MARKET REVIEW
SECOND QUARTER, 2018

INDEX	2ND QUARTER %	1 YEAR %	3 YEAR %	5 YEAR %
Dow Jones Industrials	1.26	16.31	14.07	12.96
NASDAQ Composite	6.31	22.31	14.62	17.15
Standard & Poor's 500	3.43	14.37	11.93	13.42
Russell 1000	3.57	14.54	11.64	13.37
Russell Midcap	2.82	12.33	9.58	12.22
Russell 2000	7.75	17.57	10.96	12.46
BBgBarc US Aggregate Bond	-0.16	-0.40	1.72	2.27
MSCI World ex. US	-0.75	7.04	4.87	6.23
MSCI Emerging Markets	-7.96	8.20	5.60	5.01
COUNTY OF SAN BERNARDINO 457(b) PLAN PERFORMANCE	**2.75**	**13.47**	**9.96**	**11.67**
COUNTY OF SAN BERNARDINO 401(k) PLAN PERFORMANCE	**2.98**	**13.96**	**10.29**	**11.92**
COUNTY OF SAN BERNARDINO RMT PLAN PERFORMANCE	**1.35**	**9.60**	**7.78**	**10.52**

- U.S. equity markets advanced 3.9% (Russell 3000) on solid earnings, economic growth and tightening labor market.
- International equities underperformed domestic equities with a 2.6% loss over the quarter (MSCI ACWI ex. U.S.) on trade tensions, moderating growth and a stronger dollar.
- The U.S. fixed income market posted a 0.2% loss (Barclays Aggregate) as interest rates increased modestly. Additionally, the yield curve continued to flatten during the quarter.
- Unemployment fell to 3.8% in May, which marked an 18-year low.
- First quarter GDP growth was reported at 2%. Second quarter GDP growth is expected to have accelerated from that level.
- Large growth continued to outperform large value this quarter with the Russell 1000 Growth outperforming the Russell 1000 Value by 4.6%.

- As trade tensions escalated, U.S. small companies outperformed large caps. Small companies typically derive a larger percentage of revenues domestically. Therefore, they are more insulated from trade wars and are also larger beneficiaries of tax cuts.

Quarterly and year-to-date returns of the following indices: U.S. Equity (Russell 3000 Index), Fixed Income (Bloomberg Barclays U.S. Aggregate Bond Index), and International Equity (MSCI ACWI ex U.S. Index)

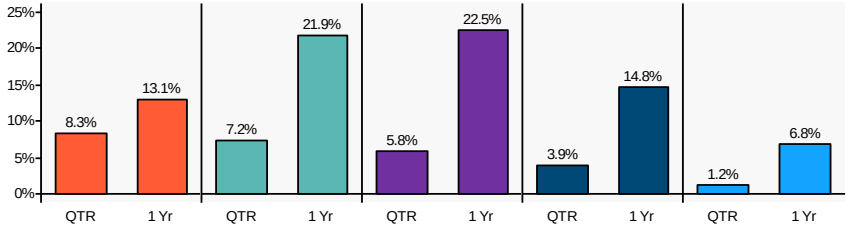
Market Review - U.S. Equity

Q2 2018

U.S. EQUITY

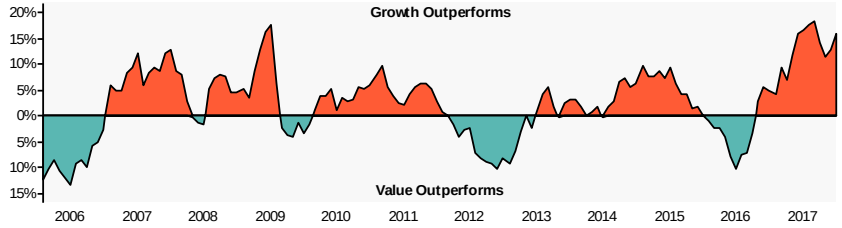
- The broad U.S. equity market, as measured by the Russell 3000 Index, was up 3.9% for the quarter.
- The best performing U.S. equity index for the quarter was Russell 2000 Value, returning a positive 8.3%.
- The worst performing U.S. equity index for the quarter was Russell 1000 Value, returning a positive 1.2%

INDEX PERFORMANCE (sorted by trailing quarterly performance)



