SST BENEFITS CONSULTING

COUNTY of SAN BERNARDINO
EXECUTIVE SUMMARY
DEFINED CONTRIBUTION PLANS
2nd QUARTER 2010

	2nd Qtr	1 Yr.	3 Yr.	5 Yr.
457 Plans Performance	**-10.18**	14.57	**-7.73**	2.34
Customized Benchmark	**-9.92**	14.57	**-8.20**	0.73
Difference	**-0.25**	0.00	0.47	1.61
401(k) Plan	**-10.11**	15.34	**-7.51**	2.50
Customized Benchmark	**-9.56**	15.33	**-7.42**	0.95
Difference	**-0.55**	0.01	**-0.09**	1.55
Retirement Medical Trust	**-8.66**	15.59	**-6.11**	2.68
Customized Benchmark	**-8.23**	16.02	**-5.13**	1.95
Difference	**-0.44**	**-0.42**	**-0.97**	0.73

PORTFOLIO ANALYSIS:

ASSETS:	
457 Assets	$353,282,145
401(k) Assets	$ 75,766,269
401(a) Assets	$ 598,172
RMT Assets	$ 32,531,096
P/T Assets	$ 36,867,702
TOTAL Assets	**$499,045,384**

Due to the depreciation of mutual fund assets, the total assets in all of the County of San Bernardino plans have decreased from $522 million at the end of the first quarter, 2010, to $499 million at the end of the second quarter, 2010.

457 PLAN CASH POSITION:

The stable value crediting rate for the second quarter was 2.00%. The third quarter was 2.25%. There was a significant increase in transfers into the Stabilizer with $2.2 million. The percentage of assets in the fixed interest bearing account has increased from 37.58% in the first quarter to 39.89% in the second quarter.

401(K) PLAN CASH POSITION:

The percentage of assets in the fixed interest bearing account changed very little. The assets in the Stabilizer increased from 27.98% in the second quarter to 29.53%. Unlike the 457 Plan, assets continued to flow out of the Stabilizer into mutual funds. Although only a net of $119,000 transferred out of the Stabilizer. The reason for the increased percentage of assets in the Stabilizer is due to the depreciation of mutual fund values.

RETIREMENT MEDICAL TRUST CASH POSITION:

There was a small increase in the percentage of assets in the fixed interest account with 83.72% now in the ING General account.

457 PLANS MUTUAL FUNDS POSITION:

The 457 portfolio under performed the benchmark minutely due to a high mutual fund positions in Capital World, 12.08%, Keeley, 6.04%, Pax World, 3.10 and Thornburg Growth, 2.70%.

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 was -0.08 but fell to -0.33 after the second quarter. This 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 21.40 which is higher than the benchmark of 20.57.

The Alpha, a measurement of the value added by the investment manager is 0.96. 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 remains at 1.04 (over three years).

401(K) MUTUAL FUNDS POSITION:

The under performance of the 401(k) portfolio was due to higher than average positions in RiverSource Mid, 7.99%, Keeley, 5.37% and Capital World, 8.82%. The Sharpe Ratio for the 401(k) portfolio improved and is now -0.32 which is better than the benchmark of -0.35 (over three years).

The three-year Standard Deviation for the portfolio is 21.41. It is higher than the benchmark of 20.08. The Alpha is 0.61 and the Beta is 1.06.

RETIREMENT MEDICAL TRUST (RMT) MUTUAL FUNDS POSITION:

The RMT under performed the customized benchmark due to a high mutual fund allocation to Growth Fund of America, 22.6%, and Thornburg Growth, 12.4%, which had an under performance to the benchmark in over the past one year.

The Sharpe Ratio for the RMT portfolio is -0.27 and is worse than the benchmark of -0.25. The three-year Standard Deviation for the portfolio is 20.26. It is higher than the benchmark of 19.03. The Alpha is -0.49 and the Beta is 1.06. The negative Alpha is caused by performance against the Beta. The performance was not as good as expected based on the portfolio risk.

PERFORMANCE OF INDEX FUNDS VS. ACTIVELY MANAGED FUNDS:

	2nd Qtr.	1 year	3 year	5 year
Large Cap				
Vanguard Institutional Index	-11.43	**14.45**	-9.75	**-0.76**
American Growth Fund	-11.70	10.39	-8.51	0.83
Columbia Marisco	-11.98	17.86	-10.79	1.40
Janus Contrarian	-12.52	16.96	-11.29	3.38
Main Stay ICAP Select Equity	-9.70	15.94	-8.89	1.23
RiverSource Div Equity Inc.	-12.52	15.57	-12.13	0.28
Mid Cap				
Vanguard MidCap Index Signal	-9.86	**26.88**	-8.49	**1.16**
Thornburg Core Growth	-12.38	5.94	-13.53	0.00
Fidelity Adv Lev Co	-11.39	25.15	-11.04	1.52
RiverSource MidCap Value	-12.71	22.30	-10.90	1.39
Small Cap				
Vanguard Small Cap Index	-10.05	**25.06**	-7.36	**1.34**
Baron Growth	-6.90	19.15	-6.87	0.47
Royce Value Plus	-7.89	18.21	-9.34	3.74
Invesco US Small Cap Value	-9.38	23.69	-4.86	4.63
Keeley Small Cap Value	-11.59	16.95	-13.26	0.30

