

**COUNTY OF SAN BERNARDINO
EXECUTIVE SUMMARY
DEFINED CONTRIBUTION PLANS
2nd QUARTER 2011**

	2 ND QTR. %	1 YR. %	3 YR. %	5 YR. %
457 Plans Performance	-0.13	28.41	4.41	5.10
Customized Benchmark	0.23	30.71	3.76	3.77
DIFFERENCE	-0.36	-2.30	0.65	1.33
401(k) Plan	-0.30	28.99	4.31	4.95
Customized Benchmark	0.28	31.12	4.14	4.02
DIFFERENCE	-0.58	-2.13	0.17	0.93
Retirement Medical Trust	0.32	28.85	5.56	5.89
Customized Benchmark	0.60	29.72	5.44	5.07
DIFFERENCE	-0.28	-0.87	0.12	0.82

PORTFOLIO ANALYSIS:

ASSETS:	
457 Assets	\$405,164,511
401(k) Assets	\$83,624,655
401(a) Assets	\$1,503,363
RMT Assets	\$42,589,719
P/T Assets	\$37,805,340
TOTAL ASSETS	\$570,687,588



Due primarily to deferrals, the total assets in all of the County of San Bernardino plans have increased from \$564.1 million at the end of the first quarter, 2011 to \$570.7 million as of June 30.

The 457 assets in the Ameritrade Self Directed Brokerage Account, (SDBA), are \$2,017,328 and in the 401(k) the assets are \$941,911. While the 457 assets in the SDBA remain almost unchanged from the previous quarter, there was a small reduction in the 401(k) assets in the SDBA.

457 PLAN CASH POSITION:

The stable value crediting rate for the first quarter was 2.00%. The second quarter 2011 crediting rate was increased to 2.25%. The percentage of assets in the fixed interest bearing account continues to decline by a small amount and is now 33.77%.

401(k) PLAN CASH POSITION:

The percentage of assets in the fixed interest bearing account changed very little. The assets in the Stabilizer are down to 25.96%.

RETIREMENT MEDICAL TRUST CASH POSITION:

There was a small decrease in the percentage of assets in the fixed interest account, with 79.11% now in the ING General account.

457 PLANS MUTUAL FUNDS POSITION:

The underperformance is due to the high mutual fund allocation to Growth Fund of America, 20.31%, Baron Growth with 6.15% and Perkins Small Cap with 5.86% of the mutual fund assets.

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 the fourth quarter ratio of 0.06 and a first quarter ratio of 0.26 to a second quarter ratio of 0.30. The benchmark is 0.27.

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 21.35 which is almost identical to the benchmark of 21.44.

The Alpha, a measurement of the value added by the investment manager is 0.64. 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 at 0.99 (over three years).



401(k) MUTUAL FUNDS POSITION:

The underperformance is due to the high mutual fund allocation to Growth Fund of America with 20.75% of the mutual fund assets, Baron Growth with 5.46% and Perkins with 5.26% of the assets.

The Sharpe Ratio for the 401(k) portfolio was 0.07 in the fourth quarter and is now 0.29, which is minutely better than the benchmark of 0.28 (over three years). The three-year Standard Deviation for the portfolio is 21.71 which is very close to the benchmark of 21.62. The Alpha is 0.18 and the Beta is 1.00.

RETIREMENT MEDICAL TRUST (RMT) MUTUAL FUNDS POSITION:

The RMT underperformed the customized benchmark due to a high mutual fund allocation to Growth Fund of America, 18.33% and Baron Growth with 7.37% of the mutual fund assets. What did boost the one year performance over the other plans was a high allocation to ING Mid Cap Opportunities, 10.05%.

The Sharpe Ratio for the RMT portfolio is 0.35 which is the same as the benchmark. The three-year Standard Deviation for the portfolio is 20.55 which is higher than the benchmark of 19.93. The Alpha is 0.04 and the Beta is 1.03.



PERFORMANCE OF INDEX FUNDS VS. ACTIVELY MANAGED FUNDS:

	2ND QUARTER %	1 YEAR %	3 YEAR %	5 YEAR %
LARGE CAP				
Vanguard Institutional Index	0.10	30.66	3.40	2.97
American Growth Fund	-0.69	27.63	1.04	2.88
Columbia Marisco	-3.96	27.68	0.12	2.16
Janus Contrarian	-3.90	14.39	-3.31	2.05
Parnassus Inv Equity Income	-0.74	23.10	5.52	7.22
Main Stay ICAP Select Equity	-0.99	27.73	4.55	3.76
Columbia Div Equity Income	-1.03	32.86	2.09	1.96
MID CAP				
Vanguard MidCap Index Signal	-0.13	38.67	6.41	5.10
Thornburg Core Growth (deleted)	0.65	30.88	1.87	1.42
ING Mid Cap Opportunities (replacement)	1.90	44.72	10.67	10.47
Fidelity Adv Leverage Company	-1.89	38.53	-2.72	4.65
Columbia MidCap Value	-0.71	39.31	4.79	4.21
SMALL CAP				
Vanguard Small Cap Index	-1.16	39.50	9.35	5.65
Baron Growth	0.52	37.37	7.00	5.09
Royce Value Plus	-2.56	29.11	4.40	3.60
Perkins Small Cap Value	-1.85	22.71	12.90	8.34
Invesco U.S Small Cap Value	-3.13	32.01	11.19	7.85

The overall domestic equity performance has had a broad based appreciation and that favors the passively managed index funds. The index funds have an advantage of low cost, and cannot avoid any sector or stock that meets the capitalization boundaries. Also, unlike actively managed funds, index funds are devoid of cash holdings.

