MARKET REVIEW
THIRD QUARTER, 2016

INDEX	3RD QUARTER %	1 YEAR %	3 YEAR %	5 YEAR %
Dow Jones Industrial	2.78	15.46	9.23	13.77
NASDAQ Composite	9.69	14.97	12.09	17.07
Standard & Poor's 500	3.85	15.43	11.16	16.37
Russell 1000	4.03	14.93	10.78	16.41
Russell Midcap	4.52	14.25	9.70	16.67
Russell 2000	9.05	15.47	6.71	15.82
Barclay US Aggregate Bond	0.46	5.19	4.03	3.08
MSCI World ex. US	6.29	7.16	0.33	6.89
MSCI Emerging Markets	9.03	16.78	-0.56	3.03
COUNTY OF SAN BERNARDINO 457(b) PLAN PERFORMANCE	**5.02**	**12.77**	**7.98**	**13.92**
COUNTY OF SAN BERNARDINO 401(k) PLAN PERFORMANCE	**5.10**	**13.10**	**8.35**	**14.35**
COUNTY OF SAN BERNARDINO RMT PLAN PERFORMANCE	**4.10**	**11.24**	**6.86**	**11.46**

Rates began to drift higher over the third quarter, sparking some divergence in the U.S. equity and fixed income markets, both of which moved closer together over the first half of the year. While the broad U.S. fixed income market did post a positive, albeit, small 0.5 percent return for the quarter (Barclays Aggregate), U.S. Government bonds turned negative as a result of rising rates. Yields on the 10-year Treasury rose 12 basis points over the quarter, finishing at 1.61 percent. Even with the rise they continue to remain at historically low levels. U.S. equities on the other had posted very strong returns, finishing up 4.4 percent (Russell 3000) for the quarter. International equities fared even better, outperforming their U.S. equity counterparts by more than 200 basis points, returning a positive 6.5 percent (MSCI EAFE) for the quarter.

Brexit was seemingly in the rear view mirror as the global capital markets posted strong results over the third quarter. The quantitative easing employed by many foreign central banks not only helped displace some concerns about Brexit, but also likely helped fuel additional market gains. Yields in many foreign countries continue to be close to zero or even negative, making equities relatively attractive. Growth in many of these foreign economies, however, has been uneven at best. This has been in contrast to the U.S., where the Federal Reserve (Fed) has indicated a strengthening U.S. labor market and a faster pace of economic activity (over the first half of the year). In the third quarter, for example, initial claims for unemployment benefits hit 81 weeks below the 300,000 mark, making it the longest stretch since 1970. While there was no movement by the Fed on rates at their September meeting, indications from Fed members over the quarter pointed to a rate hike by the end of the year.

Unless there is strong evidence of breakout growth or inflation, the Fed will likely pause on any rate action in November. The Fed also does not want to be seen or characterized as politically motivated, another reason why any moves in November are unlikely, as their meeting is only days before the presidential election. Most investors are anticipating a Fed rate move in December. In fact, the odds of a December rate hike have already been priced into the markets. As the election approaches, the uncertainty of the outcome may spark some short-term volatility. While this may unsettle some market participants, historically, there has been little advantage to being out of the market when a certain party, Democrat or Republican, has been in office. Productivity and growth will continue to drive the markets over the longer term, and this time should be no different.

U.S. Equity	International Equity	Fixed Income
U.S. equity posted a positive 4.4 percent return for the quarter (Russell 3000 Index). All U.S. equity styles posted positive returns for the quarter. Small cap stocks outperformed large cap stocks for the quarter. Small growth was the best performing U.S. equity style, posting a positive 9.2 percent return (Russell 2000 Growth). Large value was the worst performing style, posting a positive 3.5 percent return (Russell 1000 Value).	Developed international equity outperformed U.S. equity over the quarter, returning a positive 6.5 percent (MSCI EAFE). All international equity styles were positive for the quarter. The best performing region for the quarter was Emerging Markets which returned a positive 9.2 percent (MSCI EM). The United Kingdom was the worst performing region, returning a positive 4.0 percent (MSCI United Kingdom) for the quarter.	The broad U.S. fixed income market was essentially flat for the quarter, posting a positive 0.5 percent return (Barclays U.S. Aggregate). High Yield was the best performing sector, returning a positive 5.6 percent (BC High Yield). Government, along with Muni, were the worst performing sectors, returning a negative 0.3 percent (BC Government, BC Muni). Global fixed income just slightly outperformed the broad U.S. fixed income market, returning a positive 0.7 percent (BofA ML Global Broad Market) for the quarter.

