potential "Grexit" from the Eurozone. China had its own unique set of issues against a backdrop of higher stock market valuations and slowing growth. A sharp drop in China's stock markets at the end of the quarter fueled more government

intervention, increasing concerns in those markets for investors. These issues, which began at the close of the quarter, will likely continue to play out in the third quarter.

The rise in long-term rates comes as the Fed continues to prepare investors for the eventual rise in short-term rates. Many indicators suggest that the Fed will hike rates by the end of the year, and as soon as September. Job growth and unemployment, key factors in this decision, both support a rate hike. Hiring continues to grow at a healthy rate as the number of job seekers to openings is at its lowest level since 2007 (BLS, July 2015). While long-term rates could also move higher, there is no direct relationship between long and short-term rates. Overseas investors, for example, will likely continue to be attracted to U.S. fixed income because of higher yields and relative safety. This could help minimize any large movements in rates as the Fed begins to tighten.

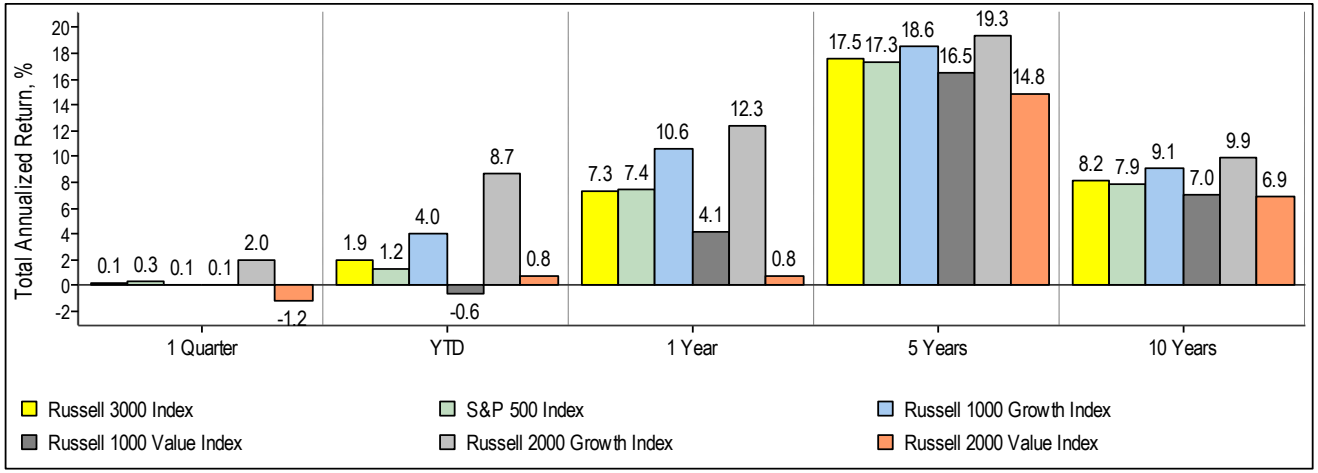
U.S. Equity	International Equity	Fixed Income
U.S. equity posted a small positive 0.1 percent return for the quarter (Russell 3000 Index). All U.S. equity styles managed to post positive returns for the quarter except small cap value. Small cap growth continued to be the best performing U.S. equity style, posting a positive 2.0 percent return (Russell 2000 Growth). Small cap value was the worst performing style, posting a negative 1.2 percent return (Russell 2000 Value).	Developed international equity outperformed U.S. equity over the quarter, returning a positive 0.8 percent (MSCI EAFE). All international equity styles posted strong positive returns for the quarter. The best performing region for the quarter was Japan, which returned a positive 3.1 percent (MSCI Japan). Pacific ex Japan was the worst performing region, returning a negative 2.4 percent (MSCI Pacific ex Japan).	The broad U.S. fixed income market posted a loss for the quarter, returning a negative 1.7 percent (Barclays Capital U.S. Aggregate). High yield corporate was the best performing sector, returning 0.0 percent (BC High Yield). U.S. corporate investment grade was the worst performing sector, returning a negative 3.2 percent (BC U.S. Corporate Investment Grade). Global fixed income outperformed the broad U.S. fixed income market, returning a negative 1.3 percent (BofA ML Global Broad Market) for the quarter.

