COUNTY of SAN BERNARDINO

EXECUTIVE SUMMARY

Defined Contribution Plans
2nd Quarter 2009

	2nd Qtr	1 Yr.	3 Yr.	5Yr.
457 Plans Performance	21.62%	-26.71%	-5.85%	2.58%
Customized Benchmark	18.38%	-26.00%	-6.13%	0.45%
Difference	3.24%	-0.70%	0.27%	2.13%
401(k) Plan	21.46%	-26.44%	-5.79%	2.60%
Customized Benchmark	18.05%	-25.77%	-6.40%	0.31%
Difference	3.41%	-1.17%	0.61%	2.29%
Retirement Medical Trust	23.02%	-24.83%	-5.65%	3.08%
Customized Benchmark	18.58%	-26.43%	-5.38%	0.80%
Difference	4.44%	1.60%	-0.27%	2.28%

PORTFOLIO ANALYSIS

Assets:

The total assets in all of the County of San Bernardino plans have increased from $393,512,000 to $426,592,000, including $770,105 in the self directed brokerage account.

Based on total assets, excluding the 3121 assets, the total return of the County of San Bernardino portfolio was a robust 11.78% for the second quarter of 2009. That is a significant improvement over the first quarter performance of -6.44%.

457 Plan Cash Position:

The stable value rate for the second quarter continued at 2.50%. Only $395,000 transferred into the fixed interest account in the second quarter. The percentage of assets in the fixed interest bearing account has decreased from almost 52% as of March 31, 2009 to 46.76%. The decrease in the percentage is due to the strong performance of the mutual funds.

401(k) Plan Cash Position:

The percentage of assets in the fixed interest bearing account has decreased to 35.44% from 39% in the second quarter of 2009. The total assets that transferred into the fixed account was $683,826.

Retirement Medical Trust Cash Position:

There was a small decrease in the percentage of assets in the fixed interest account with 87.74% now in the ING General account.

457 Plans Mutual Funds Position:

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 improved from -0.78 to -0.33 which is better than the benchmark of -0.37 (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 20.68. It is higher than the benchmark of 19.67.

The Alpha, a measurement of the value added by the investment manager, is 0.84. Beta is a measure of the degree of change in value that can be expected given a change in value in the comparable index. The Beta is 1.05 (over three years).

401(k) Mutual Funds Position:

The Sharpe Ratio for the 401(k) portfolio improved from -0.77 to 0.33 which is better than the benchmark of -0.40.

The three-year Standard Deviation for the portfolio is 20.45. It is higher than the benchmark of 19.17. The Alpha is 1.35 and the Beta is 1.06.

Retirement Medical Trust (RMT) Mutual Funds Position:

Only 12.25% of the $20,513,782 assets are in mutual funds, including the risk based asset allocation funds.

The RMT outperformed the 457 and 401(k) portfolios due to having a higher mutual fund allocation to Oppenheimer International Small Company.

The Sharpe Ratio for the RMT portfolio is -0.31, an improvement over the previous quarter Sharpe Ratio of -0.82. The benchmark is also -0.31.

The three-year Standard Deviation for the portfolio is 21.07. It is higher than the benchmark of 20.25. The Alpha is 0.07 and the Beta is 0.96.

MUTUAL FUNDS

1. **American Funds Growth Fund of America (AGTHX)** *Russell 1000 Growth*

   A heavy underweight in financials and an overweight in technology helped produce competitive performance over the past 12 months. However the financial sector was the top performing sector in the second quarter and their position weakened the fund's second quarter performance.

2. **Columbia Marisco 21st Century Z (NMYAX)** *Russell 1000 Growth*

Following an excellent performance history 2008 and the first quarter of 2009, the 3rd quarter of 2008 performance has put this fund in an uncompetitive position for one year performance. It trailed the peer group average by 10.20% as of March 31, 2009 and as of June 30 still trails the peer group by 6.19%. The fund had a second quarter performance of 20.03% versus the large cap benchmark of 15.73%.

