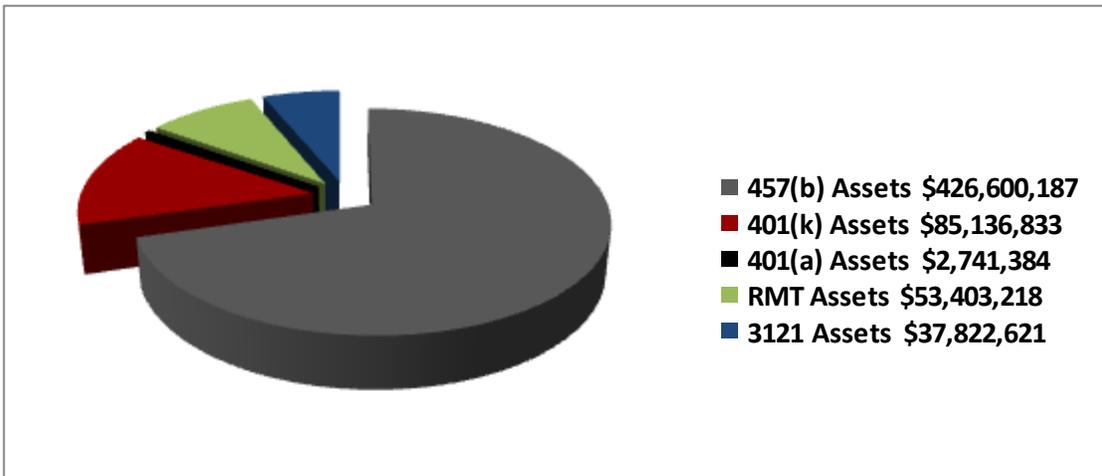


COUNTY OF SAN BERNARDINO
EXECUTIVE SUMMARY
DEFINED CONTRIBUTION PLANS
3RD QUARTER 2012

	3RD QUARTER %	1 YEAR %	3 YEAR %	5 YEAR %
457 Plans Performance	6.03	23.98	10.24	1.55
Customized Benchmark	5.83	24.42	10.55	0.87
DIFFERENCE	0.20	-0.44	-0.31	0.68
401(k) Plan Performance	5.90	23.73	10.36	1.74
Customized Benchmark	5.70	23.77	10.74	1.23
DIFFERENCE	0.20	-0.04	-0.37	0.51
Retirement Medical Trust	5.70	23.09	11.24	3.02
Customized Benchmark	4.97	22.80	11.17	2.79
DIFFERENCE	0.73	0.29	0.07	0.23

PORTFOLIO COMPOSITION AND ANALYSIS:



The total assets in all of the County of San Bernardino plans have increased from \$581 million as of June 30, 2012 to \$606 million. The increase was due to the appreciation of mutual fund assets by almost \$14 million in the 457 Plan and \$3 million in the 401(k).

457 assets in the Ameritrade Self Directed Brokerage Account, (SDBA), are now \$1.8 million; just a little higher than the previous quarter. The 401(k) assets in the SDBA declined from \$835,000 as of December 31, 2011 to \$419,000 in the third quarter, very similar to the second quarter.



457 PLAN CASH POSITION:

The stable value crediting rate continues to be 2.5%. For the quarter over \$6.6 million transferred from the 457 mutual funds to the fixed interest account. Despite the transferred assets the percentage of assets in the stabilizer is 35.6%, about the same as the second quarter.

401(k) PLAN CASH POSITION:

The assets in the Stabilizer decreased from 30.22% to 29.8%. The minute decrease was due to the equity appreciation in the mutual funds.

RETIREMENT MEDICAL TRUST CASH POSITION:

There was a small decrease in the percentage of assets in the fixed interest account, from 79.34% in the ING General account to 77.6%.

457 PLANS MUTUAL FUNDS POSITION:

The underperformance to the customized benchmark over the one (1) and three (3) year periods is due primarily to the high mutual fund allocation to Growth Fund of America, with 19.87% of the mutual fund assets, Columbia Diversified Equity, 4.48% of assets, Perkins Small cap value with 5.37% and Columbia Midcap Value with 4.90% of the mutual fund assets. The third quarter performance was better than the benchmark due to the improvement of Growth Fund of America.

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 declined from a second quarter ratio of 0.88 to 0.71. The benchmark is also 0.71.