	QTR	YTD	1 Year	3 Years	5 Years	10 Years
Russell 2000 Value	8.3	5.4	13.1	11.2	11.2	9.9
Russell 2000 Growth	7.2	9.7	21.9	10.6	13.6	11.2
Russell 1000 Growth	5.8	7.3	22.5	15.0	16.4	11.8
Russell 3000	3.9	3.2	14.8	11.6	13.3	10.2
Russell 1000 Value	1.2	-1.7	6.8	8.3	10.3	8.5

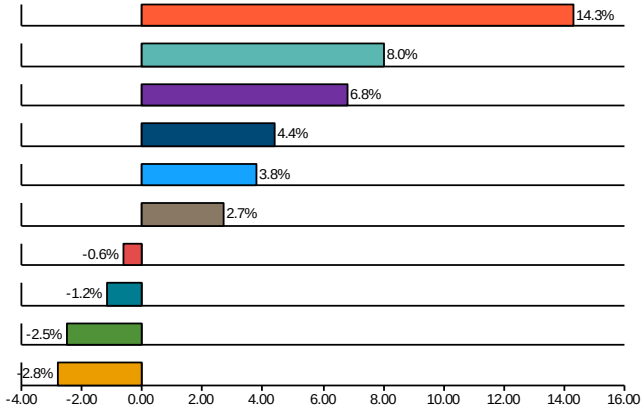
GROWTH VS. VALUE



Within the last year, growth stocks outperformed value stocks by 15.7%.
For the trailing quarter, growth stocks outperformed value stocks by 4.6%.

The graph above is plotted using a rolling one-year time period. Growth stock performance is represented by the Russell 1000 Growth Index. Value stock performance is represented by the Russell 1000 Value Index.

SECTOR (sorted by trailing quarterly performance)



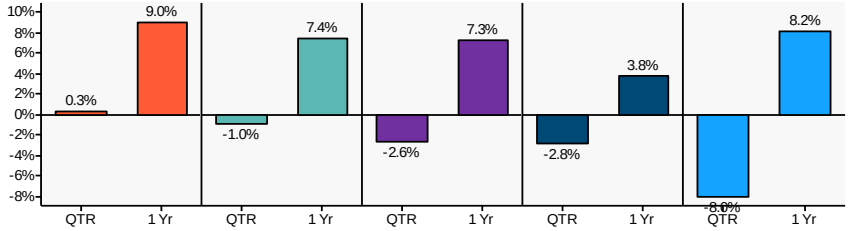
	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr
Energy	14.3	7.4	22.1	3.1	1.6	0.5
Consumer Discretionary	8.0	10.6	22.7	13.5	15.4	16.1
Information Technology	6.8	10.5	30.1	22.0	21.5	14.5
Utilities	4.4	0.9	4.4	12.5	10.9	7.5
Health Care	3.8	3.3	8.6	6.5	14.4	13.2
Materials	2.7	-2.6	10.1	9.5	11.1	6.3
Telecommunication Svcs.	-0.6	-8.0	1.4	3.8	3.8	6.0
Consumer Staples	-1.2	-8.1	-3.3	5.5	8.3	10.2
Industrials	-2.5	-4.0	6.8	11.6	12.8	10.0
Financials	-2.8	-3.4	10.0	12.9	13.4	7.6

Source: S&P 1500 Sector Indices

INTERNATIONAL EQUITY

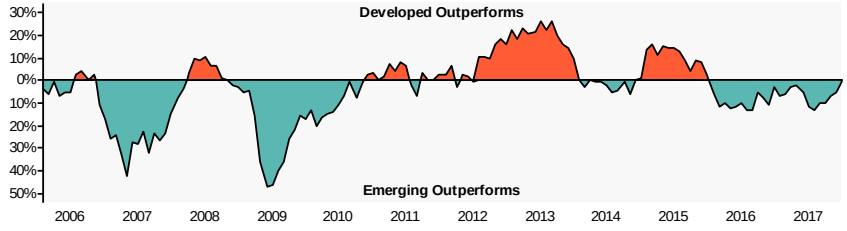
- Developed international equity returned a negative 1% in the last quarter (MSCI EAFE).
- Emerging market equity, a riskier asset class focused in developing markets, posted a negative 8% return (MSCI Emerging Markets Index).