Market Review - 2nd Quarter 2015

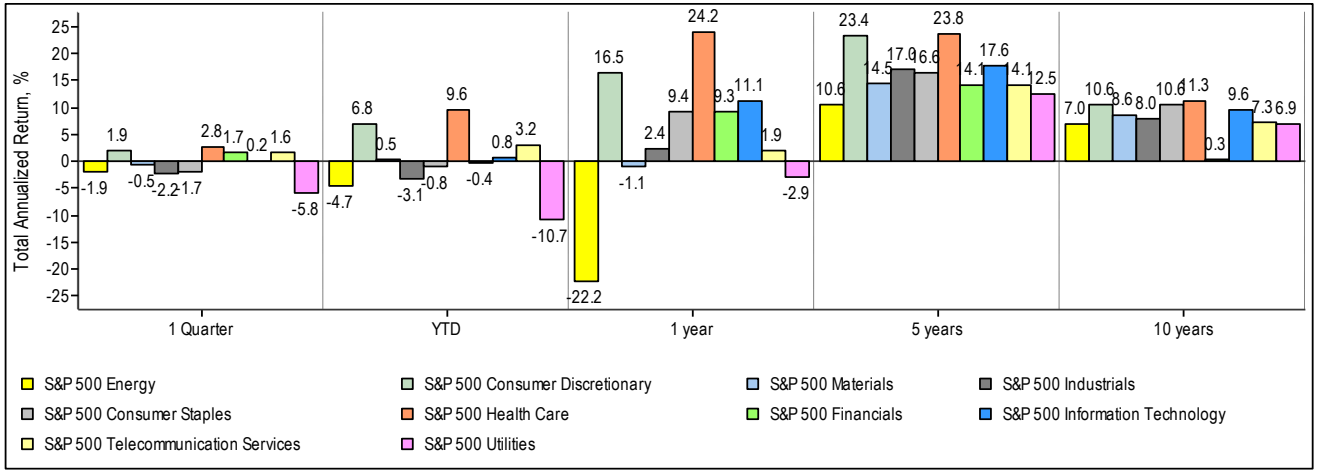
Domestic Equity Overview

- U.S. equities were mostly flat for the quarter
- There was greater volatility in small cap equity
  - Small cap growth was the best performing style, up 2.0%
  - Small cap value was the worst performing style, down 1.2%
- Best performing sectors for the quarter:
  - Health care, up 2.8%
  - Consumer discretionary, up 1.9%
- Worst performing sectors for the quarter:
  - Utilities, down 5.8%
  - Industrials, down 2.2%

