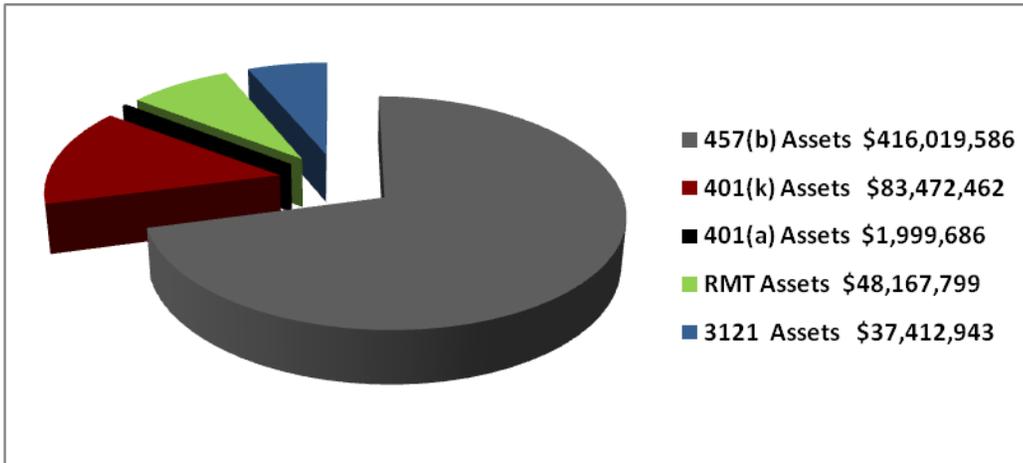


**COUNTY OF SAN BERNARDINO
EXECUTIVE SUMMARY
DEFINED CONTRIBUTION PLANS
1ST QUARTER 2012**

	1 ST QUARTER %	1 YEAR %	3 YEAR %	5 YEAR %
457 Plans Performance	11.73	1.92	22.07	3.06
Customized Benchmark	10.79	3.60	21.48	2.06
DIFFERENCE	0.94	-1.68	0.58	1.00
401(k) Plan Performance	11.83	1.75	22.17	3.15
Customized Benchmark	10.53	4.04	21.34	2.10
DIFFERENCE	1.30	-2.29	0.83	1.05
Retirement Medical Trust	11.14	3.20	22.87	4.17
Customized Benchmark	10.41	4.50	22.14	3.77
DIFFERENCE	0.73	-1.30	0.72	0.40

PORTFOLIO COMPOSITION AND ANALYSIS:



The total assets in all of the County of San Bernardino plans have increased from \$550 million as of December 31, 2011 to \$587 million as of March 31, 2012. The increase was due to the appreciation of mutual fund assets by almost \$27 million in the 457 Plan and \$5.8 million in the 401(k), as well as deferrals / contributions. The appreciation in the first quarter was 50% greater than the appreciation in the fourth quarter, 2011. In the last six months the assets in the defined contribution plans have increased by \$67 million.

457 assets in the Ameritrade Self Directed Brokerage Account, (SDBA), are now \$1.76 million; about \$80,000 less than the previous quarter. The 401(k) assets in the SDBA declined from \$835,000 as of December 31, 2011 to \$495,000.



457 PLAN CASH POSITION:

The stable value crediting rate for the first quarter was 2.5% which is the same rate being credited in the second quarter, 2012. For the quarter over \$698,000 transferred from the 457 mutual funds to the fixed interest account. In the previous quarter the amount of transferred assets into the Stabilizer was \$3.26 million. The percentage of assets in the stabilizer declined from 37.57% in the fourth quarter to 34.84%. The decline was due to the appreciation of mutual fund assets.

401(k) PLAN CASH POSITION:

The assets in the Stabilizer decreased from 31.42% to 28.62%. The decrease in percent from the previous quarter was almost entirely from equity appreciation in the mutual funds. \$137,000 moved from the stabilizer to the mutual funds.

RETIREMENT MEDICAL TRUST CASH POSITION:

There was a small decrease in the percentage of assets in the fixed interest account, with 78.94% now in the ING General account, down from 80.69% in the third quarter.

457 PLANS MUTUAL FUNDS POSITION:

First quarter performance was strong and outperformed the customized benchmark. In fact, the portfolio outperformed the customized benchmarks in three of the four measurable periods for all defined contribution plans. The underperformance to the customized benchmark over the one year period is due primarily to the high mutual fund allocation to Growth Fund of America, 20.20% Columbia Diversified Equity, 5.85% and Columbia Midcap Value with 5.11% of the assets.

The Sharpe Ratio is a tool that helps determine if the risk the fund or portfolio is taking to achieve the performance is worthwhile. The Sharpe Ratio for the 457 increased from a fourth quarter ratio of 0.82 to 1.29. The benchmark is 1.31. Growth Fund of America has a Sharpe Ratio of 1.14 and due to its heavy weight in the portfolio is a key reason for the lower than benchmark Sharpe Ratio.

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 16.50 which is higher than the benchmark of 15.77. The three year Standard Deviation actually improved due to the deletion of the first quarter 2009 statistics.