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 15.31 which is lower than the benchmark of 15.65.

The Alpha, a measurement of the value added by the investment manager is -0.06. The Alpha was impacted by Growth Fund of America with a negative Alpha of -4.25. Growth Fund of America's Alpha actually improved over the last quarter. 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 0.98 (over three years).



401(k) MUTUAL FUNDS POSITION:

The underperformance to the customized benchmark over the one (1) and three (3) year periods is due primarily to the high mutual fund allocation to Columbia Diversified Equity, 8.54% of assets, Perkins Small cap value with 4.72% and Columbia Midcap Value with 6.62% of the mutual fund assets. The third quarter performance was better than the benchmark due to the improvement of Growth Fund of America.

The Sharpe Ratio for the 401(k) portfolio is 0.90, which is lower than the benchmark of 0.72 (over three years). The three (3) year Standard Deviation for the portfolio is 15.09; which is minutely higher than the benchmark of 14.96. The Alpha is -0.38 and the Beta is 1.01.

RETIREMENT MEDICAL TRUST (RMT) MUTUAL FUNDS POSITION:

The over performance in all measureable periods is due to the high mutual fund allocation to Fidelity Leverage Company Stock with 4.13% of the mutual fund assets.

The Sharpe Ratio for the RMT portfolio is 0.84 which is higher than the benchmark, 0.81. The three (3) year Standard Deviation for the portfolio is 13.76 which is lower than the benchmark of 14.22. The Alpha is now positive, 0.44 and the Beta declined to 0.96.



PERFORMANCE OF INDEX FUNDS VS. ACTIVELY MANAGED FUNDS:	3 RD QUARTER %	1 YEAR %	3 YEAR %	5 YEAR %
LARGE CAP				
Vanguard Institutional Index	6.35	30.18	13.19	1.08
American Funds Growth Fund of America	7.36	27.94	10.03	0.06
Wells Fargo Advantage Growth Fund	7.41	31.66	22.03	7.91
Main Stay ICAP Select Equity	7.00	28.46	11.03	0.24
Parnassus Inv Equity Income	7.01	26.61	11.93	5.33
TIAA CREF G/I Ret	6.83	30.08	12.18	2.46
Columbia Div Equity Income	4.99	26.11	10.27	-1.63
MID CAP				
Vanguard MidCap Index Signal	5.21	26.47	13.98	1.87
Baron Growth	5.99	28.12	14.90	2.65
ING Mid Cap Opportunities	4.86	26.84	17.06	6.12
Fidelity Adv Lev Co	7.70	39.97	12.53	-0.03
Columbia MidCap Value	4.94	26.70	10.90	-0.56
SMALL CAP				
Vanguard Small Cap Index	5.49	32.37	14.24	3.48
Royce Value Plus	7.90	27.69	8.60	-0.53
Invesco Van Kampen Small Cap Value	5.68	36.85	12.34	4.11
Perkins Small Cap Value T	2.61	19.44	8.51	4.76

This chart illustrates that despite the difficulty active managers have in trying to beat the low cost, passively managed index funds, it can be done. In the third quarter five (5) of six (6) active managers beat the S&P 500 Index fund and every active midcap manager beat the MidCap Index fund over the past twelve months. One of the reasons for the improvement of the large cap active managers versus the index funds is that the large cap correlation has declined from a high of 60% at the time of the Lehman Bankruptcy and the Sovereign Debt Crisis to 40.9% in September 2012. A lower number indicates that stocks are not moving in lockstep together and active management can make a difference. A higher number indicates that stocks are moving more in the same direction and index funds become more difficult to beat due to their lower cost and, of course, due to the rigid adherence to the specific market. The long term correlation among large cap stocks is 26.7%.



MUTUAL FUNDS OVERVIEW AND NARRATIVE:

LARGE CAP GROWTH:

FUND # 1	AMERICAN GROWTH FUND OF AMERICA						AGTHX		
	ASSETS: \$ 53,163,713		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	27.94	10.03	0.06	26.84	11.96	1.16	1.10	-1.93	-1.10
	M*	MGR TENURE		BETA	ALPHA	SHARPE	3 YR STD DEV		
FUND STATISTICS	3	26.9		1.01	-4.25	0.66	16.35		
PEER AVERAGES		6.0		1.09	-1.97	0.73	17.53		

The third quarter of 2012 is the first quarter since the third quarter of 2009 that Growth Fund of America, GFA, has beaten its peer group average over the one (1) year comparison. It did so by over 100 basis points. Also, the three (3) and five (5) year comparisons have continued to improve. Only 17% of the large cap growth active managers beat the Russell 1000 Growth index in the third quarter. GFA did by 125 basis points and exceeded the peer group returns by 121 basis points.

