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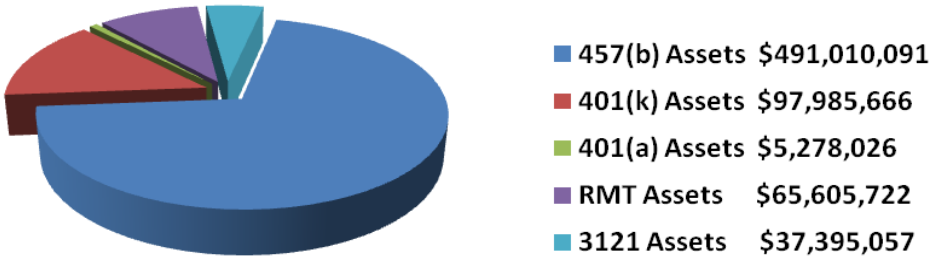
COUNTY OF SAN BERNARDINO
EXECUTIVE SUMMARY
DEFINED CONTRIBUTION PLANS
3rd QUARTER 2013

	3RD QUARTER %	1 YEAR %	3 YEAR %	5 YEAR %
457(b) Plan Performance	7.51	22.26	14.11	10.60
Customized Benchmark	5.88	18.29	14.40	10.44
DIFFERENCE	**1.63**	**3.97**	**-0.29**	**0.16**
401(k) Plan Performance	7.36	22.32	14.21	10.76
Customized Benchmark	6.08	19.47	15.18	10.90
DIFFERENCE	**1.28**	**2.85**	**-0.97**	**-0.14**
Retirement Medical Trust	6.33	16.97	12.45	9.86
Customized Benchmark	4.87	15.31	12.98	10.06
DIFFERENCE	**1.45**	**1.66**	**-0.53**	**-0.20**

PORTFOLIO COMPOSITION AND ANALYSIS:

The total assets in the County of San Bernardino's defined contribution plans increased from $664 million as of June 30 to $697 million. The increase was mainly driven by the appreciation of the investments that totaled $25 million. 457 assets in the Ameritrade Self Directed Brokerage Account (SDBA) are now $1.8 million; $200,000 lower than the previous quarter. The 401(k) assets in the SDBA are now $392,000.



457 PLAN CASH POSITION:

The stable value crediting rate was 2.50% in the third quarter. The crediting rate is 2.10% for the fourth quarter. In the third quarter $2.2 million transferred into the Stabilizer from the mutual fund portfolio. Despite the transferred assets, the percentage of assets in the stabilizer declined from the previous quarter of 33.51% to 32.15% due to the appreciation of the mutual funds

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401(k) PLAN CASH POSITION:

The assets in the Stabilizer decreased from 30.32% to 30.07%. $1.2 million transferred from the mutual funds into the Stabilizer.

RETIREMENT MEDICAL TRUST CASH POSITION:

There was a decrease in the percentage of assets in the fixed interest account from 72.95% in the ING General account to 71.12%.

457 PLAN MUTUAL FUNDS POSITION:

The over performance to the customized benchmark over the third quarter is due primarily to the performance of Growth Fund of America. The customized index is devoid of expenses while the mutual funds do have an expense structure, so the out performance in the third quarter and the one (1) year period is impressive. Additionally the underperformance of Perkins Small Cap Value and Columbia Diversified Equity Income and Capital World contributed to the three (3) year underperformance.

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 remained at 1.09.

The Standard Deviation is a measurement of the volatility of the portfolio's short term return from the average long term return. The three (3) year Standard Deviation for the portfolio is 12.86, which is higher than the benchmark of 11.14.

The Alpha, a measurement of the value added by the investment manager is -2.07**.** 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 1.14 over three (3) years.

401(k) MUTUAL FUNDS POSITION:

The one (1) year over performance is due to Growth Fund of America. The three (3) year under performance was due to the lower than average performance of Perkins Small Cap Value, Capital World, Columbia Mid Cap and Columbia Diversified. The underperformance of Growth Fund of America, Perkins Small Cap Value and Columbia Diversified Equity Income contributed to the five (5) year underperformance.

The Sharpe Ratio for the 401(k) portfolio is 1.10, which is higher than the second quarter ratio of 1.08 (over three (3) years). The three (3) year Standard Deviation for the portfolio is 12.86; which is higher than the benchmark of 11.73. The Alpha is -2.00 and the Beta is 1.09.

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RETIREMENT MEDICAL TRUST (RMT) MUTUAL FUNDS POSITION:

The one (1) year over performance of Growth Fund of America contributed to the outperformance of the portfolio. However, Growth Fund is also the driver in the five (5) year under performance. The three (3) year under performance is due to several funds failing to beat their benchmarks.

The Sharpe Ratio for the RMT portfolio is 1.11. The three (3) year Standard Deviation for the portfolio is 11.10 which is higher than the benchmark of 9.47. The Alpha is -2.35 and the Beta is 1.16.