The Alpha, a measurement of the value added by the investment manager is -0.31. The Alpha was negatively impacted by Growth Fund of America with a negative Alpha of -4.93. 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 1.04, (over three years). The increase in the Beta from 1.02 is due to participants becoming less risk adverse. Participants transferred \$708,000 from the conservatively managed Growth Fund of America to two more volatile funds, Janus Overseas with transfers in of \$495,000 and Fidelity Leveraged Company Stock with an inflow of \$335,000.

401(k) MUTUAL FUNDS POSITION:

The underperformance in the one year period is due to the high mutual fund allocation to Growth Fund of America with 19.84% of the mutual fund assets, Columbia Diversified Equity Income with 8.93% and Columbia MidCap Value with 7.02% of the assets.

The Sharpe Ratio for the 401(k) portfolio was 0.82 and is now 1.30, which is lower than the benchmark of 1.34 (over three years). The three-year Standard Deviation for the portfolio is 16.48 which is higher than the benchmark of 15.34. The Alpha is 0.52 and the Beta is now 1.07, up from 1.03.

RETIREMENT MEDICAL TRUST (RMT) MUTUAL FUNDS POSITION:

The underperformance in the one year period is due to the high mutual fund allocation to Growth Fund of America with 16.83% and Pioneer Global High Yield with 6.12%% of the mutual fund assets of the mutual fund assets.

The Sharpe Ratio for the RMT portfolio is 1.42 which is minutely higher than the benchmark, 1.41. The three-year Standard Deviation for the portfolio is 15.40 which is higher than the benchmark of 14.98. The Alpha is 0.16 and the Beta is 1.02. With 10.23% of the assets ING Mid Cap Opportunities drives the RMT has a statistical advantage over the other defined contribution funds.



PERFORMANCE OF INDEX FUNDS VS. ACTIVELY MANAGED FUNDS:	1 ST QUARTER %	1 YEAR %	3 YEAR %	5 YEAR %
LARGE CAP				
Vanguard Institutional Index	12.58	8.52	23.44	2.04
American Funds Growth Fund of America	14.58	3.50	19.68	1.87
Wells Fargo Advantage Growth Fund Adm	19.46	14.43	35.77	11.79
Main Stay ICAP Select Equity	12.20	4.28	21.73	1.88
Parnassus Inv Equity Income	7.62	5.46	20.44	5.74
TIAA CREF G/I Ret	14.25	9.60	22.10	4.77
Columbia Div Equity Inc	11.98	0.45	21.89	0.27
Vanguard Institutional Index	12.58	8.52	23.44	2.04
MID CAP				
Vanguard MidCap Index Signal	13.42	2.71	28.90	2.99
Baron Growth	9.02	0.92	25.66	3.00
ING Mid Cap Opportunities	14.66	5.52	30.22	9.71
Fidelity Adv Lev Co	17.73	-2.52	33.33	1.77
Columbia MidCap Value	13.38	-2.71	26.49	1.28
Vanguard MidCap Index Signal	13.42	2.71	28.90	2.99
SMALL CAP				
Vanguard Small Cap Index	12.99	1.03	30.37	3.71
Royce Value Plus	15.12	-2.84	23.65	0.55
Perkins Small Cap Value T	8.15	-1.43	23.63	5.71
Invesco Van Kampen Small Cap Value	18.79	2.52	28.60	5.20



MUTUAL FUNDS OVERVIEW AND NARRATIVE:

LARGE CAP GROWTH:

FUND # 1	AMERICAN FUNDS GROWTH FUND OF AMERICA						AGTHX		
	ASSETS: \$54,302,614		BEST FIT INDEX: RUSSELL 1000 GROWTH			M* ANALYST RATING 			
	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	3.50	19.68	1.87	6.94	22.96	3.58	-3.44	-3.28	-1.71
	M*	MGR TENURE		BETA	ALPHA	SHARPE	3 YR STD DEV		
FUND STATISTICS	3	26.4		1.02	-4.93	1.14	16.96		
PEER AVERAGES		5.8		1.07	-1.68	1.24	18.03		

The first quarter produced a performance, 14.58%, that outpaced the S&P 500 by 1.99% but underperformed the Russell 1000 Growth index by 11 basis points, 0.11%. However, it trailed the peer group by 121 basis points. The two key drivers causing this fund to trail the peer group were the underweighting of the Technology sector and the more than double the exposure to foreign stocks.

The Technology sector had the second best performance in the first quarter and the MSCI World, ex U.S. Index produced a return that was 35% less than the Russell 1000 Growth Index. The narrowly defined Russell 1000 Growth Index had a one year performance of 11.0%, while the MSCI World, ex U.S had a negative return of 9.51%. The foreign stake was a benefit in the past, but has been a significant drain on performance over the last two years. The addition of a very experienced and successful international manager, Carl Kawaja, should bolster the foreign holdings. Carl co-manages the highly successful EuroPacific international fund.



RECOMMENDATION: Remain on Watch List due to performance.