U.S. Equity Index Performance



U.S. Equity Sector Performance

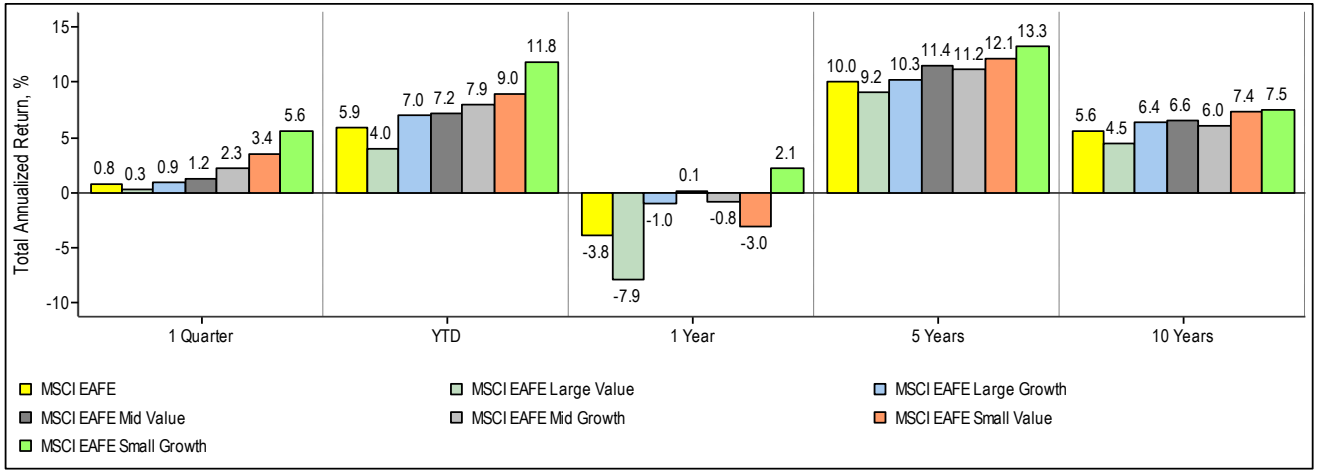


Market Review - 2nd Quarter 2015

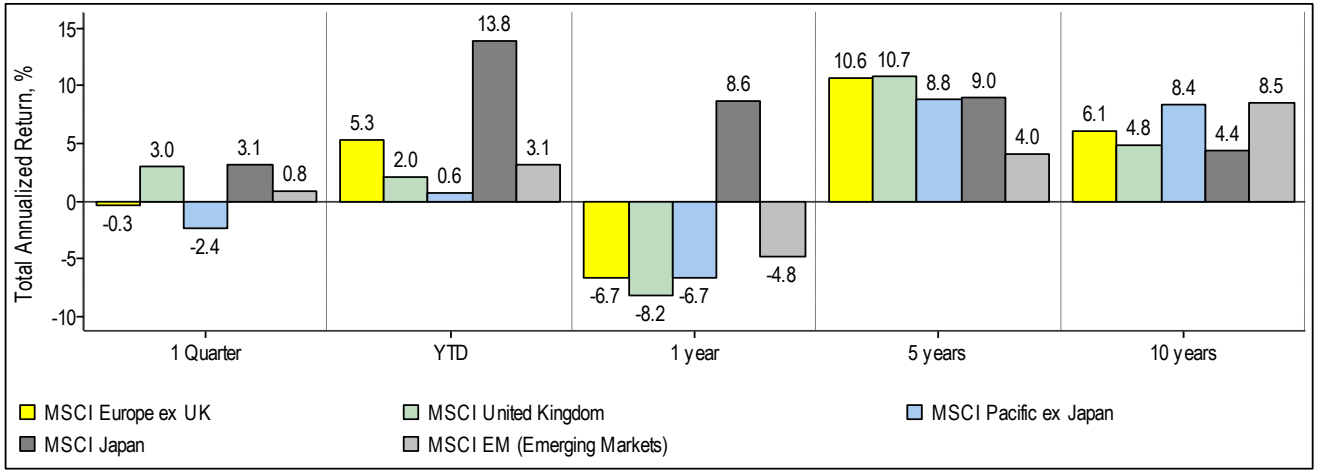
International Equity Overview

- International equities were mostly positive over the quarter
- The best performing international style for the quarter:
  - Small growth, up 5.6%
- The worst performing style for the quarter:
  - Large value, up 0.3%
- Best performing region for the quarter:
  - Japan, up 3.1%
- Worst performing region for the quarter:
  - Pacific ex Japan, down 2.4%