Until the recent rally and the correction in the second quarter, we usually illustrate that a majority of the actively managed funds outperform the passively managed index funds; with the exception of three small cap funds, that was not the case this quarter. Over the one-year period the large cap actively managed funds are out performing the S&P index fund, with one notable exception. This is due to smaller capitalized large stocks outperforming the larger fare.

The index funds have an advantage of low cost. Index funds cannot avoid any sector or stock that meets the capitalization boundaries. Also, unlike actively managed funds, index funds are devoid of cash holdings. This is a disadvantage in some markets but can be an advantage in other markets, like the market we have currently.

MUTUAL FUNDS

1. American Growth Fund of America — Market Cap: $43 billion

The fund is trailing for the one and three-year periods, but only by .40% for the three-year period. The strategy has not changed and returns have been consistent. The good news is that this fund performed a little better than their peer group in the second quarter. The peer group had a performance of negative 12.13% and Growth Fund of America had a negative return of 11.70% The Standard Deviation has been lower than the category average by about 10% for the three and five-year periods. The managers diversify the investment over the equity sectors very well and turnover continues to be low. Current allocation to International is 16% and the cash position is just above 8%.

The fund continues to experience outflows with assets around $58 billion (which is huge), down from a high of over $90 billion before the financial crisis. Assets are also impacted by the loss in value due to negative performance. Outflows are not unique to this fund or American funds; equity funds have continued to see outflows as investors are pulling money out of stock funds at a fast pace (nearly $40 billion in 2010 according to the ICI).

2. Columbia Marsico 21st Century Market Cap: $16.75 billion

Columbia is now owned by Ameriprise, the transaction closed last quarter. This fund is demonstrating good returns against its category and benchmark, but achieved those returns with much more risk. The fund has a standard deviation about 10% higher than the peer-group average and 20% higher than the American Funds Growth Fund of America. This can be explained by its aggressive strategy and holdings with higher debt-to-capital ratios (25% higher than Growth Fund). Currently the managers have a strong bias toward the Service sector and are underweight in the Manufacturing Sector.

The strong short-term performance masks the additional volatility of this fund. This fund's concentrated portfolio is a good complement to the very large Growth Fund of America in the large cap growth category.

3. Janus Contrarian Market Cap: $9.8 billion

The fund is under-performing for the one and three-year periods versus its peer group, though its peers do not have 40% of their assets invested in international funds. When compared against the prospectus benchmark, the fund is only under performing by 0.78% on the three-year period. Of course comparing this fund to any normal benchmark is not exactly an apples-to-apples comparison considering its eclectic go-anywhere style. The fund continues to sport a much higher standard deviation and Debt-to-Capital ratio than its peers. Returns have been higher, as has volatility.

Janus Contrarian ranks in the top 11% of the large cap blend peer group for the past one year. In fact Janus Contrarian averages ranking in the top 6% of that category over the last 5 of 6 years. The only exception was 2008 when it was in the 96th percentile.

4. Vanguard Institutional Index Market Cap: $44 billion

This is a well run index fund that is outperforming its index

5. Mainstay ICAP Select Equity Market Cap: $50 billion

The fund is outperforming with slightly less volatility than its peers. The manager's style may not be changing, but the nature of the stocks they are buying are. Currently, 70% of the stocks are classified outside the Large Value or Value category in this mainly blue chip portfolio. The Weighted-Average Market Cap has also changed in the past quarter, increasing by 14% despite a falling stock market. While the size is consistent, the move into the blend/growth does represent a drift in the stated Value style.

6. RiverSource Diversified Equity Market Cap: $35 billion

This fund is meeting its objectives without appearing to take on any additional risk. It does have a slightly higher debt-to-capital ratio, but not significantly higher. Returns have been achieved with average volatility and no major sector bets have been placed.

7. Thornburg Core Growth Market Cap: $9.3 billion

Manager Alex Mottola has not changed his style, but his style is currently out of favor. This fund ranks among the bottom of its peer group for all time periods. The fund is not overly volatile, though it does tend to make sector bets and one risk of a focused portfolio (this fund has 36 stocks) is poor stock selection. The standard deviation is close to the peer average.

This fund's performance is driven purely by manager mistakes, (Alpha is a negative 6.85). Its top holding is Microsoft, which may end up helping to turn performance around. This is a midcap growth fund that will significantly outperform the market when the manager is right. However the risk is that when this manager makes a mistake with just a few of the 36 stocks, there will be under-performance.