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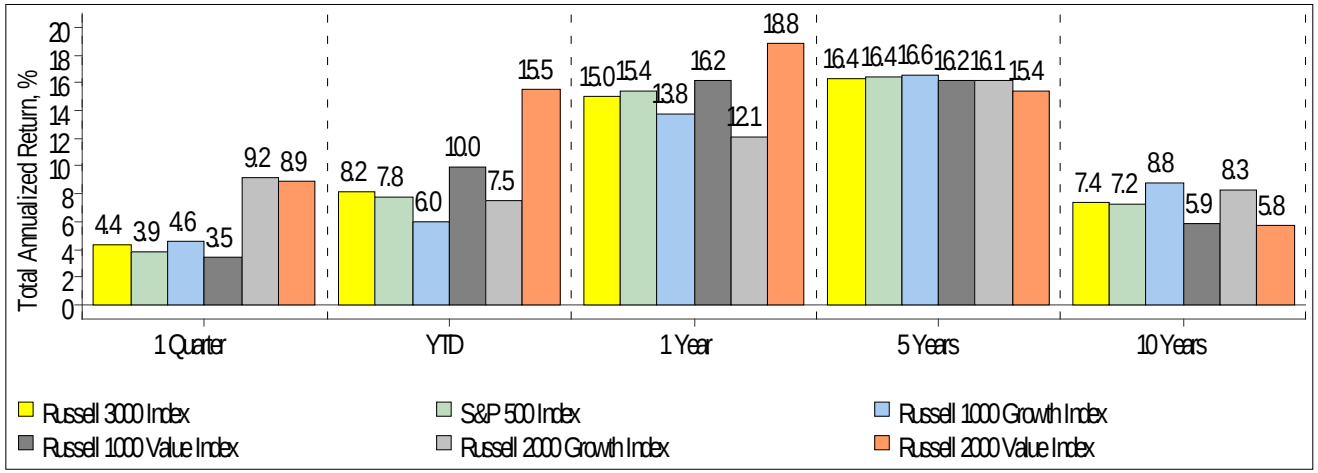
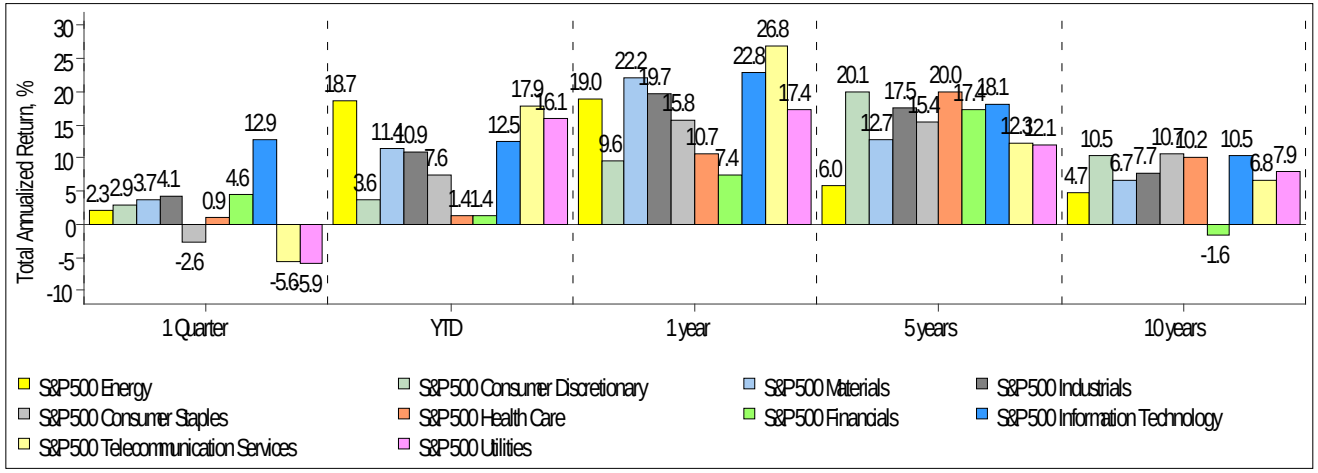
Domestic Equity Overview

- All U.S. equity styles were positive for the quarter
- Small outperformed Large
  - Small growth was the best performing style, up 9.2%
  - Large value was the worst performing style, up 3.5%
- Best performing sectors for the quarter:
  - Info Technology, up 12.9%
  - Financials, up 4.6%
- Worst performing sectors for the quarter:
  - Utilities, down 5.9%
  - Telecommunication Services, down 5.6%