International Index Performance by Style and Capitalization



International Index Performance by Region



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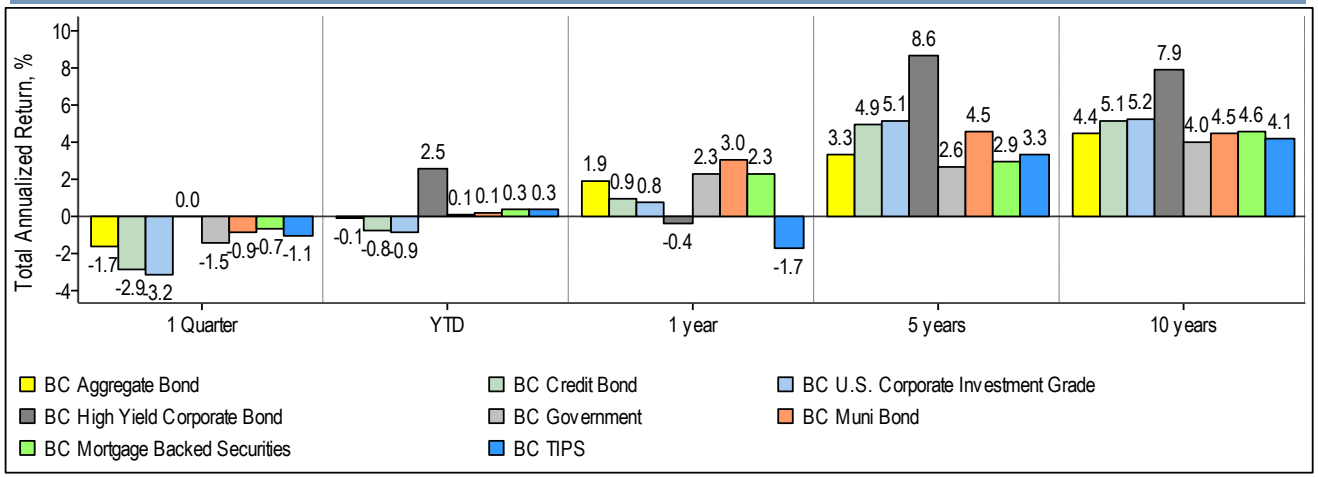
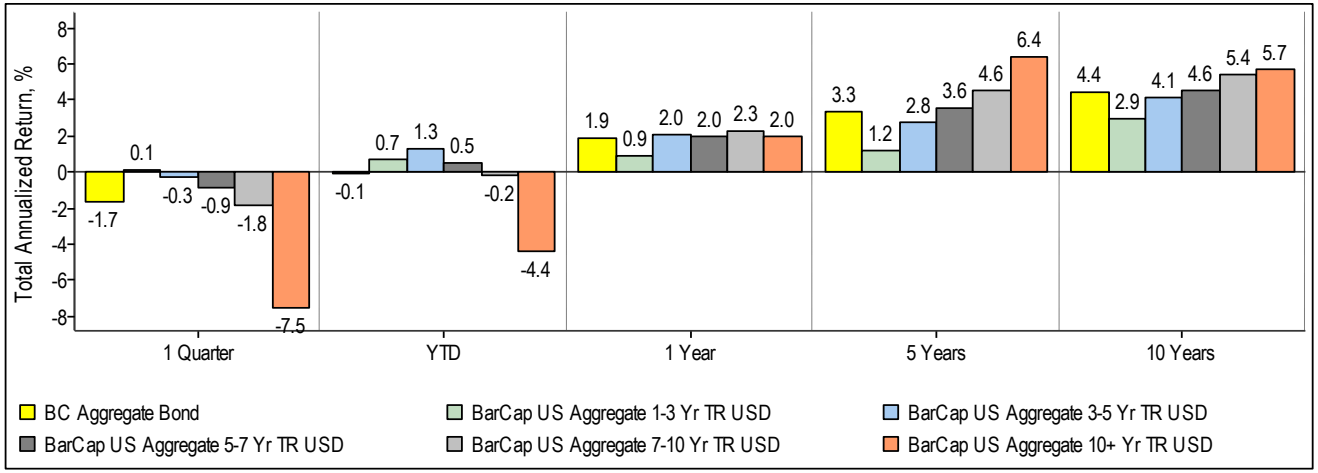
Fixed Income Overview

- Fixed income performance was negative for most sectors
- The best performing sector for the quarter:
  - High yield, up 0.0%
- The worst performing sector for the quarter:
  - U.S. corporate investment grade, down 3.2%
- As long-term yields rose, longer-dated maturities underperformed the most

Fixed Income Sector Performance



Fixed Income Performance by Maturity



Market Review - 2nd Quarter 2015

Annualized Style Box Performance

1 Quarter (%)			
Value	Blend	Growth	
1.04	0.87	0.71	Large
-1.97	-1.54	-1.14	Mid
-1.20	0.42	1.98	Small
Int'l Equity	Global Equity	Core Fixed Income	3-Month T-Bill
0.84	0.31	-1.68	0.01

3 Year (Annualized %)			
Value	Blend	Growth	
16.58	17.08	17.55	Large
19.13	19.26	19.24	Mid
15.50	17.81	20.11	Small
Int'l Equity	Global Equity	Core Fixed Income	3-Month T-Bill
12.45	14.27	1.83	0.06

Year to Date (%)			
Value	Blend	Growth	
-1.06	1.42	3.86	Large
0.41	2.35	4.18	Mid
0.76	4.75	8.74	Small
Int'l Equity	Global Equity	Core Fixed Income	3-Month T-Bill
5.88	2.63	-0.10	0.01

5 Year (Annualized %)			
Value	Blend	Growth	
15.93	17.29	18.63	Large
17.73	18.23	18.69	Mid
14.81	17.08	19.33	Small
Int'l Equity	Global Equity	Core Fixed Income	3-Month T-Bill
10.03	13.10	3.35	0.08

1 Year (%)			
Value	Blend	Growth	
4.33	7.70	11.07	Large
3.67	6.63	9.45	Mid
0.78	6.49	12.34	Small
Int'l Equity	Global Equity	Core Fixed Income	3-Month T-Bill
-3.82	1.43	1.86	0.02