INDEX PERFORMANCE (sorted by trailing quarterly performance)



	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr
MSCI EAFE Large Growth	0.3	-0.7	9.0	5.9	7.0	3.3
MSCI EAFE	-1.0	-2.4	7.4	5.4	6.9	3.3
MSCI ACWI ex US	-2.6	-3.8	7.3	5.1	6.0	2.5
MSCI EAFE Large Value	-2.8	-4.8	3.8	2.7	4.8	1.6
MSCI Emg Markets	-8.0	-6.7	8.2	5.6	5.0	2.3

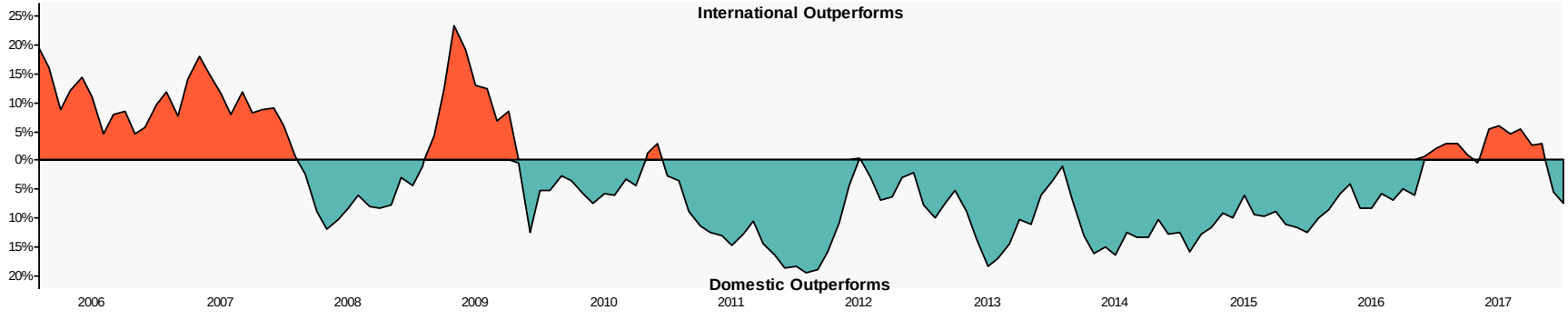
DEVELOPED VS. EMERGING MARKETS



Within the last year, emerging market stocks outperformed developed international stocks by 0.8%.
For the trailing quarter, developed international stocks outperformed emerging market stocks by 7%.

The graph above is plotted using a rolling one-year time period. Developed international stock performance is represented by the MSCI EAFE Index. Emerging market stock performance is represented by the MSCI Emerging Markets Index.

INTERNATIONAL VS. DOMESTIC

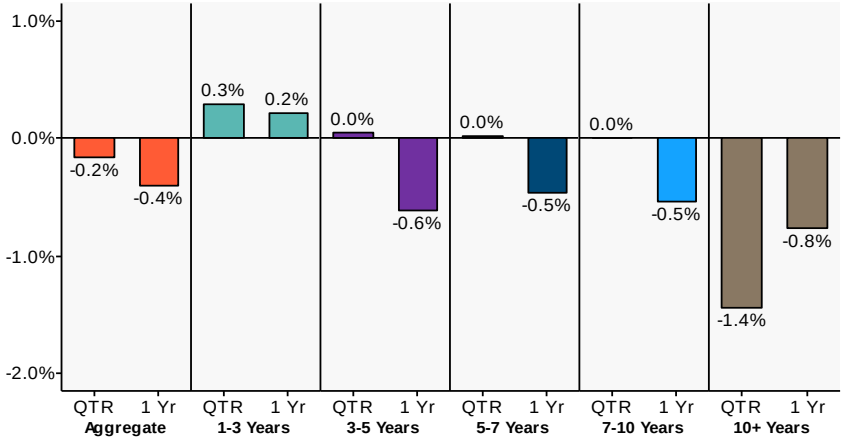


The graph above is plotted using a rolling one-year time period. International stock performance is represented by the the MSCI ACWI ex U.S. Index. Domestic stock performance is represented by the Russell 3000 Index.

