COUNTY of SAN BERNARDINO

EXECUTIVE SUMMARY

Defined Contribution Plans
3rd Quarter 2009

	3rd Qtr	1 Yr.	3 Yr.	5Yr.
457 Plans Performance	16.36%	-1.01%	-2.01%	5.28%
Customized Benchmark	16.41%	-1.45%	-3.38%	2.92%
Difference	-0.05%	0.44%	1.37%	2.36%
401(k) Plan	16.50%	-0.80%	-1.94%	5.24%
Customized Benchmark	16.33%	-1.71%	-3.49%	2.79%
Difference	0.17%	0.91%	1.55%	2.45%
Retirement Medical Trust	15.56%	0.95%	-2.04%	5.43%
Customized Benchmark	15.85%	0.88%	-2.20%	3.46%
Difference	-0.29%	0.07%	0.16%	1.97%

PORTFOLIO ANALYSIS

Assets:

The total assets in all of the County of San Bernardino plans have increased from $426,592,000 as of June 30, 2009 to $447,115,000, at quarter ended September 30, 2009 including $836,319 in the Self Directed Brokerage Account.

Based on total assets, excluding the 3121 plan assets, the total return of the County of San Bernardino portfolio was a robust 10.38% for the third quarter of 2009.

457 Plan Cash Position:

The stable value rate for the third quarter was 2.25%. As expected with the growing strength of the equity markets $2,316,000 transferred from the Stabilizer to the mutual funds. The percentage of assets in the fixed interest bearing account has decreased from 46.76% on June 30th, to 41.60% as of September 30, 2009.

401(k) Plan Cash Position:

The percentage of assets in the fixed interest bearing account has decreased to 30.89% on June 30th from 35.44% from in the third quarter of 2009. The total assets that transferred out of the Stabilizer was $404,520.

Retirement Medical Trust Cash Position:

There was a small decrease in the percentage of assets in the fixed interest account with 85.48% 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 and is now -0.11 which is better than the benchmark of -0.20 (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 20.87. It is higher than the benchmark of 20.09.

The Alpha, a measurement of the value added by the investment manager, more than doubled from the second quarter to 1.71. 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 1.03 (over three years).

401(k) Mutual Funds Position:

The Sharpe Ratio for the 401(k) portfolio improved is now -0.11 which is better than the benchmark of -0.21 (over three years).

The three-year Standard Deviation for the portfolio is 20.64. It is higher than the benchmark of 19.60. The Alpha is 2.02 and the Beta is 1.05.

Retirement Medical Trust (RMT) Mutual Funds Position:

Only 14.52% of the $26,796,810 assets are in mutual funds, including the risk based asset allocation funds.

The RMT under performed the 457 and 401(k) portfolios due to having a higher mutual fund allocation to Thornburg which had an under performance to the benchmark in the third quarter.

The Sharpe Ratio for the RMT portfolio is -0.12 compared to the benchmark of -0.14.
The three-year Standard Deviation for the portfolio is 20.61. It is higher than the benchmark of 19.98. The Alpha is 0.40 and the Beta is 1.03.

MUTUAL FUNDS

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

   This fund continues to meet its objectives. It is trailing its benchmark index over one and three-years, (though only by a minimal amount .46% and .44% respectively) but is beating its peers over all time periods. The fund has stayed true to its style and has managed to continue with a low turnover of only 32%. Lower than average holdings in financials negatively hit the third quarter performance.

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

Columbia was recently sold to Ameriprise Financial. We are keeping attention on this ownership change to determine what the impact will be on the management of this fund.

This fund is still under-performing its peers and index for the one and three-year periods, though over the past six months it has beaten both by wide margins. The three-year underperformance against peers is only -0.45%.

This fund is only invested in 47 stocks and is a good compliment to the Growth Fund of America with 301 stocks. The fund has 29% of its assets in financials (triple the index) and 18% in just four financial stocks (a few too big to fail companies – Wells, JPMorgan, US Bank and Goldman) and the top 20 stocks represent 60% of the portfolio.

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

This fund is on a tear, up 79% from the market lows. Categorizing this fund is not possible as it can go anywhere. The fund has a market cap of $7 billion which places it more in the midcap category; this is due to the buy and hold strategy and stocks that performed poorly in 2008 have led this rally. Those stocks had lost much of their market capitalization due to the 2008 bear market. Currently 48% of its holdings are large cap stocks, as the equity markets improve this percentage should also grow. It has allocations to emerging markets (20%) and a large bet on Asia stocks (18% with major emphasis in Japan and India). The fund holds only 63 stocks, 62% of which are in the top 20 holdings. Currently 31% of the fund is in financials.

This is a concentrated fund that has rebounded well from a tough year. Over time we expect this fund to outperform its peers but it will hit short term speed bumps.

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

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

The stock picking in this fund continues to be spot on, at least on a relative basis. The fund is beating its index and peers by nearly 300 basis points over

almost any period measured. The fund still fell 51% from its high to its low, but that isn't much different than the market.
Granted it plays in the large and mega cap quality arena but holding only 35 stocks with 74% of the portfolio in the top 20 makes this a concentrated fund. However the performance over time has been very strong with six of the last seven years in the top 19% of its category.