FUND # 2	WELLS FARGO ADVANTAGE GROWTH			SGRKX		
	ASSETS: \$3,851,182	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	14.43	35.77	11.79	6.94	22.96	3.58	7.49	12.81	8.21

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	5	9.9	0.97	8.45	1.81	17.90
PEER AVERAGES		5.8	1.07	-1.68	1.24	18.03

The Wells Fargo Advantage Growth fund replaced Columbia Marsico 21st Century in this portfolio on 2/12/12. Returns have been exemplary over all measurable periods. The fund management team sticks to its all cap mandates but historically lands in the large cap growth space. That being said, 33% of holdings are in mid cap and 11% in small cap. The holdings in mid and small cap growth categories have helped boost performance against large cap growth peers over the past several years. The fund is heavier in technology than peer averages and it holds nearly 8% of assets in Apple.

RECOMMENDATION: No action at this time.

LARGE BLEND:

FUND # 3	MAINSTAY ICAP SELECT EQUITY I						ICSLX		
	ASSETS: \$3,123,109			BEST FIT INDEX: RUSSELL 1000			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	4.28	21.73	1.88	5.19	21.95	1.18	-0.91	-0.22	0.70
	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV			
FUND STATISTICS	4	14.3	0.94	0.24	1.28	16.39			
PEER AVERAGES		5.5	1.04	-2.05	1.24	17.32			

With a weighted-average market cap (WAMC) approaching \$75 million, this fund is in a class almost all its own. The WAMC is nearly twice the index and 25% larger than its peers. While returns have suffered a bit in 2011, the managers are very confident in their selection and process and have never had a five year period of underperformance.

RECOMMENDATION: No action at this time.



FUND # 4	PARNASSUS EQUITY INCOME INV	PRBLX
	ASSETS: \$7,371,403	BEST FIT INDEX: RUSSELL 1000
		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	5.46	20.44	5.74	5.19	21.95	1.18	0.27	-1.51	4.56

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	5	10.9	0.92	-0.43	1.33	14.78
PEER AVERAGES		5.5	1.04	-2.05	1.24	17.32

If only Apple made military equipment or sold alcohol and tobacco, then long time manager Todd Ahlsten might have a good reason for not owning it in this Socially Responsible fund. This fund has a great track record, but the relentless rise of Apple stock this year combined with the fact that this fund doesn't own it, has marred the more recent record. Last year Ahlsten had valuation concerns about Apple; the stock has almost doubled since. Still, the long term record of this fund is enviable and if/when Apple experiences some weakness, this fund may be able to claw its way back to being an out-performer.

RECOMMENDATION: No action at this time.



FUND # 5	TIAA-CREF GROWTH & INCOME RETIRE	TRGIX
	ASSETS: \$8,008,076	BEST FIT INDEX: RUSSELL 1000
		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	9.60	22.10	4.77	5.19	21.95	1.18	4.41	0.15	3.59

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	4	7.1	0.97	-1.01	1.31	16.29
PEER AVERAGES		5.5	1.04	-2.05	1.24	17.32

This fund has high turnover, a characteristic we typically frown upon, however the manager has done a very good job of picking stocks and has put together an enviable track record. While the fund is classified as a “blend” fund it certainly leans toward “growth” in its holdings. The stocks tend to be smaller than the category, but very close to the index (S&P 500). The fund is well diversified, though is currently overweight to Technology, which has helped in the past 15 months.

RECOMMENDATION: No action at this time.



FUND # 6	VANGUARD INSTITUTIONAL INDEX						VINIX		
	ASSETS: \$14,902,037			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	8.52	23.44	2.04	8.54	23.42	2.01	-0.02	0.02	0.03
	M*	MGR TENURE		BETA	ALPHA	SHARPE	3 YR STD DEV		
FUND STATISTICS	4	11.3		1.00	0.01	1.38	16.23		
PEER AVERAGES		n/a		1.00	0.00	1.44	16.23		

This large cap index fund performs well within acceptable tracking error and expense.

RECOMMENDATION: No action at this time.



LARGE VALUE:

FUND # 7	COLUMBIA DIVERSIFIED EQUITY INCOME	RSEDX
	ASSETS: \$15,697,684 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	0.45	21.89	0.27	4.07	21.31	-0.08	-3.62	0.58	0.35

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	3	8.3	1.07	-3.12	1.19	17.97
PEER AVERAGES		6.1	1.02	-2.03	1.24	16.95

This fund has a nice three (3) and five (5) year record but has struggled over the past twelve months. A large underweighting to Financial Services has accounted for some of this and very well be a source of return for this fund in the future. We do not see any fundamental changes in this fund's management and the rolling returns for both 36 and 60 month periods are impressive.

RECOMMENDATION: No action at this time.



MID CAP GROWTH:

FUND # 8	BARON GROWTH RETAIL	BGRFX
	ASSETS: \$14,502,551	BEST FIT INDEX: 61RUSSELL MID GR / 39R 2000 GR
		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	0.92	25.66	3.00	1.50	26.58	3.85	-0.58	-0.92	-0.85

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	3	17.3	0.75	2.75	1.33	18.44
PEER AVERAGES		5.8	1.18	-0.51	1.25	20.66

The driver in the small under performance is the lack of technology stocks in a market where the Technology sector has recently excelled. While this fund is categorized by Morningstar as a mid cap growth fund, we still believe it is mostly a small cap growth fund. The Weighted-Average Market Cap is about \$3 billion, which is clearly larger than the Small Cap Category of \$2 billion, but much smaller than the Mid Cap of \$7 billion. It is certainly bigger than the vast majority of small cap funds, but not clearly a mid cap fund. However, with about 60% of assets in mid cap classified stocks, the fund is teetering. Baron is essentially a SMID fund at this point, a small-mid hybrid. Given that small and mid growth funds have essentially had the same performance for the past decade, the distinction hasn't had much of an effect.