FIXED INCOME

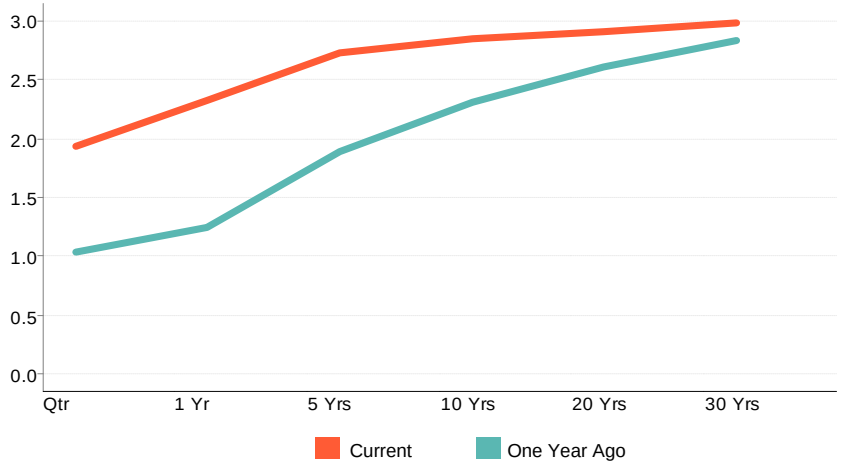
- The broad U.S. fixed income market returned a negative 0.2% (Bloomberg Barclays U.S. Aggregate) for the quarter.
- The best performing sector for the quarter was high yield corporate bonds, returning a positive 1%. The worst performing sector for the quarter was investment grade corporate bonds, returning a negative 1%.

PERFORMANCE BY MATURITY

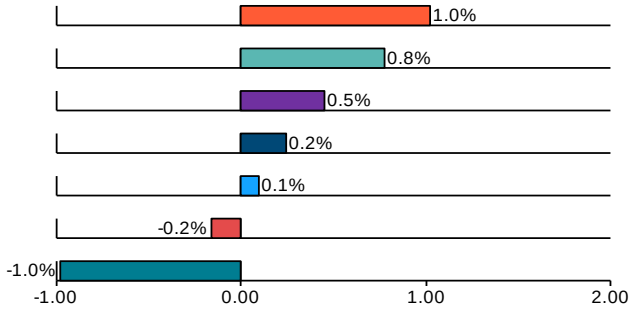


Source: Bloomberg Barclays U.S. Aggregate Indices

YIELD CURVE



SECTOR (sorted by trailing quarterly performance)



	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr
High Yield Corporate Bond	1.0	0.2	2.6	5.5	5.5	8.2
TIPS	0.8	0.0	2.1	1.9	1.7	3.0
Cash	0.5	0.8	1.4	0.7	0.4	0.4
Mortgage Backed Securities	0.2	-1.0	0.1	1.5	2.3	3.5
Government	0.1	-1.1	-0.6	1.0	1.5	2.9
Aggregate Bond	-0.2	-1.6	-0.4	1.7	2.3	3.7
Corporate Investment Grade	-1.0	-3.3	-0.8	3.1	3.5	5.4

