

COUNTY of SAN BERNARDINO

EXECUTIVE SUMMARY Defined Contribution Plans 1st Quarter 2009

	1st Qtr	1 Yr.	3 Yr.	5Yr.
457 Plans Performance	-7.51%	-38.98%	-12.01%	-1.35%
Customized Benchmark	-9.57%	-37.12%	-13.07%	-4.14%
Difference	2.06%	-1.86%	1.05%	2.79%
401(k) Plan	-7.21%	-38.73%	-11.89%	-1.28%
Customized Benchmark	-9.54%	-36.30%	-12.52%	-3.81%
Difference	2.33%	-2.43%	0.62%	2.53%
Retirement Medical Trust	-5.09%	-37.04%	-12.43%	-1.34%
Customized Benchmark	-6.21%	-35.05%	-12.17%	-3.70%
Difference	1.12%	-1.99%	-0.26%	2.36%

PORTFOLIO ANALYSIS

Assets:

The total assets in all of the County of San Bernardino plans have decreased to \$393,512,000, including \$856,600 in the self directed brokerage account. The previous quarter the balance was \$409,085,000.

Based on total assets, excluding the 3121 assets, the total return of the County of San Bernardino portfolio is **-6.44%**. In a bear market the assets in the fixed interest account have a noticeable impact on the overall performance results.

457 Plan Cash Position:

The stable value rate for the first quarter was 3.0%.

The fixed interest account saw an increase in assets during the first quarter of \$4.85 million. The percentage of assets in the fixed interest bearing account has increased from 48% in the fourth quarter 2008 to almost 52% as of March 31, 2009. There appears to be a continued flight to safety.

401(k) Plan Cash Position:

The percentage of assets in the fixed interest bearing account has increased from 34% in the fourth quarter of 2008 to 39% in the first quarter of 2009. The percentage of assets in

the fixed interest account was 19.27% as of December 31, 2007. The fixed interest account saw an increase in assets of \$2.61 million.

Retirement Medical Trust Cash Position:

There was a small increase in the percentage of assets in the fixed interest account with 89.77% now in the ING General account. Nearly \$1.4 million moved in during the 1st quarter of 2009.

457 Plans Mutual Funds Position:

The 457 portfolio outperformed the customized benchmark for the first quarter, but underperformed for the one year period. The funds that contain a key percentage of the mutual fund assets that most influenced the performance of the 457 portfolio are:

Fund Name

3. Janus Contrarian
6. RiverSource Div. Eq. Income
10. RiverSource Mid Cap Value

The Sharpe Ratio is a tool that helps determine if the risk the fund or portfolio is taking to achieve the performance is worthwhile. The Sharpe Ratio for the 457 portfolio continues to decline and is now **-0.78** which is better than the benchmark of **-0.89** (over three years).

The Standard Deviation is a measurement of the volatility of the portfolio's short term return from the average long term return. The three-year Standard Deviation for the portfolio is 18.43. It is higher than the benchmark of 17.58.

The Alpha, a measurement of the value added by the investment manager, is 1.91. The Beta is 1.04.

401(k) Mutual Funds Position:

The 401(k) outperformed the 457 portfolio by 30 basis points (0.30%) during the first quarter and outperformed the 457 portfolio by 25 basis points (0.25%) in the one year performance comparison. Many of the mutual funds hold a similar percentage of assets in the 401(k) as are positioned in the 457 Plan. The two notable differences is greater investment in the RiverSource Funds for the 401(k) participants.

The Sharpe Ratio for the 401(k) portfolio continues to decline and is now **-0.77** which is better than the benchmark of **-0.89**.

The three-year Standard Deviation for the portfolio is 18.34. It is higher than the benchmark of 17.10. The Alpha is 1.77 and the Beta is 1.06 (over three years).

RETIREMENT MEDICAL TRUST (RMT) Mutual Funds Position:

Only 10.23% of the \$20,513,782 assets are in mutual funds, including the risk based asset allocation funds.

The RMT outperformed the 457 portfolio by 242 basis points (2.42%) during the first quarter and outperformed the 457 portfolio by 194 basis points (1.94%) in the one year performance comparison. The performance of the RMT portfolio was aided by investing 34.69% of the registered mutual fund assets in Growth Fund of America.

The Sharpe Ratio for the RMT portfolio is **-0.82**, which is slightly worse than the benchmark of **-0.81**.