Returns have been reasonable, but not outstanding in the past few years. Ron Baron has been managing money for many years and through many different market environments and over most longer periods, this fund comes out ahead.



RECOMMENDATION: Place on Watch List due to investment performance.



FUND # 9	ING MID CAP OPPORTUNITIES	NMCIX
	ASSETS: \$8,462,049	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	5.52	30.22	9.71	2.07	25.98	4.07	3.45	4.24	5.64

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	5	6.8	0.93	2.52	1.51	18.75
PEER AVERAGES		5.8	1.14	-0.37	1.27	19.86

This fund continues to be one of the most consistent return generating funds in its category and, in fact, is the top rated fund among mid cap growth funds. However, this doesn't mean the fund won't go through periods of underperformance. While the fund has beaten its peers over every rolling five (5) year period since December of 2007, it had a nearly three (3) year-long streak of trailing its peers over five (5) year periods between 2004 and 2007. It is likely no coincidence that the fund began improving when the new manager took over in 2005.

RECOMMENDATION: No action at this time.



MID CAP BLEND:

FUND # 10	FIDELITY ADVISORS LEVERAGED COMPANY STOCK						FLVIX		
	ASSETS: \$3,178,615		BEST FIT INDEX: RUSSELL MIDCAP			M* ANALYST RATING: 			
	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	-2.52	33.33	1.77	0.36	26.00	2.03	-2.88	7.33	-0.26
	M*	MGR TENURE		BETA	ALPHA	SHARPE	3 YR STD DEV		
FUND STATISTICS	4	8.8		1.33	-4.94	1.19	27.28		
PEER AVERAGES		5.8		1.20	-1.47	1.24	20.60		

This fund was retained on the Watch List despite outperforming the peer group over the three year period. Through the first quarter this fund continues to trails the peer group in the one and five year measurable periods, although by less than the underperformance the previous quarter. The outperformance in the three year period is nearly double the outperformance of the fourth quarter.

The fund takes an aggressive stance with investing in companies with less than robust financial health. These are companies that pay a premium through the issuance of high yield debt to gain access to capital markets. Investment manager, Tom Soviero, has managed this fund since 2003 and has previously managed the high yield and multi-sectored bond funds for Fidelity. One strategy change Soviero has implemented is to retain companies in the portfolio who are climbing up the credit quality ladder from the high yield status. This strategy is expected to reduce volatility.

Performance through the first quarter, 2012 is very strong as it is outperforming the peer group by 520 basis points. Much of the outperformance comes from one stock that has appreciated by 34% in the first quarter. The stock is LyondeBasell Industries and is the number one holding, not in shares alone but in a combination of shares and price per share. Through appreciation and number of shares this stock represents 9.13% of the portfolio and is double the weight of the next largest holding. . LyondeBasell filed for chapter 11 bankruptcy protection in January, 2009 and d emerged from bankruptcy in April 2010. This is a typical holding for this fund.



RECOMMENDATION: Remain on Watch List due to investment performance.



FUND # 11	VANGUARD MIDCAP INDEX SIGNAL						VMISX		
	ASSETS: \$4,740,445		BEST FIT INDEX: MSCI US MIDCAP 450 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	2.71	28.90	2.99	1.27	27.14	1.46	1.44	1.76	1.53
	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV			
FUND STATISTICS	3	13.9	0.99	-0.49	1.39	19.72			
PEER AVERAGES		n/a	1.17	-0.23	1.37	19.72			

This mid cap index fund actually out performs peer averages in all measurable periods. While most mid cap index funds have between 50% and 60% mid cap holdings with the balance in small or large cap, this fund has nearly 90% in mid cap space. As a result, this fund will not always track peer index funds.

RECOMMENDATION: No action at this time.



MID CAP VALUE:

FUND # 12	COLUMBIA MID CAP VALUE OPPORTUNITY	RSCMX
	ASSETS: \$14,576,060 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	-2.71	26.49	1.28	0.94	26.20	1.50	-3.65	0.29	-0.22

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	3	9.2	1.06	-4.03	1.21	21.24
PEER AVERAGES		6.1	1.18	-1.00	1.27	20.06

Columbia is owned by Ameriprise who also owns Threadneedle, the company Diane Sobin (one of the original mid cap value managers) became affiliated with in September 2011. In the past two years, the fund has lost two of its primary managers, though not to other firms. Both still work within the firm. The three remaining managers have been with the fund since its inception. The fund has struggled in recent years and the team running this fund also ran the Columbia Large Cap Value fund until they were removed and replaced last year.