MUTUAL FUNDS OVERVIEW AND NARRATIVE FOLLOWS:



LARGE CAP GROWTH:

FUND # 1	AMERICAN GROWTH FUND OF AMERICA		AGTHX
	ASSETS: \$55,119,199	BEST FIT INDEX: RUSSELL 1000 GROWTH	MARKET CAP: \$41,135 MIL

	ACTUAL RETURN			PEER AVERAGE			DIFFERENCE		
	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR
RATES OF RETURN	27.63	1.04	2.88	33.16	3.07	4.07	-5.53	-2.03	-1.19


	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	3	25.7	0.98	-3.79	0.14	21.07
PEER AVERAGES		5.7	1.00	-0.07	0.23	22.18

This large cap fund has historically performed well over a full market cycle. It tends to do well against the peer group in moderate “growth” markets and tends to trail its peers during strong and narrowly defined “growth” markets. Growth Fund of America (GFA) is a growth fund by objective, but it tends to invest more broadly than a stylistically pure growth fund. While the fund has a classic growth bias, it also has the flexibility to invest in non-growth sectors and categories including cyclical or defensive stocks and value stocks. Currently 19% of the fund’s assets are invested in value stocks including defensive stocks. Over the last four years this strategy has negatively affected performance.

When examining relative performance over the last decade, the fund performed well over the full market cycle. Two key periods provide a good snapshot of the performance in different periods. From 2000-2006, a period when narrowly defined growth was out of favor, GFA outpaced the Russell 1000 Growth index by 9.65% on an annualized basis. Conversely, from 2007-2010, a period when narrowly defined growth led the asset class, GFA trailed the Russell 1000 Growth index 1.95% annualized. However, over the full market cycle from 2000-2010, GFA has outperformed the Russell 1000 Growth by 5.47% annualized.

While GFA has underperformed relative to the benchmark in 9 of the last 12 quarters, through June 30, 2011, this is not the first time GFA has trailed the index. Prior to this three year period, GFA has trailed the Russell 1000 Growth over three year calendar rolling periods 9 times out of its 37 year period. As previous performance has proven, GFA has rebounded after each of those 9 periods.

The stewardship grade for the organization is A according to Morningstar. The managers remain very stable with a long term investment philosophy, low turnover, bottom up research and the multiple counselor system remain firmly intact.

 **RECOMMENDATION:** Remain on Watch List due to Performance.



FUND # 2	COLUMBIA MARSICO 21ST CENTURY		NMYAX
	ASSETS: \$1,054,485	BEST FIT INDEX: RUSSELL 1000 GROWTH	MARKET CAP: \$11,904 MI


	ACTUAL RETURN			PEER AVERAGE			DIFFERENCE		
	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR
RATES OF RETURN	27.68	0.12	2.16	33.16	3.07	4.07	-5.48	-2.95	-1.91

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	3	8.4	1.10	-4.04	0.12	24.90
PEER AVERAGES		5.7	1.00	-0.07	0.23	22.18

This is another Large Cap Growth fund that is struggling, though for entirely different reasons. Unlike Growth Fund of America (GFA) manager Gilchrist has bet on a recovery and invested in such a manner. His concentrated portfolio is concentrated in three sectors, Technology, Financials and Consumer Cyclical. The percentage of financial stocks is over four times the peer group average and has been a drain on performance. The portfolio currently resembles more of an all-cap portfolio with a focus on smaller, large cap and mid-size companies. The peer group for Large Growth has a Weighted Average Market Cap (WAMC) of \$43 billion, while the Mid Growth has a WAMC of \$6.5 billion. This fund sports a market cap of about \$12 billion.

The ten year record ranks the fund in the top 1% in the Large Growth category. The fund has underperformed a custom benchmark for nine straight five-year periods.

With half the assets in small or midcap stocks one would expect that performance would be better, as those two asset classes have led the equity market rally for much of the past year.

 **RECOMMENDATION:** Remain on Watch List due to Performance.



LARGE BLEND:


FUND # 3	JANUS CONTRARIAN	JSVAX
	ASSETS: \$7,805,586	BEST FIT INDEX: RUSSELL 1000
		MARKET CAP: \$8,300 MIL

	ACTUAL RETURN			PEER AVERAGE			DIFFERENCE		
	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR
RATES OF RETURN	14.39	-3.31	2.05	31.27	3.61	4.43	-16.88	-6.92	-2.38

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	2	0.10	0.90	-4.16	0.02	28.63
PEER AVERAGES		5.3	1.01	-0.61	0.22	21.92

The manager, David Decker, left Janus on June 30 to start his own hedge fund. The replacement manager is Dan Kozlowski who had previously worked at Janus from 1999-2008. In his previous roles at Janus he was responsible for 80% of the positive attributions of the fund he co-managed. Kozlowski will make some changes to reduce risk. He will reduce exposure to India from 11% to 2% of the portfolio and Real Estate Investment Trust exposure from 16 to 6%. He will also delete from the fund high leveraged companies and this, too, will reduce the risk profile. He likes companies that may be out of favor like Microsoft and value picks such as Wells Fargo.