The three-year Standard Deviation for the portfolio is 18.18. It is higher than the benchmark of 18.06. The Alpha is **-0.30** and the Beta is 1.00 (over three years).

MUTUAL FUNDS

1. American Funds Growth Fund of America (AGTHX)

Russell 1000 Growth/ Large Cap Growth

Only 7% of the active large cap growth managers beat the corresponding Russell 1000 Growth index in the first quarter, 2009; in that 7% is Growth Fund of America.

2. Columbia Marsico 21st Century Z (NMYAX)

Russell 1000 Growth/ Large Cap Growth

This fund has lost 15.97% (despite having an 11% cash stake) in the first quarter versus a loss of 3.38% for the Russell Large Growth. The fund has also under-performed for the one and three year periods. The three year performance was entirely driven by the past fifteen month's results.

The concentration can lead to excess volatility if the stock-picking isn't right on. The fund holds about 40 stocks and replaces them at least once a year (113% turnover). 16% of the fund is in international stocks and the weighted-average market cap is 60% of the index, less than half the S&P 500 (20% of the fund is in small-mid stocks).

This bear market has impacted nearly all equity funds regardless of their previous successes. In four of the previous seven years prior to 2008, this fund was ranked in the top 3% of its peer group.

It has been reported that Bank of America is shopping around Columbia Asset Management, we will continue to monitor this situation.

3. Janus Contrarian (JSVAX)

Russell 1000 / Large Cap Blend

2008 and so far 2009 have proved difficult for Janus Contrarian. The underperformance in the first quarter and in 2008 is significant, however, this can be contrasted with dramatic outperformance from 2003 – 2007 (beating its benchmark by at least 10% per year). The fund has also under performed for the three-year period due to the performance of the last 15 months.

This multi cap style was a winner going back to 2001. This fund does not fit well into a category, if you look at the style box it holds stocks in many different categories and its weighted-average market cap is \$7 billion versus \$38 billion for the S&P 500. Further, the fund holds 54 stocks, 31% of which are in International and 15% in Emerging Markets stocks.

Morningstar analysts say “this fund’s attraction to out-of-favor stocks can put it in dumps at times....an investor in this fund needs lots of patience”

4. Vanguard Institutional Index (VINIX)

S&P 500

Low expenses make this fund the standard bearer for large cap index funds.

5. Mainstay ICAP Select Equity (ICSLX)

Russell 1000 Value/ Large Cap Value

This fund has outperformed its peer and index for the quarter, 1, 3 and 5 year periods by a wide margin. The funds style is drifting more towards core and growth but still maintains its value tilt. This is most likely due to the low valuations in core and growth and the manager likely sees value.

6. Riversource Diversified Equity (RSEDX)

Russell 1000 Value / Large Cap Value

The fund has underperformed its peer over the 1 and 3 year periods, but beat its index over all time periods and only underperformed the peer group by .09% over the three year period. The fund is beating its peers and index through the first quarter. The fund does tend to make bets on certain sectors, but at this point no specific sector has more than a double the index weighting (though industrial materials is close).

7. Thornburg Core Growth (THGRX)

Russell Mid Cap Growth/ Mid Cap Growth

This fund has outperformed the peer and index through the first quarter, but has underperformed for the one and three year periods (both peer and index). The fund is concentrated holding 36 stocks. The fund holds 50% of the portfolio in large and giant capitalization stocks and has a tilt toward growth because the larger capitalized stocks have a greater influence on how a fund is categorized.

This fund does not fit perfectly into the Large or Mid Cap category given its holdings; it's in between, not large enough to be compared against Large Growth, but not small enough to be compared against Mid Growth.

8. Fidelity Advisor Leveraged Company Stock (FLVIX)

Russell Mid Cap / Mid Cap Blend

This fund has underperformed its peer and index over the previous quarter, one and three year period. Its five year peer is slightly positive. The name of the fund gives a pretty good explanation as to why it is having greater problems than other mid-cap options, as it looks for companies that have a lot of debt and are in a credit crunch. Those are the companies that got hurt the most as they ran into trouble paying existing debt, refinancing that debt or obtaining access to more capital.

This fund needs a turnaround to avoid the Watch List as it is slightly beating the peer group average over the five year period.