Due to the large percentage of County assets in this fund we track its progress closely. The October performance was 313 basis points better than the Russell 1000 growth Index. Turnover for the past year has declined to 18%. The reduction in turnover from 34% and the rising performance validates the managers' conviction that stock selection was correct.

Communication Services is over weighted by 266% compared to the peer group and that sector had the highest average performance in the third quarter with an average return of 12.21%. Additionally, the significant over weighting to foreign stocks provided an excess return of 120 basis points in the third quarter. However, the twelve month performance of the foreign holdings detracted from the one (1) year comparisons to the peer group with a negative attribution of 280 basis points.

 **RECOMMENDATION: Remain on Watch List due to performance.**



FUND # 2	WELLS FARGO ADVANTAGE GROWTH						SGRKX
	ASSETS: \$ 4,252,443		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	31.66	22.03	7.91	26.84	11.96	1.16	4.82	10.07	6.75
	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV			
FUND STATISTICS	5	10.4	0.95	6.55	1.18	18.24			
PEER AVERAGES		6.0	1.09	-1.97	0.73	17.53			

This fund continues to drive outstanding performances in all markets. The Alpha is 6.55 versus the peer group average of negative -1.97. The Alpha is particularly impressive since the Beta is just minutely higher than the peer group. The fund ranks in the top 11th percentile over the one (1) year period and is ranked in the top 1st percentile over all other periods.

Only 17% of the large cap growth active managers beat the Russell 1000 Growth index in the third quarter; Wells Fargo did by 130 basis points and exceeded the peer group returns by 121 basis points.

RECOMMENDATION: No action at this time.



LARGE BLEND:

FUND # 3	MAINSTAY ICAP SELECT EQUITY						ICSLX		
	ASSETS: \$ 1,615,430		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	28.46	11.03	0.24	27.05	10.96	0.04	1.41	0.07	0.20
	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV			
FUND STATISTICS	4	14.8	0.99	-0.60	0.72	16.15			
PEER AVERAGES		5.7	1.04	-2.38	0.72	16.42			

Performance was particularly strong in the third quarter as the one (1) and three (3) year comparisons are now exceeding the peer group. There is a 75% increase to the Healthcare sector and that increase is about what the overweight to that sector is compared to the peer group. This fund borders on the value / blend categories with 44% of the holdings in the value category. This fund has led its peer group in 83% of the rolling three year periods since 1998. This concentrated fund has achieved a 6.4% annualized gain over that period which leads all but five of the 172 funds that have been active for that period.

RECOMMENDATION: No action at this time.



FUND # 4	PARNASSUS INV EQUITY INCOME						PRBLX		
	ASSETS: \$ 7,844,665			BEST FIT INDEX: RUSSELL 1000			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	26.61	11.93	5.33	27.05	10.96	0.04	-0.44	0.97	5.29
	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV			
FUND STATISTICS	5	11.4	0.95	0.96	0.88	13.77			
PEER AVERAGES		5.7	1.04	-2.38	0.72	16.42			

This fund does not follow the benchmark as its sector weightings vary significantly from the peer group. The biggest difference is in the Cyclical Super Sector where the peer group has more than twice the percentage of holdings than this socially responsible fund. The downside to this strategy is that in the third quarter Cyclical was the best performing sector. While dividend paying is not a major screen, this fund maintains 75% of its holdings in dividend paying stocks.

This fund is a strong competitor in the socially responsible environment and is also attractive to investors who want low risk.

RECOMMENDATION: No action at this time.