The fund is significantly underweight in Financial Services and overweight in Industrials compared to peer averages. Most other sector weightings are afield of peer averages as well, consequently this fund will likely move in very different directions than category averages.



RECOMMENDATION: Place on Watch List due to fund management changes and significant sector weighting changes.



SMALL GROWTH:

FUND # 13	ROYCE VALUE PLUS	RVPHX
	ASSETS: \$495,896	BEST FIT INDEX: 60 R 2000 GR / 40 R 2000
		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	-2.84	23.65	0.55	0.24	27.52	2.88	-3.08	-3.87	-2.33

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	2	10.8	1.11	-6.97	1.05	22.54
PEER AVERAGES		5.9	1.30	-1.22	1.21	22.25

It is tough to continue recommending this fund, especially when other Royce funds have been doing so well. Yet, the ten (10) year return is still great and lands this fund in the top 1% of all small growth funds. We have seen some improvement in the first quarter of 2012 (top quartile), but we remain concerned about the poor track record over all three time periods we measure (one, three and five). Given the outperformance during the first quarter and its long term positive track record, along with an experienced management team and firm philosophy, we are apt to give it another quarter or two.



RECOMMENDATION: Remain on Watch List due to Performance.



SMALL BLEND:

FUND # 14	PERKINS SMALL CAP VALUE						JSCVX		
	ASSETS: \$14,637,733			BEST FIT INDEX: RUSSELL 2000			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	-1.43	23.63	5.71	-0.29	27.51	1.96	-1.14	-3.88	3.75
	M*	MGR TENURE		BETA	ALPHA	SHARPE	3 YR STD DEV		
FUND STATISTICS	4	27.2		0.75	1.11	1.26	18.22		
PEER AVERAGES		5.8		1.29	-1.98	1.19	22.74		

With 15% in cash, this fund's investment returns have been hampered versus its peers. This fund's main selling point is its downside protection and in that regard it has performed very well for investors, always falling less or much less than its peers. Conversely, during big rallies this fund will trail. Fund management sees small stocks as overvalued, which is in line with estimates from firms like Grantham, Mayo and Van Otterloo and thus employs a protective strategy, but so far their thesis has not paid off. We suggest patience, the last time they were wrong about the direction of the market for a few years before being very right.

RECOMMENDATION: No action at this time.



FUND # 15	VANGUARD SMALL CAP INDEX	VSISX
ASSETS: \$2,257,905	BEST FIT INDEX: MSCI US SMALL CAP 1750 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	1.03	30.37	3.71	-0.46	28.53	2.14	1.49	1.84	1.57

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	3	20.3	1.01	-0.37	1.27	22.95
PEER AVERAGES		n/a	1.32	-1.88	1.24	22.92

This small cap index fund has outperformed peer averages in all measurable periods. The stocks that have performed extremely well and have grown into the midcap space, known as “buffer zone” stocks and can remain in the portfolio for up to two (2) years before being removed.

RECOMMENDATION: No action at this time.



SMALL VALUE:

FUND # 16	INVESCO VAN KAMPEN SMALL CAP VALUE	VSCAX
	ASSETS: \$2,788,830	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	2.52	28.60	5.20	0.03	28.47	2.12	2.49	0.13	3.08

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	4	1.8	1.03	0.84	1.17	24.07
PEER AVERAGES		6.0	1.29	-1.20	1.22	22.95

The managers at this fund were brought in back in July 2010, though the prior management had been doing a fine job, they were victims of a corporate merger and consolidation. Returns continue to be strong, and although 2011 was a tough ride, the fund has rebounded well in the Q1 rally. The lead manager is looking to hit home runs rather than singles with their stock picks. They require a 50% potential return from the stocks they own. To pick up a stock at such a discount requires the right analysis, patience and usually a portfolio of problem companies. This strategy can lead to long periods of underperformance and significant deviations from the index, but if done right should also lead to much higher returns overall. The 5% turnover is an indication of the conviction the managers have in their stocks. While managing this fund for nearly two (2) years, their performance with other funds in similar categories coupled with extremely low turnover at 5%, there is reasonable evidence for the continued holding of this fund.



RECOMMENDATION: Remove from Watch List due to fund manager results and low turnover.



INTERNATIONAL STOCK:

FUND # 17	AMERICAN FUNDS CAPITAL WORLD GROWTH & INCOME	RWIEX
ASSETS: \$26,150,435	BEST FIT INDEX: MSCI WORLD 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	-0.80	17.81	0.68	-1.32	20.93	0.00	0.52	-3.12	0.68

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	3	19.1	0.98	-2.12	0.97	18.72
PEER AVERAGES		4.0	0.87	5.24	1.08	19.53

Capital World is not struggling, but it also isn't performing well compared to its peers and index. It is trailing its peers by 3.12% over the three (3) year period and trailing its index for the one (1) and three (3) year periods. However, the fund is beating its peers over the one (1) and five (5) year periods. With a more dividend and conservative focus, divergent returns from the very broad index and peer group for this fund are not abnormal. The World Stock category encompasses all International funds that have more than 20% of assets in U.S. Stocks. As one might imagine, this creates a very broad category of funds that are classified as World Stock, but with large variance in their actual U.S. Stock holdings. Capital World has about 36% in U.S. Stocks versus 49% for the average World Stock fund. In addition, Capital World has a focus on bigger sized companies which comprise 94% of the portfolio, while the peer category has 23% in stock classified as small or medium. Finally, this fund tends to shy away from the more "growth" like stocks, which the category tends to favor. These three factors combine in some periods to produce superior results for Cap World, but due to the variance, not in all periods. When the differences in portfolios are taken into account, returns look about where they should be for this type of fund.