A major negative to Kozlowski is that he will continue to manage his own hedge fund. We think the split responsibilities will also split his attention.

 **RECOMMENDATION:** Deletion due to Performance and Manager Change.



FUND # 4	PARNASSUS INV EQUITY INCOME	PRBLX
	ASSETS: \$8,737,239	BEST FIT INDEX: RUSSELL 1000
		MARKET CAP: \$22,320 MIL

	ACTUAL RETURN			PEER AVERAGE			DIFFERENCE		
	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR
RATES OF RETURN	23.10	5.52	7.22	29.71	2.60	2.55	-6.61	2.92	4.67

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	5	10.2	0.83	0.97	0.36	19.07
PEER AVERAGES		5.3	1.01	-0.61	0.22	21.92

Despite a tough 2010, this fund has a great record. The mandate is very constraining, but the manager has still managed to add value over the long run. This fund remains a good choice for socially conscious participants who want stock exposure. The overweight to the Energy sector hurt performance. Current performance is not indicative of the long term historical performance.

RECOMMENDATION: No action at this time.



FUND # 5	VANGUARD INSTITUTIONAL INDEX	VINIX
:	ASSETS: \$14,336,058 BEST FIT INDEX: S&P 500	MARKET CAP: \$50,103 MIL

	ACTUAL RETURN			PEER AVERAGE			DIFFERENCE		
	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR
RATES OF RETURN	30.66	3.40	2.97	30.69	3.34	2.94	-0.03	0.06	0.03

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	3	10.6	1.00	0.06	0.25	21.20
PEER AVERAGES		N/A	1.00	0.00	0.14	21.21

The Vanguard Institutional Index fund is performing well within the acceptable parameters of the index, adjusted for the fund expense. This index fund has beaten the large cap blend category in 97% of the rolling five year periods since 1990. Low fees and low turnover contribute to its favorable comparison.

RECOMMENDATION: No action at this time.



FUND # 6	MAINSTAY ICAP SELECT EQUITY	ICSLX
	ASSETS: \$3,133,162	BEST FIT INDEX: S&P 500 INDEX
		MARKET CAP: \$69,382 MIL

	ACTUAL RETURN			PEER AVERAGE			DIFFERENCE		
	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR
RATES OF RETURN	27.73	4.55	3.76	28.96	2.62	1.68	-1.23	1.93	2.08

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	4	13.6	0.98	1.22	0.30	21.05
PEER AVERAGES		N/A	1.00	0.00	0.14	21.21

The managers do not mirror the index and put forth their best ideas while staying nearly fully invested. This is a good allocation during rallies, but will negatively affect performance during bear markets. The portfolio is focused on very big stocks, as demonstrated by its Weighted Average Market Cap in excess of \$67 billion. Since its 1998 inception, the fund has topped its peer and the S&P 500 in more than 90% of rolling five-year periods. The overweight in the Financial sector has negatively hit recent performance. This fund should serve as a core holding in a diversified portfolio.

RECOMMENDATION: No action at this time.



LARGE VALUE:

FUND # 7	COLUMBIA DIVERSIFIED EQUITY INCOME	RSEDX
ASSETS: \$16,325,876	BEST FIT INDEX: RUSSELL 1000 VALUE	MARKET CAP: \$45,165 MIL

	ACTUAL RETURN			PEER AVERAGE			DIFFERENCE		
	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR
RATES OF RETURN	32.86	2.09	1.96	28.96	2.62	1.68	3.90	-0.53	0.28

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	3	7.6	1.07	-1.55	0.19	23.41
PEER AVERAGES		5.9	1.01	-0.58	0.22	21.86

This fund was renamed to Columbia after Ameriprise bought Columbia and merged the RiverSource name away. The managers continue to add value while holding relatively high quality stocks. Since 2000 the fund's 4.9% annualized return more than tripled the peer group average.

 **RECOMMENDATION: Remove from the Watch List**



MID CAP GROWTH:

FUND # 8	ING MID CAP OPPORTUNITIES	NMCIX
	ASSETS: \$7,133,052	BEST FIT INDEX: RUSSELL MID CAP GROWTH
		MARKET CAP: \$7,588 MIL

	ACTUAL RETURN			PEER AVERAGE			DIFFERENCE		
	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR
RATES OF RETURN	44.72	10.67	10.47	39.44	5.23	5.70	5.28	5.44	4.77

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	4	6.0	0.87	4.23	0.55	22.64
PEER AVERAGES		5.4	1.08	2.15	0.32	24.63

ING Mid Cap Opportunities replaced Thornburg Growth on May 2, 2011. The replacement fund has performed well with a year to date performance of 10.27% compared to the Thornburg performance of 5.58%. Performance has benefited from below average holdings in the Financial and Energy sectors. On the other hand, over weights to Consumer Cyclical and Basic Materials boosted performance.

RECOMMENDATION: No action at this time.