U.S. Equity Index Performance



U.S. Equity Sector Performance



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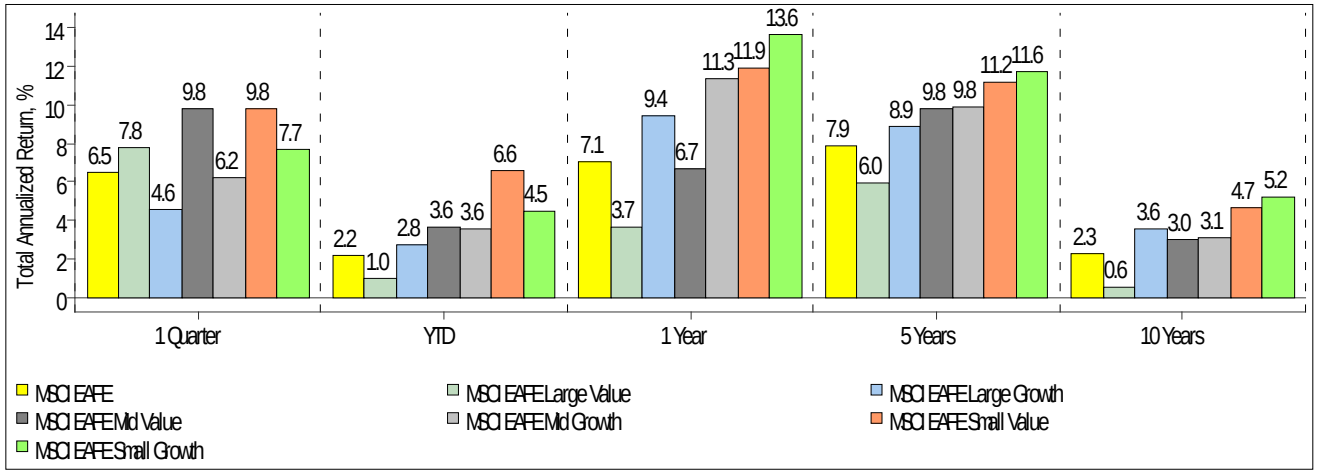
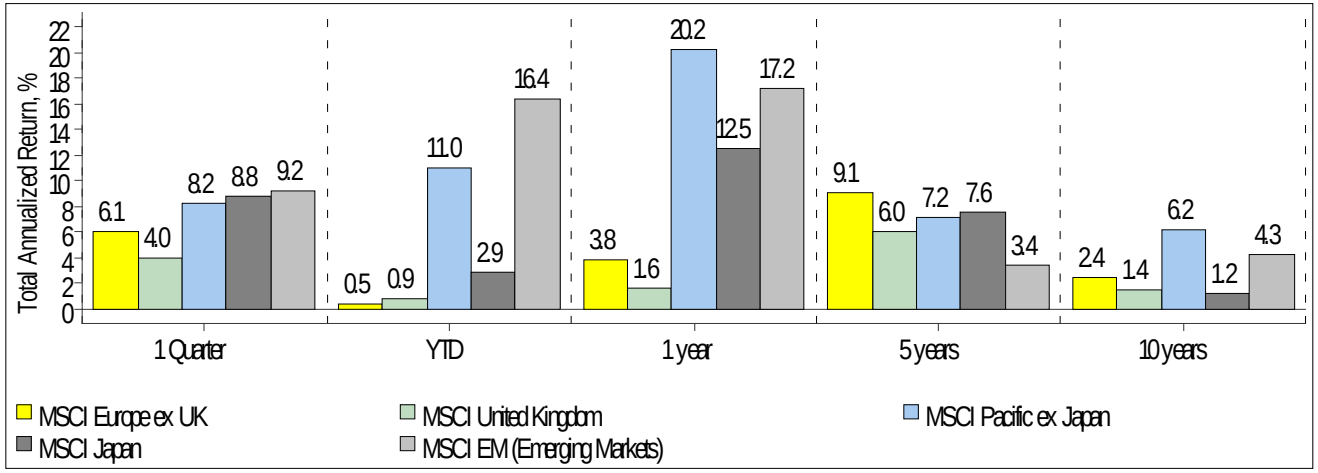
International Equity Overview