By looking at its holdings you would think the fund would be having a great year. The average holding in the top ten is up 36%. Had the fund held all 10 stocks with the current weighting the top ten would have posted excellent results, up 13%. The fund is not shying away from financials (which hurt the fund last year), owning JP Morgan, Goldman Sachs and Wells Fargo and has double the weighting as the index.

The concentrated style could lead the fund to out performance if it can manage to get back on track, however it can also lead it to deeper issues if the stock picking is not spot on.

3. **Janus Contrarian (JSVAX)** *Russell 1000*

While this fund is in the Domestic Large Blend category, it is not a traditional domestic large blend fund. With about 32% in international, half of which is in Asia Emerging Markets, it is dependent on the success of a variety of markets to provide strong performance. The weighted-average market cap is only $5.5 billion which is 20% of the peer group average market capitalization. This is a multi cap fund with an objective to go anywhere for added value.

Second quarter results were outstanding with a quarterly performance of 30.97%; the peer group average was a stellar 16.73%. While the Alpha is very high at 6.83 this return is not all due to great domestic stock picking, but exposure to International and Emerging Markets stocks, which had a very strong quarter.

4. **Vanguard Institutional Index (VINIX)** *S&P 500*

This fund was a new addition to the portfolio in July 2008. The fund finished up in the middle of its large blend peer group over the past year. This index fund beat its index for all measurable periods and only cost 0.05%.

5. **Mainstay ICAP Select Equity (ICSLX)** *Russell 1000 Value*

The fund is very concentrated with only 30 stocks, meaning stock picking is very important. The emphasis on strong balance sheets and stocks that trade with a discount to the S&P has helped the fund during tough times. Due to the concentration the fund has a higher potential for big losses. It avoided big blow-ups last year, which will only make this offering more attractive to investors. Despite an unusual third quartile performance in 2008 performance year to date is back to top quartile performance.

6. **RiverSource Diversified Equity (RSEDX)** *Russell 1000 Value*

   The fund has underperformed its peer over the one and three-year periods, but beat its index over all time periods and only underperformed the peer group by .0.09% over the three year period. The fund is beating its peers and index year to date. The turnover is low and it is fairly well diversified, but over-weighted in manufacturing.

7. **Thornburg Core Growth (THGRX)** *Russell Mid Cap Growth*

   This fund has outperformed the peer and index through the first six months of this year substantially, 24.27% versus 17.42%. The fund is slightly under-performing for the three-year period (both peer and index) by 0.03%. The fund is concentrated holding 36 stocks. The fund has made a large bet on information technology stocks which have done well in 2009. Telecommunications has twice the peer group weighting. The concentration and sector bets can combine to make this a volatile fund.

8. **Fidelity Advisor Leveraged Company Stock (FLVIX)** *Russell MidCap*

   This fund has underperformed its peer and index over the previous one and three year periods. Its year to date numbers are nothing short of spectacular, 22.27%, versus peer group average of 9.84%, (second quarter was 37.60% versus the peer group performance of 19.76%). The fund is severely under-performing for the one-year period due to its leveraged stock and bond plays, though those same themes have boosted returns in 2009 as the those asset classes that are the most leveraged gained the most.

9. **Vanguard Mid Cap Index (VMISX)** *MSCI US Mid Cap 450*

   Despite the expense this passively managed fund beats its index.

10. **RiverSource Mid Cap Value (RSCMX)** *Russell Mid Cap Value*

    This fund outperformed its peers and index during the first six months of 2009. It has underperformed for the one year period against both its peers and index. It is beating its index over three years while slightly under-performing its peers over the same time period. We like the funds low turnover and adherence to its category (very little drift), though the sector bets could lead to underperformance if they do not get them right (like the energy bets in 2008). They currently are over-weighted in the Materials, Energy and Financial sectors.

11. **Baron Growth (BGRFX)** *Russell 2000 Growth*

    The philosophy to avoid technology stocks changed at the right time as now over 25% of the assets are invested in the technology sector. Ron Baron continues to shine with this fund, regardless of which benchmark you utilize.