RECOMMENDATION: No action at this time.



FUND # 18	DFA INTERNATIONAL SMALL COMPANY	DFISX
ASSETS: \$11,799,709	BEST FIT INDEX: MSCI EAFE SM CAP	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	-7.20	23.30	-1.81	-5.87	24.34	-1.32	-1.33	-1.04	-0.49

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	4	13.3	0.98	4.58	1.11	21.59
PEER AVERAGES		4.4	0.99	6.44	1.12	21.74

While the weighted-average market cap is less than \$1 billion, this fund does span the small and mid cap area of international stocks. It has ended up in the top quartile for the past four (4) years against its peers and over the long-term we expect it will continue to be above-average, but it will have its times of underperformance as well. Overall, this fund will do a good job of providing exposure to small/mid international stocks.



RECOMMENDATION: Remain on Watch List due to investment performance.



FUND # 19	DODGE & COX INTERNATIONAL STOCK	DODFX
ASSETS: \$7,620,835	BEST FIT INDEX: MSCI WORLD EX US	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	-7.61	22.20	-2.07	-6.50	17.19	-3.02	-1.11	5.01	0.95

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	4	10.9	1.11	1.03	0.95	23.98
PEER AVERAGES		4.9	1.00	0.16	0.85	21.44

2011 was a tough year for this fund. The managers have no problem straying from their peers and indexes. Over the long term and over most rolling periods, even short 12 month periods, the fund tends to outperform peers. Part of the long term outperformance may be explained by the larger than average exposure to Emerging markets (EM); currently 19% versus peer group of 4%.

Emerging markets certainly accounted for the 4th quartile performance in 2011 as EM lagged, owning Hewlett-Packard and Nokia during their meltdowns didn't help either. The contrarian nature though is what powers the returns long term and the long term is the focus at this fund as evidenced by the 16% turnover.

RECOMMENDATION: No action at this time.



FUND # 20	JANUS ASPEN OVERSEAS						JAIGX		
	ASSETS: \$5,290,109			BEST FIT INDEX: MSCI WORLD EX US			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	-18.42	20.86	1.84	-6.50	17.19	-3.02	-11.92	3.67	4.86
	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV			
FUND STATISTICS	3	11.3	1.05	-4.16	0.81	27.97			
PEER AVERAGES		4.9	1.00	0.16	0.85	21.44			

This fund has a history of performing very well with periodic periods of very low performance. Since 2005, this fund has finished in the top one (1) percentile four times, top five percentile once and on two occasions this fund finished in the 85th and 96th percentiles. Despite a 96th percentile ranking in 2011, the three (3) and five (5) year performance significantly outperformed the benchmarks. The Standard Deviation is well above average with a three (3) year Standard Deviation of 26.41 compared to the peer group of 21.06.

The manager, Brent Lynn, usually maintains an average stake in emerging markets of 25%, (the range is 15-40%). In 2011, the emerging markets index was down over 20%. Despite the poor performance in 2011, Lynn saw growth prospects in emerging markets that he felt were much more attractive than that of developed countries and increased exposure to emerging markets to 40% of the portfolio. In the first quarter of 2012 his bet has paid off. The emerging markets index performance was up 13.65%, while the MSCI World, ex U.S. index was up 9.52%. Janus Overseas was up 19.40% for the first quarter. Investors in this fund should have a long term outlook and patience.

RECOMMENDATION: No action at this time.



BONDS:

FUND # 21	LOOMIS SAYLES INV GRADE BOND Y	LSIIX
ASSETS: \$14,757,273	BEST FIT INDEX: BARCAP US GOVT / 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	7.52	15.86	8.35	5.19	15.47	6.37	2.33	0.39	1.98

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	5	15.3	0.53	3.20	2.29	6.53
PEER AVERAGES		5.7	0.39	12.00	2.25	6.58

This bond fund is for those investors who seek capital appreciation from fixed income instruments. The fund recently changed the prospectus to allow for a small amount of stocks in the portfolio, no more than 10% in equities. The company has experience with stocks in other portfolios. With credit, currency and interest rate risk there will be volatility, but historically the risk has been worth the return.

RECOMMENDATION: No action at this time.



FUND # 22	OPPENHEIMER INTERNATIONAL BOND Y	OIBYX
	ASSETS: \$4,895,933	BEST FIT INDEX: CITI WGBI NON USD
		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	2.13	9.77	7.01	4.18	9.65	6.27	-2.05	0.12	0.74

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	3	8.0	0.97	2.94	1.00	9.72
PEER AVERAGES		3.1	1.11	-2.45	1.19	12.91

While this fund has the term “bond” in its name, it isn’t like other bond funds. Substantial allocations to emerging markets currency and debt combined with aggressive hedging strategies make this a complex fund. The main manager has been promoted to CIO and devotes less time to the fund than he has historically and the co-manager and her team have a scant track record.