MID CAP BLEND:

FUND # 9	FIDELITY ADVISORS LEVERAGED COMPANY STOCK	FLVIX
	ASSETS: \$3,340,685	BEST FIT INDEX: RUSSELL MIDCAP
		MARKET CAP: \$6,894 MIL

	ACTUAL RETURN			PEER AVERAGE			DIFFERENCE		
	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR
RATES OF RETURN	38.53	-2.72	4.65	35.60	5.26	4.48	2.93	-7.98	0.17

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	3	8.0	1.32	-9.22	0.09	34.78
PEER AVERAGES		5.9	1.14	2.18	0.33	25.33

Only two funds sport a higher debt-to-capital ratio in the entire mid-cap mutual fund universe (excluding REITs). The fund's recent returns have been nothing short of spectacular and it sits in the top 1% of funds for the ten-year period ending June 30th. For those participants looking for a fund that gives them exposure to high beta companies, this fund can provide that. The standard deviation is very high at 34.78. The performance in 2008 was a dismal -53.67, but in the speculative equity performance rally in 2009 the performance was 60.21. Long term manager Soviero is reducing risk by holding more stocks of companies with improved financials to complement the highly leveraged holdings.

RECOMMENDATION: No action at this time.



FUND # 10	VANGUARD MIDCAP INDEX SIGNAL	VMISX
	ASSETS: \$4,968,564	BEST FIT INDEX: MSCI US MidCAP 450 USD
		MARKET CAP: \$6,421 MIL

	ACTUAL RETURN			PEER AVERAGE			DIFFERENCE		
	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR
RATES OF RETURN	38.67	6.41	5.10	36.92	4.76	3.56	1.75	1.65	1.54
	M*	MGR TENURE		BETA	ALPHA		SHARPE	3 YR STD DEV	
FUND STATISTICS	3	13.2		0.99	-0.36		0.36	25.50	
PEER AVERAGES		N/A		1.16	1.56		0.18	25.47	

The Vanguard MidCap Index fund has beaten its average peer in every rolling five year period since 1998. The performance is generated by holding approximately 92% of the index, with the balance in buffer zones, thus reducing the impact of stocks entering and leaving the index, which therefore reduces trading costs. The cost to participants is only 0.12%.

RECOMMENDATION: No action at this time.



MID CAP VALUE:

FUND # 11	COLUMBIA MID CAP VALUE OPPORTUNITY	RSCMX
	ASSETS: \$16,552,246	BEST FIT INDEX: RUSSELL MID CAP VALUE
		MARKET CAP: \$8,024 MIL

	ACTUAL RETURN			PEER AVERAGE			DIFFERENCE		
	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR
RATES OF RETURN	39.31	4.79	4.21	32.94	6.41	3.98	6.37	-1.62	0.23

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	2	8.4	1.02	-1.98	0.30	26.38
PEER AVERAGES		5.7	1.14	3.18	0.37	25.23

The fund's performance continues to improve after a rough 2008. After a top 21 percentile in 2009, 2010 and thus far in 2011 the fund has landed in the second quartile while remaining style consistent. Due to the terrible returns during the crisis the three year numbers are still below average. We would recommend it remain on Watch.



RECOMMENDATION: Remain on Watch List due to manager change.



SMALL GROWTH:

FUND # 12	BARON GROWTH	BGRFX
	ASSETS: \$16,341,846	BEST FIT INDEX: US SM & MID 2200 GR
		MARKET CAP: \$3,040 MIL

	ACTUAL RETURN			PEER AVERAGE			DIFFERENCE		
	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR
RATES OF RETURN	37.37	7.00	5.09	42.63	7.85	5.26	-5.26	-0.85	-0.17

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	4	16.6	0.80	-1.00	0.39	23.44
PEER AVERAGES		5.3	1.14	4.66	0.41	26.09

The fund has grown in size and the manager has had to look upstream for value, causing Morningstar to criticize the fund for moving into mid-caps. The fund takes initial positions in small cap stocks with market caps under \$2.5 billion and retains positions they like if they go up in value. Thus the portfolio's Weighted Average Market Cap is \$3.7 billion, certainly larger than most small cap portfolio's, but still small and has the market cap of the average mid-cap fund.

Baron continues to employ its traditional analysis to buying into companies, including a valuation approach that allows for buying less well known stocks without pushing up the share price. While we like the management and long term performance, recent performance has taken some hits with over weights in the Energy sector,

 **RECOMMENDATION:** Watch List due to Performance



FUND # 13	ROYCE VALUE PLUS	RVPHX
	ASSETS: \$358,783	BEST FIT INDEX: RUSSELL 2000 GROWTH
		MARKET CAP: \$1,923 MIL

	ACTUAL RETURN			PEER AVERAGE			DIFFERENCE		
	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR
RATES OF RETURN	29.11	4.40	3.60	42.63	7.85	5.26	-13.52	-3.45	-1.66


	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	2	10.1	0.95	-3.33	0.29	26.16
PEER AVERAGES		5.3	1.14	4.66	0.41	26.09

This fund has been struggling lately, in fact it had its worst five-year period versus its peer group (which is adjusted for survivorship bias) this last quarter. Having said that, the five year under-performance is only 1.66%. This marks the third five-year period in a row that the fund has underperformed its peer group, though none of the periods were by a significant amount. It has 57 prior five-year periods of out-performance.

Over weights in the Financial and Energy sectors and an underweight in the Healthcare sector hindered performance. Foreign exposure is more than twice the peer group

While the short-term underperformance versus the peer group is disheartening, the absolute performance has been very good and we have confidence in the managers of this fund. Royce has a longer view than most managers and while this can lead to bouts of underperformance, it usually leads to good long-term results. In fact, since 2001 this fund has averaged annual gains of over 12% which handily beat both the index and the peer group.