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

This fund has outperformed its benchmark and index over the three and five-year period, notwithstanding its nearly 55% loss from top to bottom. The fund tends to hold high quality value stocks, has low turnover and a reasonable expense ratio for an actively managed fund.

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

This fund is trailing its peers and index over three-years (by about 275 basis points), but beating both over one and five. The fund lost almost 60% during the market meltdown, but has done reasonably well since the March lows. This is another highly concentrated fund with only 48 holdings, the top 20 representing 63% of the fund. The manager is not afraid to make sector bets and is currently overweighting Business Services and Telecommunications by a factor of almost four and under weights the Manufacturing super sector. This fund has held on to its winners and now has 41% of its holdings categorized as large cap stocks.

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

Despite having a negative one year record this fund has outperformed its peers and index by a significant margin. The amount of out performance is actually quite stunning and can only be matched by its margin of underperformance during the market meltdown. The fund fell by 64% from its high to its low, but has risen dramatically since the March 2009 low.

This fund buys stocks of companies that issue junk bonds or have leveraged balanced sheets, a strategy that was hammered last year and aptly demonstrated the risk this fund represents. In the third quarter alone this fund outperformed the peer group by 577 basis points.

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

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

This fund is run by the same team that runs RiverSource Diversified Value. The returns have not been spectacular, but they've beaten their index and peer groups over the most three and five-year period. The fund suffered a 57% drop during the meltdown, but has recovered with the market.

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

The fund is has not come back as strong as some of its peers; this is due to Baron's commitment of buying higher quality stocks and it is the lowest quality ones that have produced the highest returns. The fund is trailing its small and mid-cap growth peers for the one-year period (small by .69 and mid by 3.09), but beating them over the three and five-year periods.

The fund has a mixed comparison against all the indexes we compare it against, basically trailing slightly over one-year and breaking even over the others (though handily beating over ten). The fund is rather concentrated for a small-mid growth fund with only 84 stocks, though Baron is one of the few managers who has proven to effectively manage such a portfolio. The fund currently has a large allocation to Business Services (5x index) and Consumer Services (2x index), but this is not uncommon for Ron Baron.

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

This fund continues to outpace its peers and index despite favoring companies that are not necessarily the "hot" stocks (low quality). This fund favors stocks of companies with "strong balance sheets, low debt and solid internal returns" according to Morningstar. We continue to like the "value" based style of "growth" investing that this fund employs.

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

This funds one-year performance versus the index and peer group is quite poor (trailing by 11.18% and 13.83% respectively), yet it is better than it was just a quarter ago when it was trailing by about 20%. The three-year numbers have improved so that it is only trailing its index by 1% and is nearly even with its peers at -0.61%. It is now beating its peers and index over the five year period.

While we would not say this fund has turned the corner it is finally showing some signs of life. From its top to its bottom the fund fell 60% and given that it invests in more highly leveraged companies we would have expected it to perform much better in this "risk rally." We have concerns about this fund, but are willing to give it more time given that its strategy is quite different than a traditional mutual fund in this category. We continue to advise that participants in this fund have a long time frame and be prepared for higher than average volatility.

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

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

This fund has outperformed over every time period against its peers and benchmark and by a wide margin (almost 500 basis points over peers consistently). While the fund is concentrated with only 74 holdings it does not focus large portions of the portfolio in any one stock (top ten stocks equal 26% of the portfolio, top twenty equal 44%).

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

This fund continues to perform well and we have a lot of confidence in management. The focus on cash flow and reasonable debt levels has helped this fund achieve an enviable record. It is well diversified, has low turnover and an above average dividend yield.

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

This fund has bounced back in a big way. After some poor picks in financials the fund has rebounded over 65% in the past six months, partially fueled by a 20% allocation to Emerging Markets. The fund is now beating its peers and index over all measured time periods.

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

This fund has many overlapping holdings with its index (which is to be expected), though the degree in which the fund holds these stocks seems different enough and its performance against its index and peers is good (despite a small under performance for the one-year period). We expect this category to continue to be volatile and believe the run-up in REIT prices may be unjustified given the underlying fundamentals.

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

This fund is the number one fund in its category for all time periods save for the ten-year, which is holds the number two position. We are pleased with the stunning year-to-date performance of 71%, especially after last years -51% return and 58% total drawdown. In 2009 emerging markets have returned about 64% through September 30th and large foreign growth has returned about 24% over the same period.

The manager held on to the stocks that performed so poorly in 2008 with the expectation of a turn around and investors were aptly rewarded. The manager is less concerned with the address where mail is delivered than with where revenue comes from. For example, Ford Motor Company has a profitable foreign business and so Ford is one of the largest holdings.

***20.* DFA International Small Company (DFISX)** *MSCI EAFE World ex-us Small*

This fund is a passively managed approach to International Small-Mid companies. It is beating its peer group over all time periods (there is not actual peer group designed by Morningstar so we compare it to the Foreign

Small-Mid Growth group for the purposes of the report but for purposes of evaluation average both the Foreign Small-Mid Growth and Foreign Small-Mid Value peer groups and compare).