Source: Bloomberg Barclays U.S. Indices

ASSET CLASS RETURNS

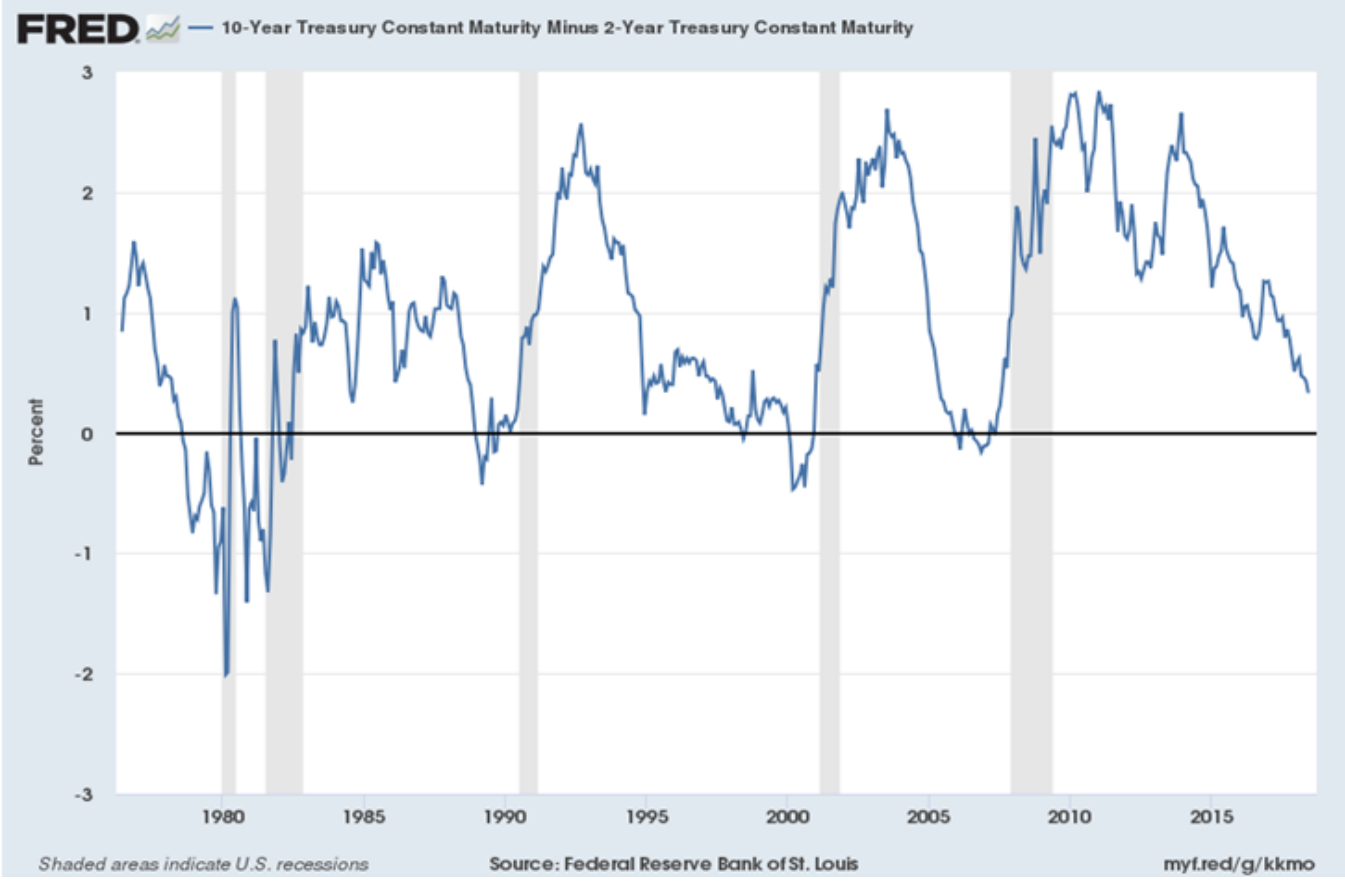
The following chart exhibits the volatility of asset class returns from year-to-year by ranking indices in order of performance, highlighting the importance of diversification.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	YTD
International 16.65	Fixed Income 5.24	International 41.45	Sm Growth 29.09	Fixed Income 7.84	Global REIT 23.73	Sm Growth 43.30	Global REIT 22.81	Large Growth 5.67	Sm Value 31.74	Large Growth 30.21	Sm Growth 9.70
Commodities 16.23	Cash 2.06	Large Growth 37.21	Sm Value 24.50	Large Growth 2.64	Sm Value 18.05	Sm Value 34.52	Large Value 13.45	Global REIT 0.59	Large Value 17.34	International 27.19	Large Growth 7.25
Large Growth 11.81	Balanced Index -22.91	Sm Growth 34.47	Global REIT 23.44	Global REIT 1.70	Large Value 17.51	Large Growth 33.48	Large Growth 13.05	Fixed Income 0.55	Commodities 11.77	Sm Growth 22.17	Sm Value 5.44
Balanced Index 8.68	Sm Value -28.92	Global REIT 33.68	Commodities 16.83	Balanced Index 0.87	International 16.83	Large Value 32.53	Balanced Index 6.61	Cash 0.05	Sm Growth 11.32	Balanced Index 15.46	Cash 0.81
Sm Growth 7.05	Commodities -35.65	Sm Value 20.58	Large Growth 16.71	Large Value 0.39	Large Growth 15.26	International 15.29	Fixed Income 5.97	Balanced Index -0.62	Balanced Index 7.28	Large Value 13.66	Global REIT 0.54
Fixed Income 6.97	Large Value -36.85	Large Value 19.69	Large Value 15.51	Cash 0.10	Sm Growth 14.59	Balanced Index 13.57	Sm Growth 5.60	Sm Growth -1.38	Large Growth 7.08	Global REIT 8.63	Balanced Index 0.26
Cash 5.00	Large Growth -38.44	Commodities 18.91	International 11.15	Sm Growth -2.91	Balanced Index 10.55	Global REIT 2.81	Sm Value 4.22	Large Value -3.83	Global REIT 6.90	Sm Value 7.84	Commodities 0.00
Large Value -0.17	Sm Growth -38.54	Balanced Index 18.87	Balanced Index 10.74	Sm Value -5.50	Fixed Income 4.22	Cash 0.07	Cash 0.03	International -5.66	International 4.50	Fixed Income 3.54	Fixed Income -1.62
Sm Value -9.78	Global REIT -45.04	Fixed Income 5.93	Fixed Income 6.54	Commodities -13.32	Cash 0.11	Fixed Income -2.02	International -3.87	Sm Value -7.47	Fixed Income 2.65	Commodities 1.70	Large Value -1.69
Global REIT -11.13	International -45.53	Cash 0.21	Cash 0.13	International -13.71	Commodities -1.06	Commodities -9.52	Commodities -17.01	Commodities -24.66	Cash 0.33	Cash 0.86	International -3.77