Manager styles go in and out of favor and for the most part this manager style is out of favor. We are confident that funds like this one which favors companies with strong balance sheets and low debt levels will be a reasonable place for those participants who want exposure to smaller companies

 **RECOMMENDATION:** Remain on Watch List due to Performance.



SMALL BLEND:

FUND # 14	PERKINS SMALL CAP VALUE	JSCVX
	ASSETS: \$15,388,554	BEST FIT INDEX: RUSSELL 2000
		MARKET CAP: \$1,616 MIL

	ACTUAL RETURN			PEER AVERAGE			DIFFERENCE		
	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR
RATES OF RETURN	22.71	12.90	8.34	36.81	7.41	3.90	-14.10	5.49	4.44

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	5	26.4	0.72	2.27	0.66	21.66
PEER AVERAGES		5.5	1.19	4.32	0.40	27.05

This fund is trailing its peer group and index benchmark over the past twelve months, but we are not too concerned as its longer term performance is among the best in its category. While this fund was in the top 3% in 2008 and was in the top 22% in 2009, it fell in 2010. A very high cash position, currently 14%, kept performance down and a 50% greater exposure than the peer group to financial stocks also contributed to the poor one year performance.

Since 1985, this fund has lost just 85% as much as the peer group during downturns. However, the annualized gain of 13% since 1985 put this fund at the top of the Russell 1000 Value index. This fund doesn't need to participate fully in "risk" rallies as it hasn't fallen as much during the crashes.

RECOMMENDATION: No action at this time.



FUND # 15	VANGUARD SMALL CAP INDEX	NAESX
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ASSETS: \$2,148,723	BEST FIT INDEX: MSCI US SMALL CAP 1750 USD	MARKET CAP: \$1,589 MIL
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	ACTUAL RETURN			PEER AVERAGE			DIFFERENCE		
	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR
RATES OF RETURN	39.50	9.35	5.65	37.63	7.63	4.10	1.87	1.72	1.55

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	4	19.6	1.00	-1.04	0.45	27.90
PEER AVERAGES		N/a	1.25	4.40	0.26	27.86

The Vanguard Small Cap Index continues to outperform the MSCI US Small Cap 1750 Index. Effective May 20, Vanguard dropped the management fee by 0.10% and ING deleted 0.10% of their add-on charge, so the expense is 0.17% for the three defined contributions funds. The expense for this fund in the RMT will be 0.32% as in addition to Vanguards expense reduction ING dropped their add-on from 0.25% to 0.10%. Performance is enhanced by investing in buffer zones which enables the fund to take advantage of stocks doing well and growing toward the midcap space.

RECOMMENDATION: No action at this time.



SMALL VALUE:

FUND # 16	INVESCO US SMALL CAP VALUE	MCVAX
ASSETS: \$2,272,779	BEST FIT INDEX: RUSSELL 2000 VALUE	MARKET CAP: \$1,602 MIL

	ACTUAL RETURN			PEER AVERAGE			DIFFERENCE		
	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR
RATES OF RETURN	32.01	11.19	7.85	32.31	8.96	3.75	-0.30	2.23	4.10

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	4	1.1	0.90	3.61	0.54	24.96
PEER AVERAGES		5.8	1.22	5.78	0.44	27.77

Big changes are occurring at this fund, Van Kampen Small Cap Value Fund was purchased by Invesco and in December, Invesco replaced the management team of this fund and announced that it would be merged into the Invesco Van Kampen Small Cap Value Fund. The new management team has experience running other asset classes, but expects to implement a slightly different, “deep value” strategy.

This fund underperformed to the peer group by 0.30% in the one year comparison. This was due to the substantial underweighting of defensive sectors that performed well. This runs contrary to the deep value strategy we expected.

 **RECOMMENDATION:** Remain on the Watch List due to manager change and ownership change.



INTERNATIONAL STOCK:

FUND # 17	AMERICAN FUNDS CAPITAL WORLD GROWTH & INCOME	RWIEX
ASSETS: \$28,614,831	BEST FIT INDEX: MSCI WORLD	MARKET CAP: \$45,156 MIL

	ACTUAL RETURN			PEER AVERAGE			DIFFERENCE		
	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR
RATES OF RETURN	29.39	0.91	4.49	30.26	1.75	3.30	-0.87	-0.84	1.19

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	4	18.3	0.82	1.19	0.14	23.33
PEER AVERAGES		4.0	0.89	3.26	0.18	24.34

This fund's performance is improving against its peers over the one and three-year periods. The one and three year underperformance is now only 0.87% and 0.84% respectively. A closer analysis demonstrates this difference is due to the strategy that this global follows. Capital World has a focus on larger, dividend paying stocks and, thus, will not rise as much when smaller stocks are doing well. Capital World holds about 5% in the small-mid category versus 24% for the peer-group. This shows up in the difference of average market capitalizations. The peer group has an average market cap of \$28 billion versus Capital World's much larger \$45 billion.

Capital World also tends to buy more Emerging Markets stocks. The allocation of Capital World to Large Value and Blend is 72% versus the peer group of 50%. Lastly, Capital World holds more assets in International stocks than the peer group with almost 70% of the fund in international versus the peer of 55%. These differences will lead to periods of under and out-performance against the index and benchmark. Even so, when adjusted for survivorship bias and non-management fees this fund has beaten the peer group in all five-year rolling periods in the past five years.