FUND # 5	TIAA-CREF GROWTH & INCOME RETIRE		TRGIX
	ASSETS: \$ 8,846,256	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	30.08	12.18	2.46	27.05	10.96	0.04	3.03	1.22	2.42

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	4	7.6	0.99	-0.82	0.80	15.81
PEER AVERAGES		5.7	1.04	-2.38	0.72	16.42

Performance continues to exceed the peer group. The manager, Susan Kemper, tends to follow the index in terms of sector allocations, but does hold about 20% of assets in non-index stocks. Kemper prefers stocks with strong balance sheets and have less leverage. This fund will trail the market in initial rallies where speculative stocks take the lead.

RECOMMENDATION: No action at this time.



FUND # 6	VANGUARD INSTITUTIONAL INDEX						VINIX		
	ASSETS: \$ 19,221,552		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	30.18	13.19	1.08	30.20	13.20	1.05	-0.02	-0.01	0.03
	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV			
FUND STATISTICS	4	11.8	1.00	-0.01	0.87	15.58			
PEER AVERAGES		N/A	N/A	N/A	0.87	15.58			

This large cap blend index fund is performing as expected adjusted for expense and tracking error. \$3.1 million of the mutual assets in the 457 Plan transferred into this index fund in the third quarter. Assets in this fund increased in the 457 Plan by 26.2%, not including the 6.35% gain in performance.

RECOMMENDATION: No action at this time.



LARGE VALUE:

FUND # 7	COLUMBIA DIVERSIFIED EQUITY INCOME						RSEDX		
	ASSETS: \$ 14,011,176			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	26.11	10.27	-1.63	27.19	10.56	-0.73	-1.08	-0.29	-0.90
	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV			
FUND STATISTICS	3	8.8	1.05	-3.21	0.66	16.84			
PEER AVERAGES		5.9	1.01	-2.48	0.72	16.06			

This fund is well diversified populated with stocks of very large well publicized companies. Over the long term dating back to 2003 this fund has beaten 84% of its peer group. Sector allocations and retaining stocks that have slid in the recent economic environment has caused a deterioration in performance. The management team’s contradictory style is currently out of favor.

 **RECOMMENDATION: Add to Watch List due to performance.**



MID CAP GROWTH:

FUND # 8	BARON GROWTH						BGRFX		
	ASSETS: \$ 14,716,059			BEST FIT INDEX: 61% MID CAP GR 39% R 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	28.12	14.90	2.65	26.03	13.05	1.57	2.09	1.85	1.08
	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV			
FUND STATISTICS	4	17.8	0.77	4.28	0.90	16.94			
PEER AVERAGES		6.0	1.17	-1.78	0.72	19.75			

Fund performance continues to be strong and its peer group has a headwind from the middling performance of the Technology sector which is significantly underweighted in the Baron portfolio. The risk taken by Baron is below average with a three year standard deviation that is 15% lower than the customized average of the mid and small cap growth categories. Turnover remains exceptionally low. This fund's third quarter performance exceeded the mid and the small cap growth indexes.

RECOMMENDATION: No action at this time.



FUND # 9	ING MID CAP OPPORTUNITIES	NMCIX
	ASSETS: \$ 8,102,300	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	26.84	17.06	6.12	24.36	12.77	1.43	2.48	4.29	4.69

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	5	7.3	0.97	2.38	0.95	18.36
PEER AVERAGES		5.8	1.13	-1.63	0.73	18.91

Performance remains consistent and continues to outpace the peer group. The rankings in the large cap mid cap growth category are 8th, 3rd and 12th over the three (3), five (5) and ten (10) year periods. Reducing exposure to the Industrial sector has aided performance while the reduction to the Energy sector negatively impacted performance in the third quarter.

RECOMMENDATION: No action at this time.



MID CAP BLEND:

FUND # 10	FIDELITY ADVISORS LEVERAGED COMPANY STOCK						FLVIX		
	ASSETS: \$ 3,706,636		BEST FIT INDEX: RUSSELL MID CAP			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	39.97	12.53	-0.03	26.68	11.46	1.06	13.29	1.07	-1.09
	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV			
FUND STATISTICS	3	9.3	1.05	-0.64	0.62	23.11			
PEER AVERAGES		5.3	1.16	-3.19	0.67	19.13			

Taking the average annualized performance of the last decade Fidelity Leveraged resides in the peer group's second percentile. The issue is that the volatility of this fund requires that investors be patient through the full market cycles. During risk adverse markets this fund will underperform. However, when markets are rallying due to a "risk on" investment philosophy this fund will be a leader. Over the recent one (1) year period this fund is in second percentile. The one (1) year performance after the second quarter was a negative -4.52% and now the one (1) year performance is a positive 39.97%. One driver of the improved performance was the elimination of the third quarter, 2011 performance, specifically the very risk adverse September.