Recommendation: Watch List due to performance

8. Fidelity Advisor Leveraged Company Stock Market Cap: $5 billion

This fund seeks return from taking much more risk than its peers, it has a beta of 1.30 and a debt-to-capital of 52% (Growth Fund of America DTC is 30%). Volatility is inherent with this investment. The fund has 9.5 years in existence, if you were to take a simple average of its returns (add each years return and divide by 9.5) you would get 18.81%; however because of the extreme volatility the actual geometric average (compounded return on invested money) would be 12.18%. While 12.18% is a great return during this period, it is only 65% of the simple average return – this large difference is due to extreme volatility. The higher the volatility, the bigger the difference between the simple and geometric (compounded) returns.

This fund does reward patient investors and the alpha is positive. The Sharpe Ratio is negative but better than the peer group average. For seven consecutive years, this fund's performance was in the top quartile and usually in the top seven percentile.

9. Vanguard Mid Cap Index Market Cap: $4.8 billion

Vanguard index funds continue to perform at a high level for index funds.

10. RiverSource MidCap Value Market Cap: $6 billion

The fund is now trailing its peers and index for the one and three-year periods. Warren Spitz left the fund in November but is still involved in an advisory capacity. 25% of the fund is invested in the Industrial Materials sector and that sector was the second worst performing sector in the second quarter with a loss of 13.85%. Until this quarter, the Industrial Material sector had been one of the very best performing sectors during the rally. Last quarter it out performed the benchmark in all measurable periods.

11. Baron Growth Market Cap: $2.5 billion

Ron Baron sticks to his long-term philosophy of buying quality companies with competitive advantages that can double within five years. This won't always place Baron in the top quartile, but his patience has continued to pay off. This funds market cap places it in the upper limits for traditionally defined Small Caps – but we don't see any real style drift here. Performance during the second quarter actually improved against the benchmark as Baron had a negative performance of 6.90% and the peer group had a negative return of 9.16%.

12. Royce Value Plus Market Cap: $1.45 billion

Like Baron, Royce is a company that is very disciplined and pays attention to valuations, unwilling to chase price in the name of growth. Royce continues to apply value metrics to growth stocks and while the fund is slightly under-performing its peers over the one and three-year periods we have confidence in the philosophy behind the managers. The one year performance was worst this quarter than the previous quarter but the under performance over three years improved.

13. Keeley Small Cap Value Market Cap: $1.4 billion

There are no signs that performance is going to improve in this fund. The fund may eventually return as much as the asset-class, but the amount of time spent under-performing is frustrating to participants looking to participate in the returns of small-cap value stocks. Performance during the second quarter deteriorated.

Recommendation: Deletion due to continued under performance

14. Vanguard Small Cap Index Market Cap: $1.1 billion

Vanguard index funds continue to perform at a high level for index funds.

15. Invesco Small Value Market Cap: $1.08 billion

This fund was formally named Morgan Stanley U.S Small Value. This fund was sold to Invesco as it was part of the Van Kampen Family of funds, hence the name change.

The fund continues to be run by the same managers and in the same style, which focuses on quality balance sheets and good cash flow. The managers have turned in great performance with lower volatility than their peers. Despite the name the fund has morphed into a small-blend offering, which reflects where the team sees value.

Recommendation: Watch List due to ownership change

16. American Funds Capital World Growth and Income Market Cap: $41 billion

Stocks in Europe represent 37% of this portfolio which has weighed on performance. The managers are sticking to their long-term convictions and those who are looking for a global fund are in good hands. Second quarter performance actually improved over the first quarter.

17. DFA International Small Company Market Cap: $826 million

This fund will always have tracking error compared to its index as its indexing style is different, but the relative returns continue to be good even though it is trailing its peers in the one and five-year time periods. Three new managers were added to this fund as the current manager assumes more "client-facing" responsibilities. Given that the fund is managed in a formula driven, quantitative fashion there should be no expectation of the style or execution changing. We don't believe this is a "Watch List" manager change.

18. Dodge and Cox International Stock Market Cap: $25 billion

Most of this fund's out performance can be attributed to its allocation to emerging markets where the managers continue to see long-term value. This fund has achieved its superior returns with considerably more risk due to greater exposure to emerging market stocks. However, with the exclusion of 2008 this fund consistently performs in the top quartile of its category. The one year performance is in the top 6% while the three year and five year performance averages are in the top 19% and 11% of its category respectively.

19. Janus Aspen Overseas Market Cap: $8.1 billion

This fund continues to rank #1 in all time periods, but investors should be careful to not chase performance. The average debt-to-capital is 49%, (which is high), and the fund has a standard deviation that is 27% higher than its peers. The fund has a 27% allocation to emerging markets. The Alpha measured against the MSCI EAFE is 17.3 versus 0.61 when measured against the MSCI Emerging Markets. The risks taken by the manager has paid off in top performance.