This fund should only be used as part of a diversified portfolio and is not a replacement for a stable value option.

RECOMMENDATION: No action at this time.



FUND # 23	PIONEER GLOBAL HIGH YIELD Y	GHYYX
	ASSETS: \$5,635,643	BEST FIT INDEX: BARCAP GLOBAL HY
		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	0.48	26.64	5.51	4.65	20.42	5.81	-4.17	6.22	-0.30

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	3	10.7	1.12	-0.17	1.97	12.41
PEER AVERAGES		5.4	-0.05	19.37	1.99	9.69

After a top quartile performance in 2010, the fund ended up in the bottom quartile for 2011 and has lagged its peers significantly over all time periods. The recent weakness is due to the “Apple” effect as well as the avoidance of financial services companies that ended up rallying; the fund owned neither. The fund announced in their first quarter commentary that they have accumulated both Apple and the “money-centered” banks. The fund does take an aggressive position with high yield securities and generally provides high returns.

RECOMMENDATION: No action at this time.



BALANCED ALLOCATION:

FUND # 24	AMERICAN FUNDS INCOME FUND OF AMERICA	RIDEX
ASSETS: \$6,768,029	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	5.85	18.94	2.18	3.82	16.72	2.70	2.03	2.22	-0.52

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	3	38.4	0.87	2.08	1.68	10.64
PEER AVERAGES		5.1	1.05	-0.49	1.40	11.53

This fund is beating its peers over the one (1) and three (3) year periods. The first quarter witnessed underperformance due to the focus on dividends, which this fund pursues through higher allocations to telecom and utilities. Utilities experienced the worst returns of all stock sectors at -1.51% and the only sector with a negative return. The focus on dividends and high income on the bond side, meaning a higher allocation to high yield bonds, makes this fund a little riskier than its peers, though historically it has rewarded investors for bearing the risk. While diversification is a goal, it's not the primary goal. The primary goal is income.

RECOMMENDATION: No action at this time.



TARGET FUNDS:

FUND # 25		VANGUARD TARGET RETIREMENT INCOME						VTINX	
		ASSETS: \$3,878,923			BEST FIT INDEX: M* 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	7.01	11.60	5.19	5.08	13.20	3.85	1.93	-1.60	1.34
	M*	MGR TENURE		BETA	ALPHA	SHARPE	3 YR STD DEV		
FUND STATISTICS	4	8.5		0.79	1.66	2.10	5.32		
PEER AVERAGES		3.9		0.85	0.90	1.58	9.38		

Target Date fund review summary follows fund number 29.

FUND # 26		VANGUARD TARGET RETIREMENT 2020						VTWNX	
		ASSETS: \$3,140,926			BEST FIT INDEX: M* 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	4.86	17.73	3.05	3.45	16.78	1.96	1.41	0.95	1.09
	M*	MGR TENURE		BETA	ALPHA	SHARPE	3 YR STD DEV		
FUND STATISTICS	4	5.8		0.81	1.57	1.46	11.75		
PEER AVERAGES		3.5		1.07	-0.12	1.45	11.71		

 Target Date fund review summary follows fund number 29.



FUND # 27	VANGUARD TARGET RETIREMENT 2030	VTHR
ASSETS: \$1,912,319	BEST FIT INDEX: M* 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	3.93	20.05	2.12	2.78	18.42	1.12	1.15	1.63	1.00

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	4	5.8	1.00	0.17	1.34	14.56
PEER AVERAGES		3.5	1.33	-2.13	1.32	14.54

 Target Date fund review summary follows fund number 29.

FUND # 28	VANGUARD TARGET RETIREMENT 2040	VFORX
ASSETS: \$2,018,188	BEST FIT INDEX: M* 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	3.37	20.98	1.97	2.17	19.44	0.50	1.20	1.54	1.47

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	4	5.8	1.10	-0.76	1.28	16.02
PEER AVERAGES		3.4	1.48	-3.33	1.25	16.23

 Target Date fund review summary follows fund number 29.



FUND # 29		VANGUARD TARGET RETIREMENT 2050						VFIFX	
		ASSETS: \$960,033		BEST FIT INDEX: M* MODERATE 2050			M* ANALYST RATING 		
	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	3.36	21.00	1.94	2.17	19.44	0.50	1.19	1.56	1.44
	M*	MGR TENURE		BETA	ALPHA	SHARPE	3 YR STD DEV		
FUND STATISTICS	4	5.8		1.10	-0.74	1.28	16.02		
PEER AVERAGES		2.5		1.54	3.80	1.23	16.92		

The beauty of Vanguard's target date funds are their simplicity. They consist of three Vanguard index funds; Total Stock Market, International Total Stock Market and Total Bond Market. Later in the retirement phase, they add in their Inflation Fund. The funds provide the returns of their respective markets at rock bottom costs. The only real concern we would have about these funds is that the glide path is quite aggressive, but if you are happy with the glide path, the underlying investment options are prudent over the long term.