- Large Value (Russell 1000 Value)
- Large Growth (Russell 1000 Growth)
- Small Value ((Russell 2000 Value)
- Balanced (40% Russell 3000, 40% Bloomberg Barclay's U.S. Aggregate, 20% MSCI ACWI ex US)
- Small Growth (Russell 2000 Growth)
- International ((MSCI ACWI ex-US))
- Fixed Income (Bloomberg Barclays Agg)
- Global REIT (S&P Global REIT)
- Commodities (Bloomberg Commodities)
- Cash (Merrill Lynch 3-Mo T-Bill)

Flattening Yield Curve

The Federal Reserve Economic Data chart illustrates the difference between 10-year Treasury yields and 2-year yields over time. The higher the line, the steeper the yield curve. A steeper yield curve has historically signaled market participant expectations for robust economic growth. The current flattening yield curve is influenced by the structural market dynamics of the Fed pushing up short-term rates while strong demand for long-term bonds from central banks and pensions hold down long-term rates.



Performance of indexes reflects the unmanaged result for the market segment the selected stocks represent. Indexes are unmanaged and not available for direct investment.
Citigroup Corporate Bond is an index which serves as a benchmark for corporate bond performance. You cannot invest directly in an index.

Citigroup Mortgage Master is an index which serves as a benchmark for U.S. mortgage-backed securities performance.

Citigroup WGBI Index is an index which serves as a benchmark for global bond performance, including 22 different government bond markets.

Credit Suisse High Yield Index is an unmanaged, trader priced index constructed to mirror the characteristics of the high yield bond market.

BC (Barclays Capital) U.S. Aggregate Bond Index represents securities that are U. S., domestic, taxable, and dollar denominated. The index covers the U. S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

BC Credit Bond Index includes publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered.

BC U.S. Corporate Investment Grade represents investment grade corporate securities that are U. S., domestic, taxable, and dollar denominated.

BC High Yield Corporate Bond represents below investment grade corporate securities that are U. S., domestic, taxable, and dollar denominated.

BC TIPS Index includes publicly issued U.S. government treasury inflation protected securities that meet the specified maturity, liquidity and other requirements.

BC Mortgage Backed Securities covers agency mortgage-backed pass-through securities (both fixed-rate and hybrid ARMs) issued by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

BC Government Index includes publicly issued U.S. government securities that meet the specified maturity, liquidity and other requirements.

BarCap U.S. Aggregate 1-3 Yr. TR USD Index represents securities in the BC U.S. Aggregate Index that have maturity dates over the next 1 to 3 years.

BarCap U.S. Aggregate 3-5 Yr. TR USD Index represents securities in the BC U.S. Aggregate Index that have maturity dates over the next 3 to 5 years.

BarCap U.S. Aggregate 5-7 Yr. TR USD Index represents securities in the BC U.S. Aggregate Index that have maturity dates over the next 5-7 years.

BarCap U.S. Aggregate 7-10 Yr. TR USD Index represents securities in the BC U.S. Aggregate Index that have maturity dates over the next 7 to 10 years.

BarCap U.S. Aggregate 10+ Yr. TR USD Index represents securities in the BC U.S. Aggregate Index that have maturity dates over 10 years.

DJW 5000 (Full Cap) Index measures the performance of all U.S. common equity securities, and serves as an index of all stock trades in the United States.