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PERFORMANCE OF INDEX FUNDS VS. ACTIVELY MANAGED FUNDS	3RD QTR %	1 YEAR %	3 YEAR %	5 YEAR %
LARGE CAP				
Vanguard Institutional Index	**5.23**	**19.31**	**16.24**	**10.04**
American Funds Growth Fund of America	9.32	25.26	15.79	10.33
TIAA CREF Growth & Income Retirement	7.11	20.25	17.00	10.60
Wells Fargo Advantage Growth Fund	13.52	21.03	21.30	17.89
Main Stay ICAP Select Equity	5.22	20.91	14.26	9.83
Parnassus Equity Income	6.81	23.46	16.25	10.56
Columbia Diversified Equity Income	3.87	20.81	13.07	7.63
MID CAP				
Vanguard Mid Cap Index	**7.69**	**27.98**	**17.15**	**13.20**
Baron Growth	11.11	31.10	20.68	13.44
ING Mid Cap Opportunities	9.48	23.88	16.89	14.74
Fidelity Adv Leveraged Company Stock	7.48	34.10	20.01	13.02
Columbia MidCap Value	5.36	30.72	15.75	11.19
SMALL CAP				
Vanguard Small Cap Index	**9.19**	**30.15**	**18.98**	**13.26**
Loomis Sayles Small Cap Growth	13.68	37.45	23.38	15.05
Invesco Small Cap Value	8.61	37.79	19.95	14.82
Perkins Small Cap Value	5.31	21.53	11.21	10.29

In the third quarter, seven (7) out of thirteen (13) actively managed funds outperformed the lower cost index funds. Eleven (11) funds over the past one (1) year outperformed their benchmarks. All actively managed large cap funds outperformed the S&P 500 index fund over the recent one (1) year period. This is a good indication of the strength of the portfolio.

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MUTUAL FUNDS OVERVIEW AND NARRATIVE

LARGE GROWTH:

FUND # 1	AMERICAN FUNDS GROWTH FUND OF AMERICA	RGAGX

ASSETS: $ 62,753,778 BEST FIT INDEX: RUSSELL 1000 GROWTH M* ANALYST RATING: Bronze

	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	25.26	15.79	10.33	20.69	15.28	10.72	**4.57**	**0.51**	**-0.39**

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV	EXP RATIO
FUND STATISTICS	4	27.9	1.05	-1.49	1.17	13.48	0.34%
PEER AVERAGES		6.3	1.07	-1.83	1.09	14.11	1.26%

GFA has had its ups and downs since the financial crisis and many defined contribution plans that gave up on it have missed out on its rebound. The fund is trailing the peer group over the five (5) year period by .39%, however is capturing 96% of the peer group return. While the fund is beating the peer over the other time periods measured in return, more importantly it is beating over all time periods when we measure the risk-adjusted return. GFA has a higher Sharpe Ratio than its peers over the one (1), three (3), five (5), ten (10) and fifteen (15) year periods. The Information Ratio has improved to 2.02, -0.07 and 0.15 over the one (1), three (3) and five (5) year periods. If fourth quarter performance is at least equal to the benchmark the three (3) and five (5) year comparisons should improve as the rolling three and five year fourth quarters that drop off had had a negative performance to the benchmark.

The fund has also become more growth oriented since 2009. Management is not afraid to go against the grain, selling Apple in 2012 and not taking up a stake since. Since Apple has started to recover, due in large part to Carl Icahn's tweets, not holding Apple will be a drag on performance in the fourth quarter as it was in the third quarter. Stock selection has been strong; two notable stocks are Softbank in Japan and Tesla Motors. Softbank was the most traded stock in the Nikkei stock market. The exposure to Tesla has been reduced following some profit taking by the management team. The cash holding of over 8%, (now 7.2%), created a 200 basis point drag on performance

RECOMMENDATION: Remove from the Watch List due to improved investment performance.

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FUND # 2	TIAA CREF GROWTH & INCOME									TIGRX
	ASSETS: $ 10,300,276			BEST FIT INDEX: RUSSELL 1000 GROWTH						M* ANALYST RATING: NEUTRAL

	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	20.25	17.00	10.60	20.69	15.28	10.72	**-0.44**	**1.72**	**-0.12**

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV	EXP RATIO
FUND STATISTICS	4	8.6	0.98	0.81	1.32	12.63	0.46%
PEER AVERAGES		6.3	1.07	-1.83	1.09	14.11	1.26%

The third quarter performance was a drag on the one (1) year comparison to the peer group. Overweighting the Energy sector and underweighting the Technology sector impacted performance. The manager has increased the allocation to Apple and that did help to minimize the underperformance. This fund has a significantly higher Alpha and Sharpe Ratio and a lower Standard Deviation than the peer group.

RECOMMENDATION: No action at this time

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FUND # 3	WELLS FARGO ADVANTAGE GROWTH									SGRNX
	ASSETS: $ 4,248,600		BEST FIT INDEX: RUSSELL 1000 GROWTH						M* ANALYST RATING:	Bronze

	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	21.03	21.30	17.89	20.69	15.28	10.72	**0.34**	**6.02**	**7.17**

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV	EXP RATIO
FUND STATISTICS	5	11.4	0.94	4.43	1.33	15.47	0.76%
PEER AVERAGES		6.3	1.07	-1.83	1.09	14.11	1.26%

The three (3) and five (5) year performance is very strong and the one (1) year performance which was negative to the peer group in the second quarter, is now positive. A major contributor to the one (1) year rebound is the 20% increase in the value of Apple stock. The overweight to the Consumer Cyclical sector was also beneficial.

RECOMMENDATION: No action at this time.

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LARGE BLEND:

FUND # 4	PARNASSUS EQUITY INCOME INV			PRILX
	ASSETS: $ 9,374,703	BEST FIT INDEX: RUSSELL 1000	M* ANALYST RATING:	Silver

	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	23.46	16.25	10.56	20.51	14.79	9.33	**2.95**	**1.46**	**1.23**

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV	EXP RATIO
FUND STATISTICS	5	12.4	0.84	2.54	1.48	10.69	0.68%
PEER AVERAGES		5.8	1.04	-1.86	1.12	13.30	1.17%

This socially responsible investment (SRI) is in the large cap blend space and is performing extremely well against other large cap blend funds that do not have the social mandate. The fund takes low risk and generates above average returns on a fairly concentrated portfolio of only 41 holdings. Turnover is low at 24% which helps to keep trading costs and the related expense ratio low at 0.68%.