- International equity styles were all positive for the quarter
- The best performing international equity styles for the quarter:
  - Mid value, up 9.8%
  - Small value, up 9.8%
- The worst performing style for the quarter:
  - Large growth, up 4.6%
- Best performing region for the quarter:
  - Emerging Markets, up 9.2%
- Worst performing region for the quarter:
  - United Kingdom, up 4.0%

International Index Performance by Style and Capitalization



International Index Performance by Region



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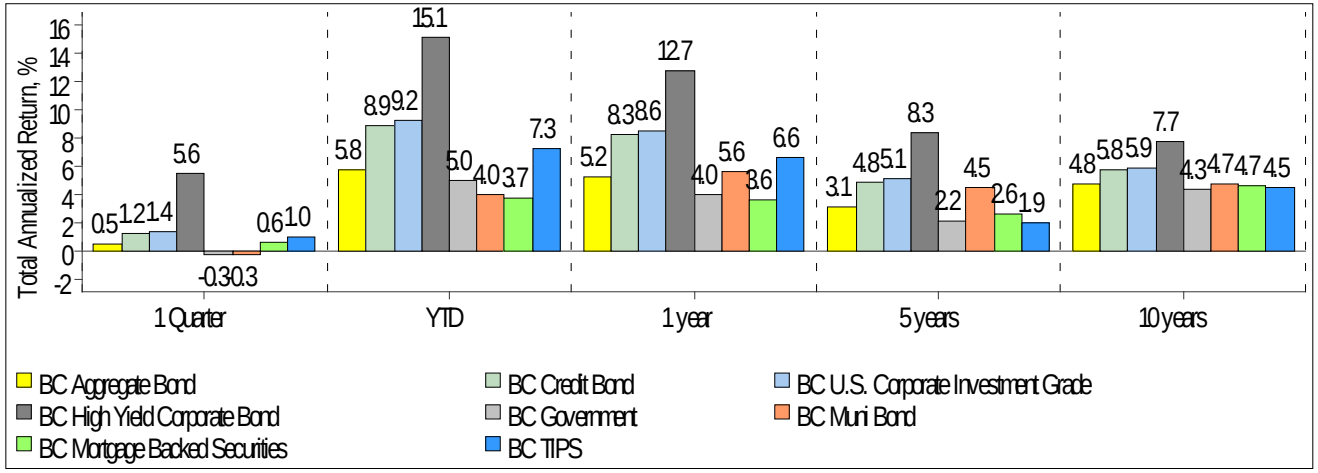
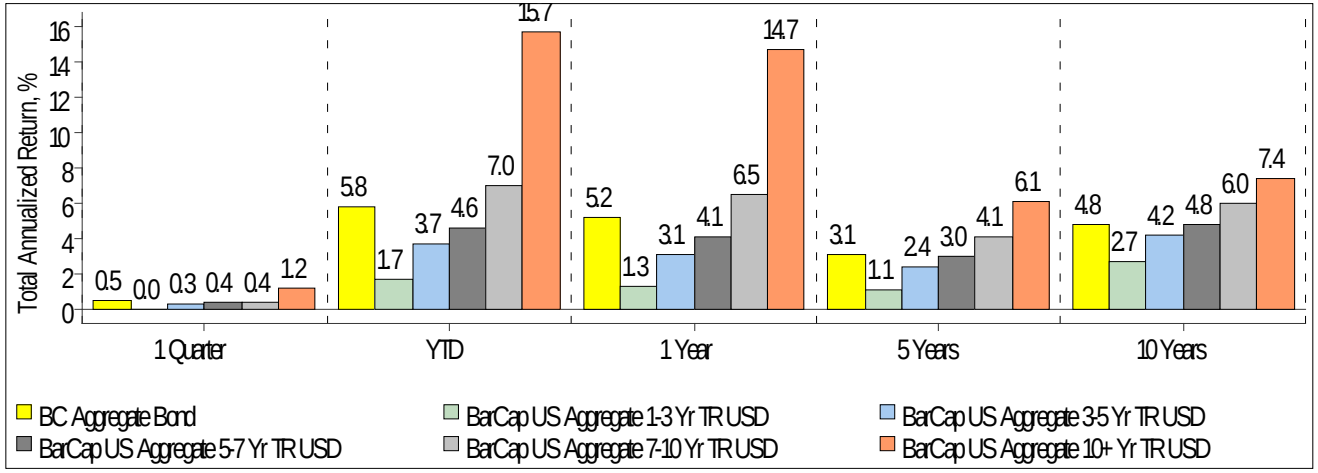
Fixed Income Overview