9. Vanguard Mid Cap Index (VMISX)

MSCI U.S. Mid Cap 450

Index funds cannot over or underweight sectors. Expenses are a key to the competitiveness of different index funds.

10. Riversource Mid Cap Value (RSCMX)

Russell Mid Cap Value / Mid Cap Value

While the fund outperformed its peers and index during the first quarter it has underperformed for the one year period both and its peers over the past three year period. Sector bets on energy hurt this fund in 2008, it has pulled back from energy but not before it impacted performance. The

fund stays very true to its category.

11. Baron Growth (BGRFX)

MSCI US Small & Mid Cap 2200 Growth / Small Cap Growth

This fund has beaten its peer group over the quarter, one, three and five year periods and its index over the quarter, three and five year period. It under-performed the index slightly last year due to its underweight in technology. As we said last quarter, this fund is not against making bets and underperformance at times should be expected, if that is acceptable there are few funds with such apparently good stock pickers. The buy and hold strategy results in some small cap stocks growing into midcaps.

12. Royce Value Plus (RVPHX)

Russell 2000 Growth/ Small Cap Growth

This fund outperformed its peers and benchmark in the first quarter and over the past three and five year periods, but trailed during the one-year period, though not by much. The fund picks stocks one-by-one and because of that will be occasionally over-weighted in certain sectors. The fund also has a 13% allocation to international stocks. In terms of style purity this fund does a great job, while it has been fishing for larger fare as balance since the majority of the stocks are in the micro and small side of the small category. This fund is truly a small cap growth fund.

13. Keeley Small Cap Value (KSCVX)

Russell 2000 / Small Cap Blend

This fund has underperformed its peers and index for the quarter and year and underperformed over the three year period as well. It still maintains its outperformance over the five year period and over the life of the fund. This fund distinguishes itself by making bold bets, this has hurt performance as its energy and industrial names equaled almost 50% in 2008. The fund has a near zero stake in the information sector and this is the best performing sector in the domestic equity universe.

14. Vanguard Small Cap Index (NAESX)

MSCI U.S. Small Cap 1750 USD

Due to its low expense this is a strong small cap index fund.

15. Morgan Stanley US Small Cap Value (MCVAX)

Russell 2000 Value/ Small Cap Value

This fund has outperformed over every time period against its peers and index benchmark. The fund's style has drifted recently from Small Value to almost Small Growth, it shares more characteristics with the Russell 2000 than the Russell 2000 Value. This may be due to the current crisis and the possibility that the manager sees traditional growth stocks at "value" pricing.

16. American Funds Capital World Growth and Income (RWIEX)

MSCI World/ World Stock

This fund continues to perform well and we have confidence in the fund management. An over weight in the information sector buoyed performance.

17. Dodge and Cox International Stock (DODFX)

MSCI World ex-US/ Foreign Large Cap Value

Most of the underperformance against the peer group can be explained by the 20% exposure to Emerging Markets, the peer group averages less than 3%. Emerging Markets fell more than International Large stocks in 2008 and this hurt the performance of this fund. The fund's style has drifted slightly in favor of "core" stocks but is still tilted toward value and this is likely due to the recent values in stocks that would not have been considered prior to the market crash.

The fund has held up against its benchmark and only trails its peers due to an allocation to Emerging Markets (which it has always maintained). We have not lost confidence in this fund.

18. ING Global Real Estate (IGLIX)

MSCI World Real Estate Index/ Global Real Estate

This fund has outperformed its category and benchmark for the quarter, one year, three year, and five year periods.

19. Janus Aspen International Growth (JAIGX)

MSCI World ex-US/ Foreign Large Cap Growth

This fund continues to be an aggressive offering with a manager that has a lot of confidence in his stock picking ability. The aggressiveness comes from investments in developing countries like Brazil and India.

He is not afraid to make bets on countries, sectors and stocks. This helped the fund to outperform its index and peers by a substantial margin through the first quarter of 2009, actually posting a positive return for the quarter while the index and peers were both down.

Strongly enhancing the performance is the over weighting in stocks in the information sector.

20. Oppenheimer International Small Company (OSMYX)

MSCI World/Metal & Mining/ Foreign Small/Mid Cap Growth

After a 66% loss in 2008 the fund is up almost 7% in the first quarter of 2009. While it is nice to see this gain we still have concerns about this fund. The fund turned into a commodities bet, investing mainly in energy and mining stocks. These bets have hurt the performance, but more importantly the diversification.