RECOMMENDATION: No action at this time.

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FUND # 5	VANGUARD INSTITUTIONAL INDEX	VINIX

ASSETS: $ 22,606,365 BEST FIT INDEX: S&P 500 M* ANALYST RATING: Gold

	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	19.31	16.24	10.04	19.34	16.27	10.02	-0.03	-0.03	0.02

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV	EXP RATIO
FUND STATISTICS	4	12.8	1.00	-0.02	1.27	12.41	0.04%
PEER AVERAGES		N/A	1.00	0.00	1.31	12.41	N/A

This large cap blend index is performing as expected adjusted for expense and tracking error.

RECOMMENDATION: No action at this time.

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LARGE VALUE:

FUND # 6	COLUMBIA DIVERSIFIED EQUITY INCOME		CDEYX
	ASSETS: $ 16,547,806	BEST FIT INDEX: RUSSELL 1000 VALUE	M* ANALYST RATING: 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	20.81	13.07	7.63	21.14	14.75	8.87	**-0.33**	**-1.68**	**-1.24**

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV	EXP RATIO
FUND STATISTICS	3	0.3	N/A	N/A	0.98	13.72	0.63%
PEER AVERAGES		6.1	1.02	-1.59	1.14	13.11	1.18%

Hugh Mullin took over lead management of this fund in July and in October Russell Bloomfield was added as co-manager. Bloomfield has been with Columbia since 2002 and was a senior analyst specializing in media and internet sectors. Hugh has initiated several changes in the portfolio while maintaining adherence to stocks that pay dividends. Some of the changes he has implemented include reducing the number of holdings to those he has strong convictions will benefit the portfolio. When Hugh took over the fund, the fund had 130 stocks and is now at 95.

Market capitalization has grown as some small foreign stocks were sold. In a quarter where foreign stocks generally outperformed domestic stocks, Hugh reduced the foreign stock weighting by half. He also sold some consumer staples, e.g. Kelloggs, as he felt their price to earnings ratio was too high. He did add Apple during the third quarter, slightly increasing exposure to the Technology sector. He also sold some energy service companies and increased exposure to Chevron and other domestic energy companies, including the large oil and gas exploration company, Anadarko Petroleum Corp

The Standard Deviation has declined from 15.09/20.33 to 13.71/15.28. This is a result of volatile three (3) and five (5) year third quarter rolling periods dropping off the calculations. Performance did decline versus the peer group in the third quarter due to interest rate sensitivities and the prospect of the Fed slowing their bond buying program. The Price/Earnings Ratio has declined from the second quarter from 16.3 to 14.5.

RECOMMENDATION: Remain on the Watch List due to investment performance and manager change.

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FUND # 7	MAINSTAY ICAP SEL EQUITY			ICSLX
	ASSETS: $ 1,525,903	BEST FIT INDEX: RUSSELL 1000 VALUE	M* ANALYST RATING:	Bronze

	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	20.91	14.26	9.83	21.14	14.75	8.87	-0.23	-0.49	0.96

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV	EXP RATIO
FUND STATISTICS	4	15.8	1.02	-1.99	1.03	13.82	0.90%
PEER AVERAGES		6.1	1.02	-1.59	1.14	13.11	1.18%

The fund's absolute returns are fantastic, but it does trail the index and peer over one (1) and three (3) year periods. Longer term performance is outstanding. While the fund is negative versus the peer over the one (1) and three (3), it is by a negligible amount.

RECOMMENDATION: No action at this time.

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MID CAP GROWTH:

FUND # 8	BARON GROWTH			BGRIX
	ASSETS: $ 18,095,548	BEST FIT INDEX: RUSSELL MID CAP GROWTH	M* ANALYST RATING:	Bronze

	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	31.10	20.68	13.44	26.06	15.97	11.98	**5.04**	**4.71**	**1.46**

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV	EXP RATIO
FUND STATISTICS	5	18.8	0.78	6.12	1.40	14.14	1.06%
PEER AVERAGES		6.3	1.16	-2.42	1.03	15.66	1.37%

This fund continues to outperform the peer group. Ron Baron has increased exposure to the technology stocks this year. That increase proved to be fortuitous and wise as the Technology sectored rebounded. Performance was compromised due to the overweight to the Real Estate sector and the underweight to the Healthcare sector.

RECOMMENDATION: No action at this time.

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FUND # 9	ING MID CAP OPPORTUNITIES		NMCIX
	ASSETS: $ 9,409,959	BEST FIT INDEX: RUSSELL MID CAP GROWTH	M* ANALYST RATING: 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	23.88	16.89	14.74	26.06	15.97	11.98	**-2.18**	**0.92**	**2.76**

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV	EXP RATIO
FUND STATISTICS	5	8.3	0.99	-0.44	1.11	15.11	0.91%
PEER AVERAGES		6.3	1.16	-2.42	1.03	15.66	1.37%

Year to date performance continues to fall short of peer group performance. An overweight to the Consumer Defensive sector was costly. However, exposure to one stock, Intuit, (offers software packages designed for payroll, accounting and taxes for small businesses), increased by 40% and the stock price increased by 16% in the third quarter which kept the underperformance from dragging even more.

The Sharpe Ratio and Alpha continue to be better than the peer group.

RECOMMENDATION: No action at this time.