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

This fund has rebounded in a dramatic way as spreads across almost all bond sectors narrowed and the dollar weakened. This fund has proven to be a good fund to own for those who want to accept some risk in bonds with the outlook of higher returns. Our only concern is that participants see the outsize returns and mistake this bond fund for something that will be more stable during periods of market dislocations.

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

This fund has benefited from the weak U.S. dollar. It does not fully hedge its foreign currency exposure. It also invests in Emerging Markets bonds. This is not a traditional bond fund, but those looking to take risks in bonds and those who want non-US currency exposure to hedge against a falling dollar may find this fund to be a good home for a portion of their holdings. This fund will be more volatile than other bond funds and some other international bond funds due to its go anywhere style and proclivity not to fully hedge currency exposure. A strengthening of the dollar could impact results unless the management team takes action prior to the rise.

22. **Pioneer Global High Yield (GHYYX)** *BarCap Global High Yield*

This fund has had a spectacular year, up 52% in this "risk rally" beating its peers and indexes. It is trailing its peer group and index for the one and three year periods and the index for the five-year period. There is not a peer group to compare this fund too as there are few global high yield funds, though if we compare it to US only high yield this fund beats those categories on a three and five year basis (by .29% and 1.48% respectively). The currency exposure does assist with this comparison.

23. **American Funds Income Fund of America (RIDEX)** *Morningstar Target Risk Moderate Allocation*

This funds record against its index and peers is mixed, not great, but not bad. Utilizing the moderate allocation peer group is not a panacea for benchmarking these types of funds because there is so much variation in terms of asset allocation and style. This fund for instance focuses on dividend paying companies, which hasn't been a great category recently as "risky assets" have rallied the most, however it does take a little more risk on the fixed income side, and thus enjoyed decent returns there. This fund remains diversified and true to its stated objectives and we are comfortable with the management.

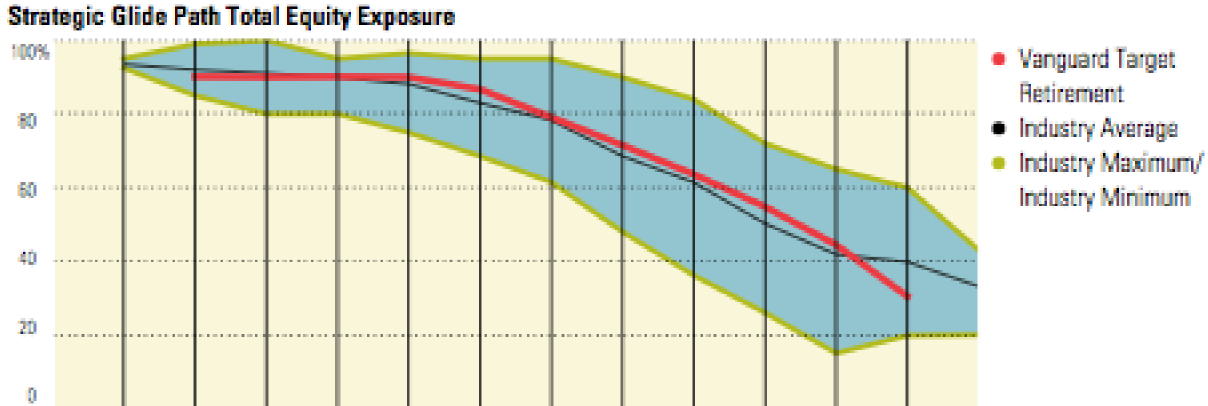
24. **PAX World Balanced Fund (PAXIX)** *Morningstar Target Risk Moderate Allocation*

The fund is trailing the newly created Morningstar Target Risk indexes by a fairly wide margin over all time periods measured, though it is doing better against its peers. While trailing for the one and three-year period against its peers, it is about even for the five-year period. Clearly this fund is not an out performer, but it is also the probably the best choice for the universe it invests in socially conscious sectors. **Watch List**

25. **(26 – 30) Vanguard Target Retirement Income, 2010, 2020, 2030, 2040 & 2050**

Overall these funds have performed as designed and are beating the corresponding peer group in the three year period. Because the composition of these funds are index funds in periods where certain sectors or styles are driving the market the comparison will not always be positive. In the third quarter all of the Vanguard Target Funds trailed their peer group. However the low expense certainly aids the comparison.

Strategic Glide Path Total Equity Exposure



Retirement Date	2055	2050	2045	2040	2035	2030	2025	2020	2015	2010	2005	2000	1995
Age Today (2009)	19	24	29	34	39	44	49	54	59	64	69	74	79
Series Average	–	90	90	90	90	87	79	72	64	55	44	30	–
Industry Average	94	92	91	90	88	83	78	69	61	50	42	40	33
Industry # Series	3	21	20	30	23	30	24	30	27	28	28	10	4

(31- 33) Risk Based Asset Allocation Funds – They are performing as designed with a composition of funds that are performing well.

WATCH LIST

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:

24. Pax World Balanced
Stabilizer