The fund's low turnover, focus on high-quality stocks and relatively high-dividend yield along with the American funds management and long-term focus make this fund a winner over time.

RECOMMENDATION: No action at this time.



FUND # 18	DFA INTERNATIONAL SMALL COMPANY	DFISX
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ASSETS: \$13,146,994	BEST FIT INDEX: MSCI EAFE SM CAP	MARKET CAP: \$1,155 MIL
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	ACTUAL RETURN			PEER AVERAGE			DIFFERENCE		
	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR
RATES OF RETURN	36.53	3.02	4.05	35.61	2.11	3.88	0.92	0.91	0.17

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	4	12.6	1.02	4.18	0.26	27.54
PEER AVERAGES		4.2	1.06	4.62	0.22	28.65

This four star fund is designed to provide the return of small-mid international stocks. This fund is a compelling hybrid between an index and an actively managed fund. The fund's trading strategy, while active, maintains low transactions costs.

RECOMMENDATION: No action at this time.



FUND # 19 **DODGE & COX INTERNATIONAL STOCK** **DODFX**

ASSETS: \$8,351,487 BEST FIT INDEX: MSCI WORLD, EX US, VALUE MARKET CAP: \$23,158 MIL

	ACTUAL RETURN			PEER AVERAGE			DIFFERENCE		
	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR
RATES OF RETURN	31.37	1.34	3.43	30.40	-1.75	1.10	0.97	3.09	2.33

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	4	10.2	1.13	2.35	0.19	30.31
PEER AVERAGES		4.6	1.03	0.25	0.06	27.01

This international value fund had top 6% performance in 2009 and 2010. However, 2011 was a different story. The stock of HSBC, a worldwide financial services bank, and a major holding in Dodge & Cox International, has declined 7% this year. Adding a Spanish bank, Banco Santander, has also hurt short term performance. The fund's managers believe that the extensive business in Latin America will be profitable. They also added Nokia; a technology company that many investors think its best days are a memory. These contrarian picks may pay off very well in the future but have slowed the performance momentum it built in 2009-10.

RECOMMENDATION: No action at this time.



BONDS:

FUND # 21	LOOMIS SAYLES INV GRADE BOND Y	LSIIX
	ASSETS: \$14,432,854	BEST FIT INDEX: BARCAP US GOVT

	ACTUAL RETURN			PEER AVERAGE			DIFFERENCE		
	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR
RATES OF RETURN	11.25	9.69	9.06	9.54	8.58	6.99	1.71	1.11	2.07

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	5	14.6	1.19	0.11	0.89	10.73
PEER AVERAGES		4.5	1.05	2.12	0.93	9.98

This fund has one of the most experienced management teams in the bond industry and that experience was on full display during the financial crisis as they all stayed calm while things were seemingly falling apart all around them. This fund fell hard during the financial crisis of 2008, but management held on and bought up assets opportunistically and when the recovery came, returns followed.

This is a fund that makes bets on all sorts of fixed income areas. Credit quality, exchange rates and interest rates based on a macroeconomic analysis drive this fund. For this reason, those participants looking for steady income should be aware this fund will fluctuate considerably in the short-term. Management believes that a hike in interest rates will have less of an impact on mid and lower quality corporate bonds and have increased exposure to near 10%, the fund's prospectus limit. 4% of the assets are invested in convertible bonds. The management's philosophy is that they look to equity appreciation to help offset the impact of higher interest rates. Capital Preservation is always a goal, but for this bond fund it is a longer, not short-term goal.

This is a good fund to have in the lineup for diversification purposes for participants willing to accept a multi sector bond fund for the potential of better return.

RECOMMENDATION: No action at this time.




FUND # 22 **OPPENHEIMER INTERNATIONAL BOND Y** **OIBYX**
 ASSETS: \$4,562,471 BEST FIT INDEX: CITI WGBI NON USD

	ACTUAL RETURN			PEER AVERAGE			DIFFERENCE		
	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR
RATES OF RETURN	14.29	7.27	9.88	10.69	6.68	6.91	3.60	0.59	2.97

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	4	7.3	0.99	1.21	0.64	11.60
PEER AVERAGES		4.8	1.41	-1.90	0.81	9.21

This bond fund has 19% of the portfolio invested in below grade bonds. This 50% more than the peer group average. Despite a somewhat more aggressive portfolio it lost only slightly more than more conservative world bond funds during the 2008 crisis. The managers manage this fund with a nimble approach that reacts well to market changes.

 **RECOMMENDATION:** Remove from Watch list – manager tenure.



FUND # 23 **PIONEER GLOBAL HIGH YIELD Y** **GHYYX**
 ASSETS: \$5,655,704 BEST FIT INDEX: CREDIT SUISSE HY MARKET CAP: \$8,108 MIL

	ACTUAL RETURN			PEER AVERAGE			DIFFERENCE		
	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR
RATES OF RETURN	18.05	9.40	7.97	14.97	9.38	7.08	3.08	0.02	0.89

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	2	9.9	1.14	-2.80	0.56	19.08
PEER AVERAGES		5.3	1.07	3.40	0.68	15.21

This fund continues to fulfill its mandate of buying high yield bonds in both the U.S. and abroad. This fund actually improved its one year position to the peer group, while the three and five year position declined slightly over the first quarter. The three and five year performance is hindered by the dismal performance in 2008, but performance rebounded in 2009 and 2010 with top five percentile performance in those two years.