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MID CAP BLEND:

FUND # 10	FIDELITY ADVISORS LEVERAGED COMPANY STOCK	FLVIX

ASSETS: $ 5,655,698 BEST FIT INDEX: 50 MIDCAP VAL/RUSS MIDCAP M* ANALYST RATING: Silver

	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	34.10	20.01	13.02	27.65	15.81	11.33	**6.45**	**4.20**	**1.69**

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV	EXP RATIO
FUND STATISTICS	3	10.3	1.27	-2.35	1.04	19.40	0.86%
PEER AVERAGES		5.4	1.20	-3.07	1.03	15.79	1.27%

This mid cap blend fund continues to perform exceedingly well ranking in the 12th, 3rd and 9th percentiles for the one (1) year, three (3) year and five (5) year periods respectively. This three (3) star fund has migrated into the mid cap value space and more recently borders on the large cap value space. The migration has not been a change of philosophy as fund manager team of Thomas Soviero and David Glancey look for companies with heavy debt structures that are likely to improve. The fund has 123 stock holdings and 8 bond holdings with a low turnover ratio of 21%.

RECOMMENDATION: No action at this time.

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FUND # 11	VANGUARD MID CAP INDEX									VMCIX
	ASSETS: $ 6,830,617			BEST FIT INDEX: SPLICED MID CAP INDEX				M* ANALYST RATING:		Gold

	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	27.98	17.15	13.20	28.00	17.19	13.22	-0.02	-0.04	-0.02

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV	EXP RATIO
FUND STATISTICS	4	15.4	1.00	-0.67	1.14	14.89	0.08%
PEER AVERAGES		N/A	N/A	N/A	N/A	N/A	N/A

This mid cap blend index is performing as expected adjusted for expense and tracking error.

RECOMMENDATION: No action at this time.

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MID CAP VALUE:

FUND # 12	COLUMBIA MID CAP VALUE OPPORTUNITY		RSCMX
	ASSETS: $ 19,514,115	BEST FIT INDEX: RUSSELL MID CAP VALUE	M* ANALYST RATING: 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	30.72	15.75	11.19	28.32	16.06	11.82	**2.40**	**-0.31**	**-0.63**

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV	EXP RATIO
FUND STATISTICS	3	0.1	1.04	-2.46	1.01	15.78	0.83%
PEER AVERAGES		6.0	1.15	-2.27	1.07	15.06	1.32%

Three (3) and five (5) year performance is less than the peer group due in large part to the roll off of strong third quarter performance in 2008 and 2010. Overweighting of the Financial and Technology sectors has driven the strong performance in 2013, particularly in the third quarter. In September management of this fund changed. The lead manager is still David Hoffman. The co-manager left the fund family in September and was replaced by the long time former co-manager who returned after an eighteen month absence to work with a firm in London. The management team has increased exposure to defensive stocks, as well as financial stocks.

RECOMMENDATION: Place on the Watch List due to investment performance and manager change.

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SMALL GROWTH:

FUND # 13	LOOMIS SAYLES SMALL CAP GROWTH		LSSIX
	ASSETS: $ 2,240,826	BEST FIT INDEX: RUSSELL 2000 GROWTH	M* ANALYST RATING: 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	37.45	23.38	15.05	30.46	18.94	13.26	**6.99**	**4.44**	**1.79**

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV	EXP RATIO
FUND STATISTICS	5	8.8	0.96	3.11	1.37	16.32	0.95%
PEER AVERAGES		6.5	1.28	-1.38	1.10	17.39	1.46%

There are few funds that fill the Small Growth category the way this fund does. The growth stocks purchased are so “growthy” that they are to the right of the growth style box. This strategy has paid off during the small cap rally as the fund has bested the index and peer over all time periods measured. Interestingly enough, the offering has managed to fall less during downturns than its peers, a feat that seems anomalous. We would caution that the downside is likely larger than the past would imply, but management has demonstrated an uncanny ability to tread in this category with good risk-adjusted returns.

RECOMMENDATION: No action at this time.

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SMALL BLEND:

FUND # 14	VANGUARD SMALL CAP INDEX			VSISX
	ASSETS: $ 5,673,114	BEST FIT INDEX: SPLICED SMALL CAP INDEX	M* ANALYST RATING:	Gold

	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	30.15	18.98	13.26	30.00	18.91	13.15	0.15	0.07	0.11

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV	EXP RATIO
FUND STATISTICS	4	21.8	1.01	0.30	1.12	16.73	0.10%
PEER AVERAGES		N/A	N/A	N/A	N/A	N/A	N/A

This small cap blend index is performing as expected adjusted for expense and tracking error.

RECOMMENDATION: No action at this time.

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SMALL VALUE:

FUND # 15	INVESCO SMALL CAP VALUE		VSMIX
	ASSETS: $ 3,536,148	BEST FIT INDEX: RUSSELL 2000 VALUE	M* ANALYST RATING: 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	37.79	19.95	14.82	29.56	16.35	11.47	**8.23**	**3.60**	**3.35**

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV	EXP RATIO
FUND STATISTICS	4	3.3	1.27	-2.37	0.95	21.54	0.92%
PEER AVERAGES		6.5	1.26	-3.41	0.99	16.83	1.42%

This fund is not afraid to be different than the index. It has virtually no assets in five (5) of the eleven (11) sectors. In almost every sector the allocation is significantly over or underweighted; there is no benchmark hugging here. As one might expect with such a strategy the performance of this fund is either much better or much worse than the index and peer. In this case, the longer term outperformance is significant, besting the index and peer by over 10% over the past year and landing in the top 3%, 8% and 10% of funds over the respective one (1), three (3) and five (5) year periods.

Success with this strategy will come with the exact opposite results in other time periods (in September of 2013 the fund was in the bottom 3%), so the current performance should be used for context in future periods where things don't look so good.

Very few active managers actually stray very far from the benchmark, with this fund you are getting active management.

RECOMMENDATION: No action at this time.