- Fixed income was flat across many sectors as rates drifted higher
- The best performing sector for the quarter:
  - High Yield, up 5.6%
- The worst performing sectors for the quarter:
  - Gov't, down 0.3%
  - Muni, down 0.3%
- Performance was positive across all maturities as rates rose, with yield contributing the most to total return

Fixed Income Sector Performance



Fixed Income Performance by Maturity



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Kaleidoscope: Changing Leadership

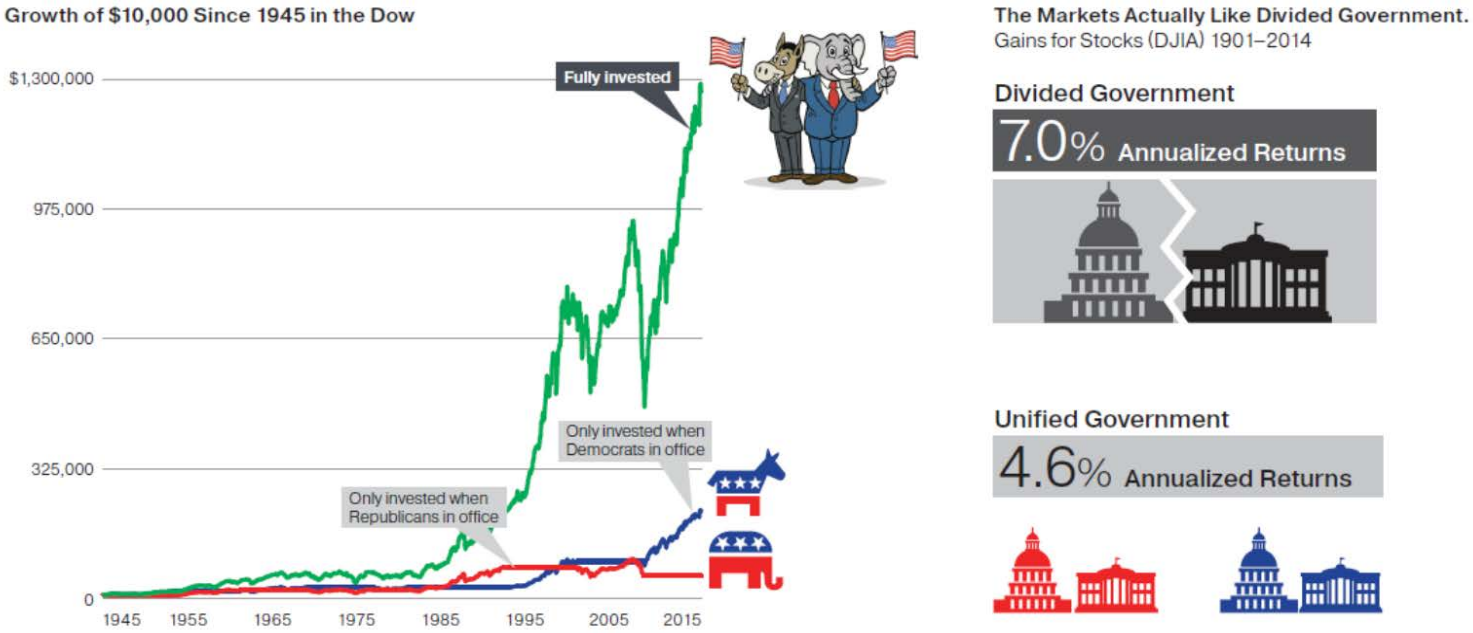
The following chart exhibits the volatility of asset class returns from year to year by ranking certain key indices in order of performance. Also included in the chart is a balanced index, which represents a mix of U.S. equity, international equity and fixed income indices. The chart graphically displays the volatility of asset class returns from year to year, highlighting the importance of diversification. Top-performing asset classes in a given year do not tend to repeat their stellar performance in subsequent years. Accordingly, the worst performing asset classes in a given year often tend to outperform in future years. Said differently, past performance is not a good indicator of future performance. Diversification, demonstrated by the balanced index, helps reduce volatility and the uncertainty that accompanies trying to pick the best asset class (or avoid the worst) in any given year.