The managers have reduced exposure by 35% in emerging markets debt, but the standard deviation is still well above the peer group. During the recent five year period the fund delivered annualized gain of 7.7%, but an investor who jumped in and out of this fund gained only 2.5%.

RECOMMENDATION: No action at this time.



BALANCED ALLOCATION:

FUND # 24	AMERICAN FUNDS INCOME FUND OF AMERICA	RIDEX
	ASSETS: \$5,709,911	BEST FIT INDEX: MORNINGSTAR MODERATE
		MARKET CAP: \$36,170 MIL

	ACTUAL RETURN			PEER AVERAGE			DIFFERENCE		
	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR
RATES OF RETURN	23.06	4.92	4.12	20.44	4.19	4.02	2.62	0.73	0.10

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	3	37.7	0.80	1.01	0.38	15.24
PEER AVERAGES		4.9	1.05	-1.23	0.33	15.27

This fund has a higher risk profile than its peer group which is unusual for an American fund. It holds more foreign and less domestic stocks than the average Moderate Allocation fund and has a lower bond credit profile as 12% of the bond assets are below investment grade while the peer group averages 6%. The stock portfolio includes an almost 19% position in dividend oriented defensive stocks and some of the foreign holdings also routinely distribute dividends.

RECOMMENDATION: No action at this time.



TARGET FUNDS:

FUND # 25	VANGUARD TARGET RETIREMENT INCOME	VTINX
ASSETS: \$2,333,295	BEST FIT INDEX: MORNINGSTAR CONS INC	MARKET CAP: \$24,374 MIL

	ACTUAL RETURN			PEER AVERAGE			DIFFERENCE		
	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR
RATES OF RETURN	12.20	5.45	5.84	12.38	4.81	5.11	-0.18	0.64	0.73

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	4	7.8	0.87	1.10	0.64	8.62
PEER AVERAGES		3.8	0.94	-1.16	0.35	13.74

Target Date fund review summary follows fund number 29.

FUND # 26	VANGUARD TARGET RETIREMENT 2020	VTWNX
ASSETS: \$2,251,944	BEST FIT INDEX: MORNINGSTAR MODERATE 2020	MARKET CAP: \$25,150 MIL

	ACTUAL RETURN			PEER AVERAGE			DIFFERENCE		
	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR
RATES OF RETURN	22.01	4.60	4.67	21.89	2.39	3.49	0.12	2.21	1.18

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	4	5.1	0.86	0.26	0.35	16.03
PEER AVERAGES		3.4	1.14	-2.46	0.27	16.55

Target Date fund review summary follows fund number 29.



FUND # 27 VANGUARD TARGET RETIREMENT 2030 VTHR

ASSETS: \$1,501,610 BEST FIT INDEX: MORNINGSTAR MODERATE 2030 MARKET CAP: \$24,809 MIL

	ACTUAL RETURN			PEER AVERAGE			DIFFERENCE		
	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR
RATES OF RETURN	26.41	3.91	4.06	25.77	2.21	2.89	0.64	1.70	1.17

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	4	5.1	1.03	-0.91	0.29	19.26
PEER AVERAGES		3.5	1.36	-3.71	0.22	19.62

Target Date fund review summary follows fund number 29.

FUND # 28 VANGUARD TARGET RETIREMENT 2040 VFORX

ASSETS: \$1,492,345 BEST FIT INDEX: MORNINGSTAR MODERATE 2040 MARKET CAP: \$25,164 MIL

	ACTUAL RETURN			PEER AVERAGE			DIFFERENCE		
	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR
RATES OF RETURN	28.80	3.98	4.01	27.97	1.69	2.48	0.83	2.29	1.53

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	4	5.1	1.10	-1.01	0.28	20.53
PEER AVERAGES		3.4	1.47	-4.21	0.21	21.27

Target Date fund review summary follows fund number 29.



FUND # 29	VANGUARD TARGET RETIREMENT 2050	VFIFX
ASSETS: \$679,739	BEST FIT INDEX: MORNINGSTAR MODERATE 2050	MARKET CAP: \$25,162 MIL

	ACTUAL RETURN			PEER AVERAGE			DIFFERENCE		
	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR
RATES OF RETURN	28.78	3.93	4.01	27.97	1.69	2.48	0.81	2.24	1.53

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	4	5.1	1.10	-1.05	0.28	20.53
PEER AVERAGES		2.3	1.51	-4.35	0.21	21.91

Performance remains strong in all target fund periods, with the exception of the small one year underperformance, 0.18%, in the Retirement Income fund. The only drawback to performance is that 84% of bond holdings are rated AAA and there is no exposure to below investment grade bonds.

Vanguard target funds take a simplistic approach to developing and monitoring the asset allocation within the target funds. This approach has achieved above average returns with below average volatility. You cannot beat Vanguard on expense and this gives them an advantage over all other target date series. Vanguard retains a higher percentage of stocks than the peer group as the Target Date Fund gets closer to the year. The key to Target Dates Funds is education.

RECOMMENDATION: No action at this time.