SST BENEFITS CONSULTING

FUND # 16	PERKINS SMALL CAP VALUE	JDSNX
	ASSETS: $ 16,096,879 BEST FIT INDEX: RUSSELL 2000 VALUE	M* ANALYST RATING: 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	21.53	11.21	10.29	29.56	16.35	11.47	**-8.03**	**-5.14**	**-1.18**

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV	EXP RATIO
FUND STATISTICS	3	28.7	N/A	N/A	0.87	13.42	0.79%
PEER AVERAGES		6.5	1.26	-3.41	0.99	16.83	1.42%

Performance again deteriorated in the third quarter due in part to the sizable allocation to cash; double the peer group. This fund has appreciated almost 19% year to date, but the peer group has appreciated on average almost 25%. Along with the high cash position there is an underweight to the top performing sector, Basic Materials. There is an overweight to the Financial Services sector, but stock selection in that sector has been underwhelming. In this asset category 84% of the active managers beat the index in the third quarter, but not Perkins.

RECOMMENDATION: Remain on the Watch List due to investment performance.

SST BENEFITS CONSULTING

INTERNATIONAL STOCK:

FUND # 17	AMERICAN FUNDS CAPITAL WORLD GROWTH & INCOME	RWIGX
	ASSETS: $ 33,347,734 BEST FIT INDEX: MSCI WORLD NR	M* ANALYST RATING: Gold

	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	20.77	10.29	7.97	20.36	10.69	8.62	**0.41**	**-0.40**	**-0.65**

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV	EXP RATIO
FUND STATISTICS	3	20.6	0.94	1.01	0.79	14.06	0.45%
PEER AVERAGES		4.2	0.79	3.62	0.77	15.05	1.44%

While the fund is underperforming the peer group over the three (3) and five (5) year periods this should not come as a surprise, CWGI has a 40% allocation to North America versus the Peer Category of over 50%. North American stocks have done better than International stocks and the under allocation should have hurt returns by more.

Overall this fund has solid management and has been a consistent performer.

RECOMMENDATION: Place on the Watch List due to investment performance.

SST BENEFITS CONSULTING

FUND # 18	DFA INTERNATIONAL SMALL COMPANY	DFISX

ASSETS: $ 13,220,747 BEST FIT INDEX: MSCI EAFE SMALL CAP NR M* ANALYST RATING: Silver

	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	26.99	10.26	10.26	24.89	10.71	11.06	**2.10**	**-0.45**	**-0.80**

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV	EXP RATIO
FUND STATISTICS	3	14.8	0.99	4.32	0.65	17.49	0.56%
PEER AVERAGES		5.2	0.89	2.99	0.71	16.52	1.46%

As is common with this fund, it is beating the index (MSCI World ex-US Small Cap) over most time periods but struggling against the peer by a small margin over three (3) and five (5) years. The fund manages to capture 98% of the three (3) year and 96% of the five (5) year return of the peer group. As we've mentioned in the past, the peer group is very small and consists of some funds that are not investable. The passive nature of this fund will also cause it to have periods of underperformance when active management is doing well. Overall, this fund is meeting its objectives and doing exactly what we want it to do. While the Investment Policy Statement does dictate the fund continue on the Watch List, we see no reason for concern.

RECOMMENDATION: Remain on Watch List due to investment performance.

SST BENEFITS CONSULTING

FUND # 19	DODGE & COX INTERNATIONAL STOCK	DODFX

ASSETS: $ 9,625,195 BEST FIT INDEX: MSCI WORLD EX US NR USD M* ANALYST RATING: Gold

	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	27.76	8.75	8.11	19.85	7.18	5.87	**7.91**	**1.57**	**2.24**

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV	EXP RATIO
FUND STATISTICS	4	12.4	1.05	0.59	0.55	18.18	0.64%
PEER AVERAGES		5.1	0.95	-0.80	0.49	17.05	1.38%

This large cap blend fund continues to outpace peers by landing in the 4th, 5th, and 8th percentile for the one (1), three (3) and five (5) year periods. The fund has nine (9) fund managers led by John Gunn who has been at the helm since 1977. This fund had difficulty in 2008 and 2011 primarily for its holdings in Financial Services, but has stayed with their philosophy which has paid off for investors. The fund has 73 stock holdings and is migrating into the large cap blend space. With a turnover of only 11%, the migration is from current holdings.

RECOMMENDATION: No action at this time.

SST BENEFITS CONSULTING

FUND # 20	OPPENHEIMER INTERNATIONAL GROWTH	OIGIX
	ASSETS: $ 3,163,687 BEST FIT INDEX: MSCI WORLD EX US GROWTH	M* ANALYST RATING: 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	25.93	12.50	10.94	18.16	7.65	7.22	**7.77**	**4.85**	**3.72**

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV	EXP RATIO
FUND STATISTICS	5	17.6	N/A	N/A	0.82	16.19	0.74%
PEER AVERAGES		5.9	0.92	-0.08	0.53	17.02	1.40%

Fund manager George Evans continues to work well for investors. This fund focuses on investments in the developed markets of Greater Europe. One (1) year investment returns are over 26% compared to peer averages at 18% without taking excess risk. The fund has 110 holdings and turnover is very low at 15%. Evans takes significant sector bets and is currently overweight in Technology, Industrials and Communication Services and underweight in Financial Services.

RECOMMENDATION: No action at this time.

SST BENEFITS CONSULTING

BONDS:

FUND # 21	LOOMIS SAYLES INV GRADE BOND	LSIIX
	ASSETS: $ 12,467,215 BEST FIT INDEX: BARCLAYS US CREDIT TR USD	M* ANALYST RATING: Gold

	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	1.60	5.71	9.81	2.37	5.50	8.94	-0.77	0.21	0.87

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV	EXP RATIO
FUND STATISTICS	5	16.8	0.76	-1.08	1.03	5.49	0.59%
PEER AVERAGES		5.3	0.56	3.84	1.10	5.06	1.21%

For participants looking for excess return in fixed income, there are few better choices. With the possibility for higher returns the likelihood of large losses is introduced and this fund is no stranger to fluctuation. Participants shouldn't confuse this option with a bond fund that has a more stable net asset value.