The funds weighted-average market cap is at the top of the small cap range and does drift into the midcap range because of the buy and hold strategy. Turnover is only 42% while the peer group average is 124%. Ron Baron is always committed to growth stocks.

12. Royce Value Plus (RVPHX) *Russell 2000 Growth*

This fund takes a value approach to growth investing, an approach that will hopefully temper its draw downs during bad markets. Year-to-date this fund is outpacing its peers and index handily.

13. Keeley Small Cap Value (KSCVX) *Russell 2000*

While maintaining a good long-term track record, the short-term record is abysmal, trailing its peers by almost 20% over the one-year period. This is the kind of market that this fund should be begging for, one that creates a lot of opportunities due to corporate restructuring and bankruptcies, though the returns are not reflective thus far of adding value.

The second quarter was a good one for the fund, but it's going to take many more great quarters to make up for the recent underperformance. The good news is that this fund typically takes positions in off-beat companies that may not show up in the index and waits for a turnaround. Given that the economy is only showing minimal signs of a rebound, this fund might simply be a little early. If accurate, the fund could show dramatic upside performance if management proves to be right in the turnaround plays they have chosen.

The investment manager has a substantial amount of his own money in the fund.

14. Vanguard Small Cap Index (NAESX) *MSCI US Small Cap 1750*

Despite the expense this passively managed fund beats its index.

15. Morgan Stanley US Small Cap Value (MCVAX) *Russell 2000 Value*

This fund has outperformed over every time period against its peers and benchmark. The fund does occasionally make sector bets, which could lead to underperformance, but has thus far been right more often than wrong as evidenced by its wide margins of outperformance.

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

A 10% cash stake will hurt this fund in a recovery, but hopefully cushion it in a downturn. The 63% international stake is higher than other global funds, which has boosted this fund's return versus its peers.

17. **Dodge and Cox International Stock (DODFX)** *MSCI World ex-US Value/Emerging Markets*

Despite some bad picks last year, this fund is holding up very well. Its stake in Emerging Markets is helping it beat its peers and index by significant margins (its underperformance last year was also mainly driven by its allocation to Emerging Markets).

18. **Janus Aspen International Growth (JAIGX)** *MSCI World ex-US Growth*

An allocation of 28% to Emerging Markets has helped this fund, but that alone does not explain the dramatic outperformance against its peers and benchmark over nearly every time frame measured. The manager, Brent Lynn, took advantage of market volatility to add to positions in the cyclical, financial and emerging markets stocks. Lynn looks for stocks in fast growing companies that have strong management and high returns on capital.

19a. Oppenheimer International Small Company (OSMYX) *MSCI EAFE World ex-US Small* **Terminated**

The fund is not a typical International Small Company fund. It is more like a hedge fund in that it makes large bets. It is difficult to have a fund that makes such large bets and strays so far from its categorical objectives and has a substantial standard deviation in a core lineup. This fund is up 97% through July 31, 2009, and while we thought the fund was reopened to new investors it is not, therefore it is not available through the Self Directed Brokerage Option. This fund is scheduled for deletion on August 27. We will discuss the future of this fund in Committee meetings. If we end up offering the DFA International Small Company Fund and retaining the Oppenheimer International Small Company Fund the participants will have a choice between a very aggressive fund and a conservatively managed alternative.

19b. DFA International Small Company – This fund is a consistent performer in a volatile asset class. The standard deviation is 25.09 and is significantly lower than Oppenheimer International Small Company at 39.59. The Beta is also much lower at 1.05 versus 1.50. The manager's focus is on buying small positions in many stocks, for example the top ten holdings only comprise 2.15% of the portfolio. This fund continues to outperform its benchmarks for all measurable periods. This fund will be added to the portfolio on August 27.

19. Loomis Sayles Investment Grade Bond (LSIIX) *Barclays Global US Govt/Credit*

While this fund is trailing its peers and index over the one-year period we still feel it's a good offering for those willing to invests in a bond fund . Few bond managers have the credit analysis skills of Loomis Sayles and while this strategy will lead to poor performance during times of credit problems, the fund has shown that it will come out on top given a patient investor. The management team has a lengthy record of success hunting for out of favor corporate bonds. They also have success in identifying value in non US dollar bond and currency markets.