10 Year (Annualized %)			
Value	Blend	Growth	
6.29	7.63	8.95	Large
8.89	9.40	9.69	Mid
6.87	8.40	9.86	Small
Int'l Equity	Global Equity	Core Fixed Income	3-Month T-Bill
5.60	6.38	4.44	1.42

Performance as of June 30, 2015. Data is for informational purposes only and cannot be guaranteed. Past performance does not guarantee future results. Russell Top 200, Top 200 Growth, and Top 200 Value used for Large Blend, Large Growth and Large Value categories. Russell Mid-cap, Mid-cap Growth and Mid-Cap Value used for Mid Blend, Mid Value and Mid Growth categories. Russell 2000, 2000 Growth and 2000 Value used for Small Blend, Small Growth and Small Value categories. MSCI EAFE used for International Equity category. MSCI Global used for World Equity category.

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Kaleidoscope: Changing Leadership

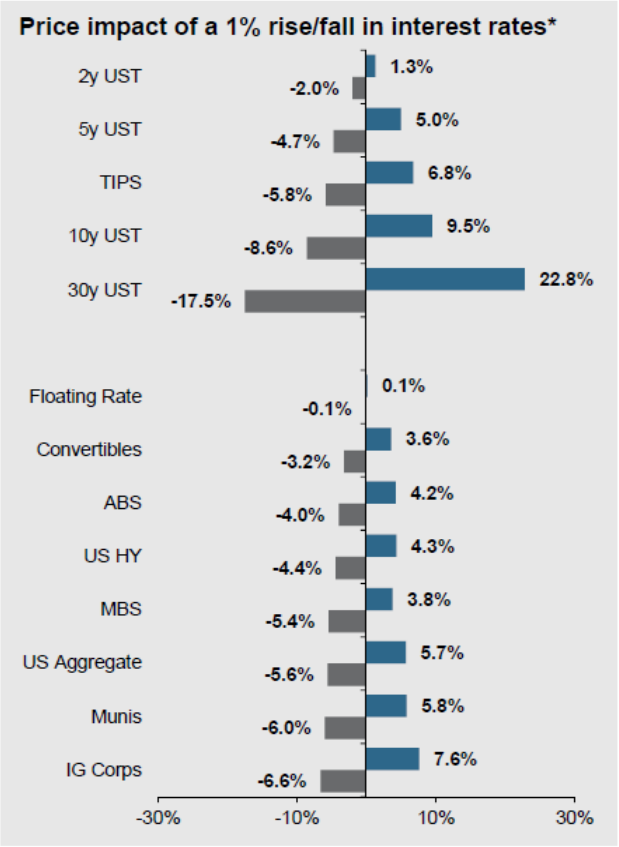
The following chart exhibits the volatility of asset class returns from year to year by ranking certain key indices in order of performance. Also included in the chart is a balanced index, which represents a mix of U.S. equity, international equity and fixed income indices. The chart graphically displays 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 return volatility and the uncertainty that accompanies trying to pick the best asset class (or avoid the worst) in any given year.

2004	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*YTD*
22.25 Russell 2000 Value	14.02 MSCI EAFE USD	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	8.74 Russell 2000 Growth
20.70 MSCI EAFE USD	7.05 Russell 1000 Value	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	5.88 MSCI EAFE USD
16.49 Russell 1000 Value	5.45 Balanced Index*	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*	3.96 Russell 1000 Growth
14.31 Russell 2000 Growth	5.26 Russell 1000 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	1.51 Balanced Index*
9.84 Balanced Index*	4.71 Russell 2000 Value	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	0.76 Russell 2000 Value
6.30 Russell 1000 Growth	4.15 Russell 2000 Growth	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	-0.10 BarCap US Agg
4.34 BarCap US Agg	2.43 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	-0.61 Russell 1000 Value

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

The Impact of Rate Movements

A large move in rates can significantly impact longer duration fixed income more than short or intermediate term fixed income. Some fixed income asset classes are more immune to a rise in rates than others (a change in rates does not affect fixed income assets similarily).



Source: JPMorgan Guide to the Markets 3Q'15 - data as of June 30, 2015

**Calculation assumes 2-year Treasury interest rate falls 0.64% to 0.00%, as interest rates can only fall to 0.00%. Past performance is not indicative of future results. The chart is for illustrative purposes only and assumes a rate move of 1%.*

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.

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