RECOMMENDATION: Remove from the Watch List due to management experience.

SST BENEFITS CONSULTING

FUND # 22	OPPENHEIMER INTERNATIONAL BOND	OIBIX
	ASSETS: $ 3,918,364 BEST FIT INDEX: CITI WGBI X US/JPM GBIEM/JPM EMBI GLOBAL	M* ANALYST RATING: NEUTRAL

	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	-2.54	1.14	5.59	-2.05	2.13	6.03	**-0.49**	**-0.99**	**-0.44**

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV	EXP RATIO
FUND STATISTICS	4	9.5	N/A	N/A	0.19	8.42	0.57%
PEER AVERAGES		N/A	N/A	N/A	N/A	N/A	N/A

This international bond fund has a smaller percentage of assets in Below Grade investments than the benchmark, but a 50% higher exposure to BBB, Investment Grade bonds. Performance against the benchmark remains strong. Exposure to foreign currencies is lower than at any time in this fund's history due to the unpredictability of central bank activities. The current exposure to currencies is mainly in Emerging Markets and that adds more risk to the portfolio. The top ten holdings by country total 55% of the portfolio. The recent interest rate activity has driven down performance as this fund has a higher allocation than the benchmark to bonds with a maturity of 7-10 years by almost double and nearly half the allocation to shorter term, 3-5 year bonds.

RECOMMENDATION: Place on the Watch List due to investment performance.

SST BENEFITS CONSULTING

FUND # 23	PIONEER GLOBAL HIGH YIELD		GHYYX
	ASSETS: $ 4,635,935	BEST FIT INDEX: BARCLAYS GLOBAL HY	M* ANALYST RATING: NEUTRAL

	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	6.41	6.99	10.11	6.71	8.14	11.00	**-0.30**	**-1.15**	**-0.89**

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV	EXP RATIO
FUND STATISTICS	2	12.2	1.16	-3.04	0.87	8.02	0.80%
PEER AVERAGES		5.8	0.23	7.36	1.24	6.67	1.13%

Over the course of six (6) weeks this fund lost about 4.5% when the Federal Reserve began their talk of limiting government bond purchases. But despite its allocation to Emerging Markets debt, the losses were not that much more than the category and it has recovered most of that loss already.

This is not to say Global High Yield is without its risks, in fact participants should be especially weary right now. The fund's high yield is enticing, but significant fluctuation should be expected as Federal Reserve policies have tended to affect global markets more severely than domestic.

The fund is trailing the peer over the one (1) three (3) and five (5) year periods which is not unexpected. But when we compare its Sharpe ratio to the Merrill Lynch Global High Yield and Emerging Markets Index we don't see much to get excited about. On a risk-adjusted basis this fund just doesn't stack up. With that said, there just aren't many other options out there for Global High Yield.

RECOMMENDATION: Remain on the Watch List due to investment performance.

SST BENEFITS CONSULTING

BALANCED ALLOCATION:

FUND # 24	AMERICAN FUNDS INCOME FUND OF AMERICA	RIDGX
	ASSETS: $ 9,172,140 BEST FIT INDEX: MORNINGSTAR MODERATE	M* ANALYST RATING: Silver

	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	13.28	11.51	9.28	11.80	9.61	8.02	**1.48**	**1.90**	**1.26**

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV	EXP RATIO
FUND STATISTICS	5	21.8	0.89	2.73	1.39	8.24	0.30%
PEER AVERAGES		5.1	1.03	-0.04	1.06	9.05	1.34%

This moderate balanced fund has 25% less allocated to bonds than the peer group and the duration is a half a year shorter. The average market capitalization is almost 50% higher than the peer group and the yield is more than twice the average. Performance has recently suffered due to the large underweighting in the Financial sector.

RECOMMENDATION: No Action at this time.

SST BENEFITS CONSULTING

TARGET FUNDS:

FUND # 25	VANGUARD TARGET RETIREMENT INCOME	VTINX
	ASSETS: $ 4,051,919 BEST FIT INDEX: MORNINGSTAR CONSERVATIVE INC M* ANALYST RATING: Gold	

	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	4.02	6.35	6.72	5.60	5.94	6.54	-1.58	0.41	0.18

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV	EXP RATIO
FUND STATISTICS	4	0.7	0.79	0.82	1.41	4.48	0.16%
PEER AVERAGES		4.3	0.75	-0.43	1.01	6.54	0.98%

Target Date fund review summary follows fund #29.

FUND # 26	VANGUARD TARGET RETIREMENT 2020	VTWNX
	ASSETS: $ 7,015,431 BEST FIT INDEX: MORNINGSTAR MODERATE 2020 M* ANALYST RATING: Gold	

	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	11.59	9.82	8.09	12.31	8.93	7.38	-0.72	0.89	0.71

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV	EXP RATIO
FUND STATISTICS	4	0.7	1.05	0.15	1.11	8.87	0.16%
PEER AVERAGES		3.9	0.97	-0.89	0.96	8.49	1.04%

Target Date fund review summary follows fund #29.