MSCI FI Emerging Markets is a rules-based index which serves as a benchmark for emerging country fixed income performance.

MSCI FI EAFE International is a rules-based index which serves as a benchmark for developed international country fixed income performance.

MSCI EAFE Index is listed for foreign stock funds (EAFE refers to Europe, Australia, and Far East). Widely accepted as a benchmark for international stock performance, it is an aggregate of 21 individual country indexes.

MSCI EAFE Large Value represents the large cap value stocks within the MSCI EAFE Index.

MSCI EAFE Large Growth represents the large cap growth stocks within the MSCI EAFE Index.

MSCI EM (Emerging Markets) Index serves as a benchmark for each emerging country. The average size of these companies is (U.S.) $400 million, as compared with $300 billion for those companies in the World index.

MSCI World Index is a rules-based index that serves as a benchmark for the developed global equity markets.

MSCI Europe ex UK Index is a rules-based index that serves as a benchmark for the Europe's equity markets, excluding the United Kingdom.

MSCI Pacific ex Japan Index is a rules-based index that serves as a benchmark for Asia Pacific's equity markets, excluding Japan.

MSCI United Kingdom Index is a rules-based index that serves as a benchmark for the United Kindgom's equity markets.

MSCI Japan is a rules-based index that serves as a benchmark for Japan's equity markets.

Nareit All Reit Index includes all tax-qualified REITs with common shares that trade on the New York Stock Exchange, the American Stock Exchange or the NASDAQ National Market List.

3-Month T-bills (90 Day T-Bill Index) are government-backed short-term investments considered to be risk-free and as good as cash because the maturity is only three months.

Russell 1000 Growth Index is a market-capitalization weighted index of those firms in the Russell 1000 with higher price-to-book ratios and higher forecasted growth values.

Russell 1000 Value Index is a market-capitalization weighted index of those firms in the Russell 1000 with lower price-to-book ratios and lower forecasted growth values.

Russell Top 200 Growth Index is a market-capitalization weighted index of those firms in the Russell Top 200 with higher price-to-book ratios and higher forecasted growth values.

Russell Top 200 Value Index is a market-capitalization weighted index of those firms in the Russell Top 200 with lower price-to-book ratios and lower forecasted growth values.

Russell 2000 Growth Index is a market-weighted total return index that measures the performance of companies within the Russell 2000 Index having higher price-to-book ratio and higher forecasted growth values.

Russell 2000 Index consists of the smallest 2000 companies in the Russell 3000 Index, representing approximately 7% of the Russell 3000 total market capitalization.

Russell 2000 Value Index is a market-weighted total return index that measures the performance of companies within the Russell 2000 Index having lower price-to-book ratios and lower forecasted growth values.

Russell MidCap Growth Index is a market-weighted total return index that measures the performance of companies within the Russell MidCap Index having higher price-to-book ratios and higher forecasted growth values.

Russell Mid-Cap Index includes firms 201 through 1000, based on market capitalization, from the Russell 3000 Index.

Russell MidCap Value Index is a market-weighted total return index that measures the performance of companies within the Russell MidCap index having lower price-to-book ratios and lower forecasted growth values.

Russell Top 200 Index consists of the 200 largest securities in the Russell 3000 Index.

Russell 3000 Index is a market-capitalization weighted index, consisting of 3,000 U.S. common equity securities, reflective of the broad U.S. equity market.

Salomo n 1-10 Yr. Governments is an index which serves as a benchmark for U.S. Government bonds with maturities ranging from 1 to 10 years.

S&P 500 Index measures the performance of the largest 500 U.S. common equity securities, and serves as an index of large cap stocks traded in the United States.

S&P 1500 Energy Index measures the performance of the energy sector in the S&P 1500 Index.

S&P 1500 Industrials measures the performance of the industrial sector in the S&P 1500 Index.

S&P 1500 Financials measures the performance of the financials sector in the S&P 1500 Index.

S&P 1500 Utilities measures the performance of the utilities sector in the S&P 1500 Index.

S&P 1500 Consumer Discretionary Index measures the performance of the consumer discretionary sector in the S&P 1500 Index.

S&P 1500 Consumer Staples Index measures the performance of the consumer staples sector in the S&P 1500 Index.

S&P 1500 Information Technology measures the performance of the information technology sector in the S&P 1500 Index.

S&P 1500 Materials measures the performance of the materials sector in the S&P1500 Index.

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