The fund continues to invest aggressively, holding 118 stocks but concentrating heavily in just a few. 7% of the portfolio as of 3/31/2009 is in one stock, Opera Software, a company that does not have frequent trading activity. Opera Software significantly contributed to the positive results. The fund is the largest shareholder of Opera, owning over 15% of the company according to our calculations. The price of Opera has gone from 20 to 27 during the first quarter with an average sales volume of 300,000 shares.

Currently on WATCH LIST. Recommend deletion and replacement.

21. Loomis Sayles Investment Grade Bond (LSIIX)

Barclays 5-10 Govt/Credit/ Long Term Bond

This fund is not as conservative as past funds in this category and has made currency bets that hurt performance in 2008. The fund has slightly outperformed its peers and benchmark for the first quarter of 2009 but trails badly for the one year period. The fund has beaten its peers for the three and five year period and has trailed its benchmark in all time periods (save this recent quarter). The fund has a 20% plus position in foreign bonds and slightly more than 30% in BBB rated or lower securities. 40% of the holdings are rated AAA. The top four holdings are Canadian Government bonds.

22. Oppenheimer International Bond (OIBYX)

Citi WGBI Non USD/ World Bond

The fund has underperformed its peer group and benchmark for the quarter and one year period, though it has outperformed its peer group for the three and five year periods. This fund has at times had up to a 50% allocation to emerging markets debt and takes on currency risk while making heavy use of derivatives to take country and sector exposure.

23. Pioneer Global High Yield (GHYYX)

CSFB Credit Suisse High Yield/ High Yield Bond

This fund has underperformed now over all measurable periods, including the first quarter, against its peers and index. Market volatility with subprime mortgage meltdown and liquidity crisis weighed on returns. The managers have reduced exposure to emerging markets by 25% and they paired back on emerging markets corporate debt.

WATCH LIST

24. American Funds Income Fund of America (RIDEX)

Dow Jones Moderate Allocation/ Moderate Allocation

This fund is a solid, long term choice for a participant looking for a well diversified portfolio that is balanced between stocks and bonds. However, it has suffered some bond setbacks over the last two years as the mortgage backed and asset backed security holdings have been hit hard. Some of the stock holdings that had regularly paid dividends have had to cut or eliminate those dividends.

25. PAX World Balanced Fund (PAXIX)

Dow Jones Moderate Allocation/ Moderate Allocation

This fund has improved its performance over the past quarter, losing less than its benchmark and index. It is now beating its peers over the three and five year periods, though not by much. The manager has reduced exposure to international stocks and increased exposure to bonds.

26. (26 - 30) Vanguard Target Retirement 2010, 2020, 2030, 2040 & 2050

Custom/ Target Date Averages

The Vanguard funds have performed in line with expectations given their allocation to stocks. When compared against their benchmarks they performed well in part due to their low cost.

Morningstar has created a set of target date benchmarks that include risk targets. For every target date Morningstar developed a benchmark for a Conservative, Moderate and Aggressive Risk Profile. We've included some statistics on those portfolios and how Vanguard's composition fits into them.

Year	Con	Mod	Agg	Investment	Equity %	Best Fit	Equity %
2010	29%	46%	62%	Vanguard 2010	53%	Mod 2015	53%
2020	42%	63%	80%	Vanguard 2020	70%	ModAgg 2015	71%
2030	63%	82%	91%	Vanguard 2030	84.5%	Mod 2035	87%
2040	78%	88%	93%	Vanguard 2040	89%	Mod 2045	89%
2050	81%	89%	93%	Vanguard 2050	89%	Mod 2050	89%

We like the Vanguard target funds but participants require some education from the ING representatives to explain that even the 2010 target funds have 53% in stocks. That may be too bold for some investors. We have analyzed target funds from other families and they hold similar positions in equities. For example, Alliance Bernstein's 2010 target funds holds 65% of the assets in equities and 80% equities in the 2020 fund.

WATCH LIST

20. Oppenheimer International Small Company (OSMYX)-

We recommend deletion because of its narrow investment focus. For investors who want to continue to use this fund we recommend the Self Directed Brokerage Account (SDBA). We recommend the replacement fund should be the DFA International Small Company.

23. Pioneer Global High Yield (GHYYX) –
Leave on the Watch List.

Stabilizer – Continue on the Watch List.