20. Loomis Sayles Investment Grade Bond

This fund continues to have strong performance as it has benefited from falling interest rates and thawing credit. Management's top holdings are now in Canadian Government Bonds, (top five holdings, 13%), as well as other foreign government bonds; which if not hedged leads to additional currency risks if the dollar strengthens against these currencies.

There is more default risk, interest rate risk and currency risks that are not found in other more traditional offerings. The yield is enticing. There is volatility with this fund as evidenced by the 2008 performance which dropped this fund into the 82nd percentile. However as bond funds go this fund is in the top 1% for the five and ten performance periods and in the top 19%, (despite 2008 performance), for the three year period.

This fund will add diversification to the portfolio and the managers are experienced, but participants should be aware of the higher probability of short-term losses with this fund. The average duration is falling as the team sees higher-interest rates ahead.

We have changed the benchmark to reflect the multi quality nature of the investments in this bond fund.

21. Oppenheimer International Bond

This fund can be a good diversifier to a portfolio given its unique allocation to currencies, but it should not be a core bond holding. The top holdings are Japan, Italy and other foreign government bonds. This fund should do well during times where the dollar is falling.

22. Pioneer Global High Yield

Morningstar rates this fund Risk as High and the Return as Average. The fund is at the top of its category for return, but it takes a volatile and risky path to achieve it. The one year performance is in the top 4% of its category. On the plus side it invests in almost 400 issues and has relatively low turnover (which is probably because of the transaction costs and illiquidity). Currently the fund has invested almost 40% in non-us bonds.

23. American Funds Income Fund of America

The average bond credit quality is BBB, lower than most balanced funds, though the bond portion is spread out over more than 1,000 issues. The stock side is also well diversified but with a clear bent toward dividends and value stocks. The Federal dividend tax rate is set to jump from 15% to as much as 39.6% next year, this may have an effect on dividend paying stocks (capital gains tax will rise from 15% to 20%).

24a. Pax World Balanced

This fund will be deleted from the portfolio on August 9. The replacement socially responsible fund is Parnassus Equity Income.

24b. Parnassus Equity Income Market Cap: $19 billion

Parnassus is a focused fund, (37 stocks), which adds to the manager's need to have a consistently strong record of stock picking. The fund has a long history of achieving High returns with Below Average to Low risk. The fund is consistent and prefers high quality companies with significant competitive advantages. Performance is consistently high despite its social responsibility mantra.

25-29. Vanguard Target Funds

The Vanguard Target Funds have a smaller exposure to both domestic and international stocks and that retarded performance in 2009 and helped performance against the index and peers in 2010. The bond portfolio has a high credit quality that also affected performance negatively in 2009. The Retirement Income fund has an overall credit quality rating for the bond holdings of AAA, (Extremely Strong), and has exposure to inflation protection bonds. The other Vanguard target funds have a bond credit rating of AA, (Very Strong).

30. ING Clarion Global Real Estate

Last quarter we reported that ING has this fund and the entire ING Global Real Estate Division up for sale. ING has hired an investment bank to assist them in finding an adequate suitor. The decision behind the sale is the need to raise capital to repay the Dutch government on the loan made to them in 2008 and ING does not think this unit fits well into either of the company operations that will be separating by 2012.

The risk for this fund is categorized as Average and the performance is categorized as High. The Alpha is high at 3.13 compared to the category average of 0.75. The fund performance benefited from good stock selection and asset allocation decisions. This led to the out performance of the fund over the benchmark. The number one holding with 6.5% of the assets is Sun Hung Kai Properties and its stock values have declined from a 52 week high of $130 to $113. While the performance of this fund had some impact on performance it was not enough to affect the overall performance of the fund. Most of the global real estate stock analysts indicated that this stock should be on either the Buy list or the Out Performance List.

Recommendation: Watch List due to potential ownership change

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31.-33. Asset Allocation Funds

Both the Aggressive and Moderate Asset Allocation Funds under performed for the one year period due to the under performance of some of the mutual funds that comprise the underlying investments, e.g. Thornburg, Keeley and Growth Fund of America. Also impacting the Moderate Fund is the inclusion of the stable value fund with a 25% exposure.

The Conservative Asset Allocation Fund is under performing because of the impact of the stable value fund with a credited rate of 2% and the BarCap U.S. Aggregate Bond Index had a 9.5% one year return.

WATCH LIST

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

Add to the Watch List:
7. Thornburg Core Growth – Due to Performance
15. Invesco Small Value – Due to ownership change

Remain on the Watch List
30. ING Clarion Global Real Estate – Potential ownership change

Delete:
13. Keeley Small Cap Value – Due to repeated Underperformance