20. Oppenheimer International Bond (OIBYX) *Barclays Global Aggregate Bond*

The manager, Art Steinmetz, has been promoted to head all fixed income at Oppenheimer after the Oppenheimer Champion and Core Bond funds imploded last year but will continue to manage this fund. Looking at this portfolio's holdings one has to wonder if this fund holds similar risks. Returns have been good, but this is an aggressive, non-traditional bond fund that invests in Emerging Markets and has substantial derivatives risks. Despite the risks this fund did not implode in 2008 with a palatable loss of 0.31%.

21. Pioneer Global High Yield (GHYYX) *CSFB Credit Suisse High Yield*

This is an aggressive high yield bond fund even for the high yield category. This fund led the high yield category on the way down, but has led on the way up as well. The 2008 performance was in the 94th percentile. This year the performance through June is in the top 6% of high yield bond funds. This fund holds a significant position in convertible bonds and this has resulted in an equity position of 11%, (the peer group holds less than 1% stocks in the average portfolio). The new fund co-managers are reducing the exposure to equities and tempering the volatility.

22. American Funds Income Fund of America (RIDEX) *Dow Jones Moderate Allocation*

A rebound in the financial sector and credit markets helped this fund beat its peers this year. The one and three-year numbers versus the index and peers do not look great. However, this fund should recover and remains a good option for those willing to take a little more risk with a balanced fund. The fund's average credit quality is A, thus it has been more susceptible to the credit crisis than other balanced funds. The rebound this year in risky credits has helped the fund recover.

23. PAX World Balanced Fund (PAXIX) *Dow Jones Moderate Allocation*

Recent underperformance can be attributed to the fund's larger than average equity exposure. The bond exposure offers some downside protection because of less exposure to interest rate risk. The fund runs a rather concentrated portfolio of 78 stocks that are heavily tilted toward Large Growth. The fixed income side has a duration of about four years and average credit quality of AA. This fund is a fine option for socially conscious investors looking for a balanced option.

(25 – 29) Vanguard Target Retirement 2010, 2020, 2030, 2040 & 2050

We like the underlying funds in the portfolio, all of which are index funds. Performance against the benchmarks is adequate. Our continuing concern is the aggressive nature of target-date portfolios in general. The ING representatives must take great care in explaining the risks of these funds.

ING was asked if we, in concert with ING, could develop and implement risk based target funds. They would require minimum assets of $5 million. Through June 30 the County has $2.67 million.

ING also provided a list of available target funds with their mix of equities and only two families offer target funds with a lower allocation to equities, ING and Fidelity. ING's target funds include ING Growth & Income, a fund that was deleted from the County's portfolio years ago when it was mired in the last quartile for three consecutive years.

The Fidelity 2010 Freedom Fund has approximately 3% less equities than the Vanguard 2010 Fund; in later periods the difference is greater.

Following this document is a chart comparing the Vanguard and Fidelity target funds. **Our recommendation is to stay with Vanguard and discuss adding the Vanguard Target Retirement Income Fund which has only 29% equities.** When the County reaches the $5 million threshold we can then begin working with ING to design a risk based target fund portfolio.

30. ING Global Real Estate (IGLIX) *MSCI World Real Estate Index*

Over 60% of this fund is in international real estate stocks. This fund has outperformed its category and benchmark for the quarter, one, three and five-year periods. REIT's (and REIT like structures) have rebounded strongly this year, though they still have a long way to go.

(31- 33) Risk Based Asset Allocation Funds – They are performing as designed with a composition of funds that are performing well. The aggressive and moderate allocations benefit from a strong performance by Oppenheimer International Small Company.

<u>WATCH LIST</u>

Pursuant to the County of San Bernardino Investment Policy Statement, investments must meet and/or exceed their respective peer group benchmarks for three (3) and five (5) year periods. The following investments do not meet that standard:

Stabilizer