2005	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*	*YTD*
14.02 MSCI EAFE USD	26.86 MSCI EAFE USD	11.81 Russell 1000 Growth	5.24 BarCap US Agg	37.21 Russell 1000 Growth	29.09 Russell 2000 Growth	7.84 BarCap US Agg	18.05 Russell 2000 Value	43.30 Russell 2000 Growth	13.45 Russell 1000 Value	5.67 Russell 1000 Growth	15.49 Russell 2000 Value
7.05 Russell 1000 Value	23.48 Russell 2000 Value	11.63 MSCI EAFE USD	-22.48 Balanced Index*	34.47 Russell 2000 Growth	24.50 Russell 2000 Value	3.04 Balanced Index*	17.90 MSCI EAFE USD	34.52 Russell 2000 Value	13.05 Russell 1000 Growth	0.59 Balanced Index*	10.00 Russell 1000 Value
5.45 Balanced Index*	22.25 Russell 1000 Value	7.05 Russell 2000 Growth	-28.92 Russell 2000 Value	32.46 MSCI EAFE USD	16.71 Russell 1000 Growth	2.64 Russell 1000 Growth	17.51 Russell 1000 Value	33.48 Russell 1000 Growth	8.15 Balanced Index*	0.55 BarCap US Agg	7.48 Russell 2000 Growth
5.26 Russell 1000 Growth	13.35 Russell 2000 Growth	6.97 BarCap US Agg	-36.85 Russell 1000 Value	20.58 Russell 2000 Value	15.51 Russell 1000 Value	0.39 Russell 1000 Value	15.26 Russell 1000 Growth	32.53 Russell 1000 Value	5.97 BarCap US Agg	-0.39 MSCI EAFE USD	6.66 Balanced Index*
4.71 Russell 2000 Value	12.17 Balanced Index*	6.61 Balanced Index*	-38.44 Russell 1000 Growth	20.05 Balanced Index*	12.47 Balanced Index*	-2.91 Russell 2000 Growth	14.59 Russell 2000 Growth	23.29 MSCI EAFE USD	5.60 Russell 2000 Growth	-1.38 Russell 2000 Growth	6.00 Russell 1000 Growth
4.15 Russell 2000 Growth	9.07 Russell 1000 Growth	-0.17 Russell 1000 Value	-38.54 Russell 2000 Growth	19.69 Russell 1000 Value	8.21 MSCI EAFE USD	-5.50 Russell 2000 Value	11.79 Balanced Index*	17.42 Balanced Index*	4.22 Russell 2000 Value	-3.83 Russell 1000 Value	5.80 BarCap US Agg
2.43 BarCap US Agg	4.33 BarCap US Agg	-9.78 Russell 2000 Value	-43.06 MSCI EAFE USD	5.93 BarCap US Agg	6.54 BarCap US Agg	-11.73 MSCI EAFE USD	4.22 BarCap US Agg	-2.02 BarCap US Agg	-4.48 MSCI EAFE USD	-7.47 Russell 2000 Value	2.20 MSCI EAFE USD

**Balanced Index comprised of 50% Russell 3000, 10% MSCI EAFE and 40% Barclays Capital U.S. Aggregate, rebalanced quarterly.*

Elections and the Markets

The below chart represents the growth of $10,000 in the Dow since 1945 compared to the growth of $10,000 if only invested when a Republican was in office or when a Democrat was in office. Clearly, being fully invested the entire time with either party in office achieved the greatest growth. Interestingly, divided government (e.g. Democrats hold the presidency and Republicans hold congress) has yielded higher returns as opposed to when the same party was in both.



Source: https://www.oppenheimerfunds.com/edist-images/article/2016-elections-clear-election-choice_620x349.jpg

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Disclosures

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 Muni Bond covers the USD-denominated long term tax exempt bond market with four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds.

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 EAFE Mid Value represents the mid cap value stocks within the MSCI EAFE Index.

MSCI EAFE Mid Growth represents the mid cap growth stocks within the MSCI EAFE Index.

MSCI EAFE Small Value represents the small cap value stocks within the MSCI EAFE Index.

MSCI EAFE Small Growth represents the small 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 500 Energy Index measures the performance of the energy sector in the S&P 500 Index.

S&P 500 Industrials measures the performance of the industrial sector in the S&P 500 Index.

S&P 500 Financials measures the performance of the financials sector in the S&P 500 Index.

S&P 500 Utilities measures the performance of the utilities sector in the S&P 500 Index.

S&P 500 Consumer Discretionary Index measures the performance of the consumer discretionary sector in the S&P 500 Index.

S&P 500 Consumer Staples Index measures the performance of the consumer staples sector in the S&P 500 Index.

S&P 500 Information Technology measures the performance of the information technology sector in the S&P 500 Index.

S&P 500 Materials measures the performance of the materials sector in the S&P 500 Index.

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