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



SPECIALTY:

FUND # 30	ING GLOBAL REAL ESTATE	IRGIX
ASSETS: \$2,631,377	BEST FIT INDEX: MSCI WORLD REAL ESTATE NR	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	3.50	28.17	-3.21	-0.35	26.68	-5.48	3.85	1.49	2.27

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	5	6.3	0.98	0.25	1.27	21.66
PEER AVERAGES		4.3	1.01	8.15	1.16	22.97

The fund holds pretty close to its index and isn't much different than its peers either. It overweights North America relative to Europe and Asia versus its peers, but not to such a large extent that the returns will vary significantly. The fund is struggling a bit against its index over three (3) years, but beating its peers by large margins and ranks in the top 10% in its category over five (5) years. It is well diversified and should provide a good portfolio holding for global real estate.

RECOMMENDATION: No action at this time.



ASSET ALLOCATION:

FUND # 31	ASSET ALLOCATION FUNDS AGGRESSIVE		
	ASSETS: \$23,717,500	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	-0.17	23.15	1.63	1.27	19.40	1.39	-1.44	3.75	0.24

Asset Allocation fund review summary follows fund number 33.

FUND # 32	ASSET ALLOCATION FUNDS MODERATE		
	ASSETS: \$32,618,900	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	2.54	17.01	3.55	3.82	16.72	2.70	-1.28	0.29	0.85

Asset Allocation fund review summary follows fund number 33.



FUND # 33	ASSET ALLOCATION FUNDS CONSERVATIVE								
	ASSETS: \$13,153,177			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	3.74	11.16	4.18	4.03	13.79	3.61	-0.29	-2.63	0.57

In the Aggressive and Moderate Asset Allocation funds the one year performance was hampered by the underperformance of Growth Fund of America and Columbia Diversified Equity Income . The Conservative Asset Allocation fund underperformed in the one year comparison due to the 50% weighting of the fixed interest account.

RECOMMENDATION: No action at this time.



WATCH LIST

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

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

ACTION	FUND #	TICKER	FUND NAME	INVESTMENT POLICY	QUARTER ADDED
	1	AGTHX	GROWTH FUND OF AMERICA	1, 3 and 5 year performance below standards. This fund has underperformed to the benchmark in 11 of the last 14 qtrs. The 3 / 5 year Information Ratios are (1.15) / (1.23)	4 Q 2010
	8	BGRFX	BARON GROWTH	1, 3 and 5 year performance below standards. The 3/5 year Information Ratios are 0.30 / 0.14	1Q 2012
	10	FLVIX	FIDELITY ADVISORS LEVERAGED CO STOCK	1 and 5 year performance below standards. The Information Ratios are 0.75 / (0.02)	3Q 2011
	12	RSCMX	COLUMBIA MIDCAP VALUE R5	Due to fund management changes and significant sector weighting changes.	1Q 2012
	13	RVPHX	ROYCE VALUE PLUS INVT	1, 3 and 5 year performance below standards. This fund has underperformed the benchmark in 6 of the last 13 quarters. The 3 / 5 year Information Ratios are (1.00) / 0.02	4 Q 2010
	16	VSCAX	INVESCO U. S. SMALL CAP VALUE	Remove due to fund manager results and low turnover.	3 Q 2010
	18	DFISX	DFA INTERNATIONAL SMALL COMPANY	1, 3 and 5 year performance below standards. The Information Ratios are 1.31 / 0.37	4 Q 2011
	26-29		VANGUARD TARGET DATE FUNDS	Removed due to improved performance.	4 Q 2011





COUNTY OF SAN BERNARDINO INVESTMENT OPTIONS SPECTRUM

ASSET ALLOCATION	SPECIALTY	BONDS	BALANCED ALLOCATION	DOMESTIC EQUITY			INTERNATIONAL - GLOBAL EQUITY
Vanguard Target Retire Inc	ING Clarion Global Real Est	Loomis Sayles Inv Gr Y	Amer Funds Inc R4	LARGE VALUE	LARGE BLEND	LARGE GROWTH	Amer Fund Cap Wid G/I R4
Vanguard Target 2020		Oppenheimer Intl Y		Columbia Div Eq Inc	MainStay ICAP	Amer Funds Growth	DFA Intl Small Co I
Vanguard Target 2030		Pioneer Global HY Y			Parnassus Eq Inc	Wells Fargo Adv Gr	Dodge & Cox Instl Stk
Vanguard Target 2040					TIAA-CREF G/I		Janus Aspen Overseas Instl
Vanguard Target 2050					Vanguard Instl Idx		
Conservative Allocation				MID CAP VALUE	MID CAP BLEND	MID CAP GROWTH	
Moderate Allocation				Columbia MidCap Val R5	Fidelity Adv Lev Co	Baron Growth	
Aggressive Allocation					Vanguard Idx Signl	ING MidCap Opportunity	
				SMALL VALUE	SMALL BLEND	SMALL GROWTH	
				Invesco Van Kampen	Perkins Small Cap	Royce Val Plus Invt	
					Vanguard Sm Index		

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 on 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.