SPECIALTY:

FUND # 30	ING GLOBAL REAL ESTATE	IRGIX
ASSETS: \$2,169,379	BEST FIT INDEX: MSCI WORLD REAL ESTATE	MARKET CAP: \$8,934 MIL

	ACTUAL RETURN			PEER AVERAGE			DIFFERENCE		
	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR
RATES OF RETURN	33.01	2.80	2.29	32.63	1.47	0.14	0.38	1.33	2.15

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	5	5.5	0.96	2.32	0.25	29.32
PEER AVERAGES		3.7	1.07	4.31	0.19	29.94

Real estate stocks outperformed the broader stock market as the REIT index was up 9.9% for the first half of the year compared to 6% in the S&P 500. This fund was up 8.80% as the overweight to Japan affected performance. Overall this fund continues to perform well and provide exposure to the global real estate market while maintaining adequate diversification and there is an experienced management team in place. This five star fund may act as a good diversifier in a portfolio, but given its very specific mission, it is subject to short term fluctuation.

 **RECOMMENDATION:** Remain on watch list due to ownership change.

ASSET ALLOCATION:

FUND # 31	ASSET ALLOCATION FUNDS AGGRESSIVE	
ASSETS: \$22,244,595	BEST FIT INDEX: MORNINGSTAR AGGRESSIVE	MARKET CAP: N/A

	ACTUAL RETURN			PEER AVERAGE			DIFFERENCE		
	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR
RATES OF RETURN	27.93	4.09	3.96	25.33	3.22	3.46	2.60	0.87	0.50

Asset Allocation fund review summary follows fund number 33.



FUND # 32 **ASSET ALLOCATION FUNDS MODERATE**
 ASSETS: \$31,879,930 BEST FIT INDEX: MORNINGSTAR MODERATE MARKET CAP: N/A

	ACTUAL RETURN			PEER AVERAGE			DIFFERENCE		
	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR
RATES OF RETURN	20.86	5.41	4.91	20.44	4.19	4.02	0.42	1.22	0.89

Asset Allocation fund review summary follows fund number 33.

FUND # 33 **ASSET ALLOCATION FUNDS CONSERVATIVE**
 ASSETS: \$12,464,824 BEST FIT INDEX: MORNINGSTAR CONSERVATIVE MARKET CAP: N/A

	ACTUAL RETURN			PEER AVERAGE			DIFFERENCE		
	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR	1 YR	3 YR	5 YR
RATES OF RETURN	12.04	5.30	5.05	14.42	5.02	4.53	-2.38	0.28	0.52

The asset allocation funds performed well during the recent volatile three year period. The conservative asset allocation trailed the one year benchmark due to holding 50% of its assets in fixed interest versus the benchmark that contains 12.4% of the assets in cash / fixed interest.











RECOMMENDATION: No action at this time.

WATCH LIST:

The Watch List contains funds that did not meet the criteria outlined in the San Bernardino County’s Investment Policy. Specifically, “if a fund does not meet or exceed the designated benchmark for both the three and five year periods it must be placed on the Watch List.” There are other reasons to be placed on the Watch List including ownership or manager change.

The funds listed on the following page are recommended to either remain on or be removed from the Watch List, along with funds that we recommend be removed and replaced in the portfolio:



ACTION	FUND #	TICKER	FUND NAME	INVESTMENT POLICY	QUARTER ADDED
	1	AGTHX	GROWTH FUND OF AMERICA	1, 3 and 5 year performance below standards. This fund has underperformed to the benchmark in 9 of the last 12 qtrs. The 3 / 5 year Information Ratios are (1.49) / (0.95)	4 Q 2010
	2	NMYAX	COLUMBIA MARSICO 21 ST CENTURY V	1, 3 and 5 year performance below standards. This fund has underperformed the benchmark in 8 of the last 12 quarters. The 3 / 5 year Information Ratios are (0.69) / (0.39). The risk taken remains high.	1 Q 2011
	3	JSVAX	JANUS CONTRARIAN	1, 3 and 5 year performance below standards. This fund has underperformed the benchmark the last 5 of the last 12 qtrs. The 3 / 5 year Information Ratios are (0.62) / (0.41). The risk taken remains high.	1 Q 2011
	7	RSEDX	COLUMBIA DIVERSIFIED EQUITY	Remove from Watch List	1 Q 2011
	11	RSCMX	COLUMBIA MIDCAP VALUE R5	Remain on Watch List due to manager change	1 Q 2011
	12	BGRFX	BARON GROWTH	Added due to substandard performance. This fund has underperformed the benchmark in 6 of the last 12 qtrs. The 3 / 5 year Information Ratios are 0.03 / (0.06)	2 Q 2011
	13	RVPHX	ROYCE VALUE PLUS INVT	1, 3 and 5 year performance below standards. This fund has underperformed the benchmark in 5 of the last 12 qtrs. The 3 / 5 year Information Ratios are (0.70) / (0.50)	4 Q 2010
	16	VSCAX	INVESCO U. S. SMALL CAP VALUE	Due to manager change and ownership change	3 Q 2010
	22	OIBYX	OPPENHEIMER INTERNATIONAL BOND Y	Remove from Watch List	4 Q 2010
	30	IRGIX	ING GLOBAL REAL ESTATE	Remain due to ownership change and manager change	1 Q 2010