SST BENEFITS CONSULTING

FUND # 27	VANGUARD TARGET RETIREMENT 2030	VTHRX

ASSETS: $ 6,250,854 BEST FIT INDEX: MORNINGSTAR MODERATE 2030 M* ANALYST RATING: Gold

	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	14.93	11.37	8.48	15.48	10.32	7.67	-0.55	1.05	0.81

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV	EXP RATIO
FUND STATISTICS	4	0.7	0.97	0.46	1.04	11.04	0.17%
PEER AVERAGES		3.9	1.25	-1.65	0.92	10.80	1.08%

Target Date fund review summary follows fund #29.

FUND # 28	VANGUARD TARGET RETIREMENT 2040	VFORX

ASSETS: $ 5,040,227 BEST FIT INDEX: MORNINGSTAR MODERATE 2040 M* ANALYST RATING: Gold

	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	17.63	12.45	9.01	18.01	11.43	7.97	-0.38	1.02	1.04

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV	EXP RATIO
FUND STATISTICS	4	0.7	1.09	0.20	1.01	12.45	0.18%
PEER AVERAGES		3.9	1.41	-2.15	0.89	12.25	1.10%

Target Date fund review summary follows fund #29.

SST BENEFITS CONSULTING

FUND # 29	VANGUARD TARGET RETIREMENT 2050	VFIFX

ASSETS: $ 2,331,145 BEST FIT INDEX: MORNINGSTAR MODERATE 2050 M* ANALYST RATING: Gold

	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	17.62	12.45	8.99	18.01	11.43	7.97	-0.39	1.02	1.02

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV	EXP RATIO
FUND STATISTICS	4	0.7	1.09	0.19	1.01	12.46	0.18%
PEER AVERAGES		3.5	1.46	-2.27	0.88	12.68	1.11%

This target date series is comprised of underlying index funds managed by Vanguard. The various target dates are performing as expected adjusted for expense and tracking error.

RECOMMENDATION: No action at this time.

SST BENEFITS CONSULTING

SPECIALTY:

FUND # 30	ING GLOBAL REAL ESTATE	IGLIX

ASSETS: $ 4,034,274 BEST FIT INDEX: S&P DEVELOPED PROPERTY M* ANALYST RATING: Silver

	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	9.91	9.14	6.10	10.93	8.62	6.47	**-1.02**	**0.52**	**-0.37**

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV	EXP RATIO
FUND STATISTICS	3	11.9	0.97	-0.47	0.60	16.73	1.00%
PEER AVERAGES		4.9	1.07	-3.20	0.57	17.75	1.48%

Third quarter performance improved over the performance of the first six (6) months of 2013. In the last four (4) months the management of this fund sold its interests in two major Asian real estate companies that specialize in office properties and reduced its cash holdings. Monies were used to buy significant interests in Land Securities Group, (largest commercial property real estate firm in the U.K. and Equity Residential. Equity Residential, (largest domestic apartment owner in the U.S.), had a 55% gain in earnings in the third quarter.

RECOMMENDATION: No action at this time.

SST BENEFITS CONSULTING

ASSET ALLOCATION:

FUND # 31	ASSET ALLOCATION FUNDS AGGRESSIVE		
	ASSETS: $ 30,439,196	BEST FIT INDEX: MORNINGSTAR AGGRESSIVE	M* ANALYST RATING: 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	20.18	11.26	9.94	18.67	12.11	9.45	**1.51**	**-0.85**	**0.49**

Asset Allocation fund review summary follows fund #33.

FUND # 32	ASSET ALLOCATION FUNDS MODERATE		
	ASSETS: $ 43,273,109	BEST FIT INDEX: MORNINGSTAR MODERATE	M* ANALYST RATING: 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	15.50	10.03	8.95	14.25	9.47	7.62	**1.25**	**0.56**	**1.33**

Asset Allocation fund review summary follows fund #33.

SST BENEFITS CONSULTING

FUND # 33	ASSET ALLOCATION FUNDS CONSERVATIVE	
	ASSETS: $ 15,592,038 BEST FIT INDEX: MORNINGSTAR CONSERVATIVE	M* ANALYST RATING: 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	8.73	6.74	6.84	7.67	5.59	5.30	**1.06**	**1.15**	**1.54**

The fund of funds asset allocation funds performed very well with the three (3) year performance for the Aggressive portfolio as the only exception. The underperformance of the three (3) year comparison is due to the underperformance of DFA, Oppenheimer International Bond and both Columbia funds. The inclusion of the very liquid stable value fund in both the Moderate and Conservative asset allocation funds benefited performance.

RECOMMENDATION: No action at this time

SST BENEFITS CONSULTING

WATCH LIST:

The Watch List contains funds that did not meet the criteria outlined in the County of San Bernardino's Investment Policy. Specifically, "if a fund does not meet or exceed the designated benchmark for both the three (3) and five (5) year periods it must be placed on the Watch List." There are other reasons for a fund to be placed on the Watch List including ownership or manager change.

It is recommended that the following funds remain on, or be removed from, the Watch List:

ACTION	FUND #	TICKER	FUND NAME	INVESTMENT POLICY	QUARTER ADDED
✔	1	RGAGX	GROWTH FUND OF AMERICA	Remove from the Watch List. The 3 / 5 year Information Ratios have changed from the first quarter ratios of (0.75) / (0.53) to (0.19) / 0.06	4Q 2010
⚠	6	CDEYX	COLUMBIA DIVERSIFIED EQUITY INC	Remain on the Watch List due to investment performance and manager change. The Information Ratio is (0.97) / (0.55)	3Q 2012
⚠	12	RSCMX	COLUMBIA MIDCAP VALUE	Place on Watch List due to performance and management change. The 3 / 5 year Information Ratios have changed from to 0.11 / (0.02) to (0.09) / 0.18	3Q 2013
⚠	16	JDSNX	PERKINS SMALL CAP VALUE	Remain on the Watch List due to manager change. The 3 / 5 Information Ratios have changed from (1.43) / 0.47 to (1.12) / 0.04	1Q 2013
⚠	17	RWIGX	AMERICAN FUNDS CAP WORLD G/I	Place on Watch List due to investment performance. The 3 / 5 Information Ratios are 0.99 / 0.41	3Q 2013
⚠	18	DFISX	DFA INTERNATIONAL SMALL COMPANY	Remain on the Watch List due to investment performance. The 3 / 5 Information Ratios have changed from 0.23 / 0.55 to 1.00 / 0.93	1Q 2013
✔	21	LSIIX	LOOMIS SAYLES INVESTMENT GRADE	Remove from the Watch List due to manager experience. The 3 / 5 year Information Ratios have changed from 0.60 / 0.39 to 0.72 / 0.35	3Q 2012
⚠	22	OIBIX	OPPENHEIMER INTERNATIONAL BOND	Add to Watch List due to investment performance. Information Ratio is (0.19) / 0.05	3Q 2013
⚠	23	GHYYX	PIONEER GLOBAL HIGH YIELD	Remain on the Watch List due to investment performance. The 3 / 5 Information Ratios have changed from 0.65 / 0.16 to 0.48 / 0.31	1Q 2013

SST BENEFITS CONSULTING

COUNTY OF SAN BERNARDINO
INVESTMENT OPTIONS SPECTRUM

TARGET ALLOCATION	ASSET ALLOCATION	SPECIALTY	BONDS	BALANCED ALLOCATION
Vanguard Ret Inc	Aggressive Allocation	ING Global Real Est	Loomis Sayles Inv	Amer Funds Inc
Vanguard Ret 2020	Moderate Allocation		Oppenheimer Intl	
Vanguard Ret 2030	Conservative Allocation		Pioneer Global	
Vanguard Ret 2040				
Vanguard Ret 2050				

DOMESTIC EQUITY			INTERNATIONAL - GLOBAL EQUITY
LARGE VALUE	LARGE BLEND	LARGE GROWTH	AmFunds Cap World
Columbia Div Equity	Parnassus Equity Inc	AmFunds Growth Fund	DFA Intl Sm Company
MainStay ICAP Sel Equity	Vanguard Institutional Idx	TIAA CREF G/I Ret	Dodge & Cox Intl
		Wells Fargo Adv Gr	Oppenheimer Intl Gr
MID CAP VALUE	MID CAP BLEND	MID CAP GROWTH	
Columbia MidCap Value	Fidelity Adv Lev Co Stk	Baron Growth	
	Vanguard MidCap Idx	ING MidCap Opp	
SMALL VALUE	SMALL BLEND	SMALL GROWTH	
Invesco SmCap Val	Vanguard SmCap Index	Loomis Sayles SmCap	
Perkins SmCap Val			

Funds to the left have potentially more inflation risk and less investment risk

Funds to the right have potentially less inflation risk and more investment risk

MUTUAL FUND FORWARD LOOKING RATING SCALE

As mutual fund investors, we have received quantitative and qualitative analysis that provides investors with a look back at how and why a mutual fund performed as it did. Morningstar® is a dominant player in mutual fund analytics. Their quantitative star rating for funds is a backward looking achievement test. The star system takes into account performance category peers after adjusting for risk and sales charges over three (3), five (5) and ten (10) year periods with the greatest weight on the ten (10) year achievement.

Morningstar® has developed a more qualitative approach to evaluating the potential for funds to outperform their benchmarks and peer groups. This is a forward looking approach that uses a methodology based on five qualitative and numeric factors or pillars.

The five pillars are:

1. **PROCESS**
2. **PERFORMANCE**
3. **PEOPLE**
4. **PARENT**
5. **PRICE**

Performance is viewed in the context of risk taken, with a focus on downside risk. The Morningstar® analysts consider that the fundamentals and risks of a fund's holdings are as important as past performance, perhaps more so.

Morningstar® assigns three medal ratings, Gold, Silver and Bronze, along with a Neutral and Negative rating. Morningstar® has only completed 500-600 mutual fund assessments with this new process. So many funds will have an "N/A" instead of one of the five ratings. We expect that nearly all funds will have a rating by the end of 2012.

The ratings should be interpreted as follows:

GOLD Gold

A Gold rating indicates an expectation that the fund will outperform its relative performance benchmark and peer group within the context of the level of risk taken over the long term, (usually five years or a full market cycle). To earn a Gold rating a fund must distinguish itself across the five pillars.

SILVER Silver

Funds in this category have notable advantages across most, but perhaps not all of the five pillars. Funds that have a high price may be the reason for the Silver rating.

BRONZE Bronze

Funds with a Bronze rating have advantages that outweigh any disadvantages across the five pillars. Like Silver, Bronze rated funds may be working their way up or down the scale.

NEUTRAL

These are funds where the Morningstar analysts do not have a strong positive or negative conviction. For example, a fund that combines an overly benchmark conscious strategy with competitive fees could receive this rating because the strategy lends itself to average performance.

NEGATIVE

These funds have at least one major flaw that is likely to hamper future performance. For example, a fund that combines an overly benchmark conscious strategy with high fees could receive this rating because its strategy lends itself to underperformance.

N/A

Morningstar® analysts have not completed their evaluation of this particular fund.

CONCLUSION

- One caution is that a fund with a Gold rating is not necessarily suitable for all investors.
- The People pillar is more critical in concentrated funds whose success is tied to stock picking.
- The expense is a critical factor in all funds, but particularly index funds.
- This rating system does not replace the Morningstar® star system but rather supplements it.
- Finally, there are skeptics of this rating system. We think it may take some time to evaluate the effectiveness of this forward rating system.