The very experienced manager, Tom Soviero, targets companies with less than robust financial strength. These companies pay a premium to gain access to financing through high yield debt. Because issuers of high yield bonds are more susceptible to default, Soviero looks for firms that have catalysts for improvement such as management change or a new product launch. One concession Soviero has made to modify the risk and volatility is through evolution. He is now holding on to companies that are moving up the credit quality ladder and he is more willing to increase his cash position when markets are risk adverse.

Recommendation: No action at this time.



FUND # 11	VANGUARD MIDCAP INDEX						VMISX		
	ASSETS: \$ 4,865,895		BEST FIT INDEX: MSCI US MID CAP 450 USD 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	26.47	13.98	1.87	25.94	13.58	1.43	0.53	0.40	0.44
	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV			
FUND STATISTICS	3	14.4	1.01	-0.42	0.80	18.32			
PEER AVERAGES		N/A	1.13	-1.03	0.74	18.31			

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

RECOMMENDATION: No action at this time.



MID CAP VALUE:

FUND # 12	COLUMBIA MID CAP VALUE OPPORTUNITY						RSCMX		
	ASSETS: \$ 14,054,103		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	26.70	10.90	-0.56	27.21	11.55	1.19	-0.51	-0.65	-1.75
	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV			
FUND STATISTICS	2	9.7	1.03	-3.44	0.63	19.00			
PEER AVERAGES		6.2	1.12	-2.65	0.70	18.18			

The one (1) year performance improved by 309 basis points over the previous quarter. Despite the improvement this fund is still under performing in the three key comparison periods. A higher than average allocation to the Industrial sector continues to impact performance. The overweight to the weak performing Industrial sector is in infrastructure related stocks.

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



SMALL GROWTH:

FUND # 13A	ROYCE VALUE PLUS						RVPHX		
	ASSETS: \$ 402,655		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	27.69	8.60	-0.53	26.92	13.21	1.65	0.77	-4.61	-2.18
	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV			
FUND STATISTICS	2	11.3	1.10	-6.26	0.49	21.18			
PEER AVERAGES		5.8	1.20	-2.48	0.69	20.29			

This small cap growth fund continues to take average to above average risk and generates low investment returns. Year-to-date performance has been in the second quartile, but ongoing performance has struggled since 2007. The fund management team takes strong sector bets and has repeatedly missed large market swings.

This fund was terminated at the 2Q12 fund review, however, the recommended replacement fund, Loomis Sayles Small Cap Growth will replace this fund in December, 2012.



RECOMMENDATION: Delete and replace this fund.



SMALL BLEND:

FUND # 14		VANGUARD SMALL CAP INDEX						VSISX		
		ASSETS: \$ 3,213,641		BEST FIT INDEX: MSCI US SM CAP 1750 USD 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	32.37	14.24	3.48	31.66	13.70	2.91	0.71	0.54	0.57	
	M*	MGR TENURE		BETA	ALPHA	SHARPE	3 YR STD DEV			
FUND STATISTICS	4	20.8		1.01	-0.11	0.74	20.90			
PEER AVERAGES		N/A		1.26	-2.18	0.65	20.88			

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

RECOMMENDATION: No action at this time.



SMALL VALUE:

FUND # 15	INVESCO VAN KAMPEN SMALL CAP VALUE						VSCAX		
	ASSETS: \$ 1,741,008		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	36.85	12.34	4.11	29.45	11.45	2.19	7.40	0.89	1.92
	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV			
FUND STATISTICS	3	2.3	1.06	-0.93	0.60	23.63			
PEER AVERAGES		5.9	1.21	-3.55	0.64	20.35			

The management team took over in July of 2010 and has done a reasonable job. The fund tends towards having months where it has outsized returns against the peer and then a few middling or underperforming months. This is due to sector and stock bets that have worked out, but are not so big that if they disappoint the fund registers large return swings. The interesting thing about this fund is that none of the managers had any experience running a traditional asset class mutual fund prior to being assigned as a team.

This style has led to returns that are about even with the peer and index over the exact timeframe they have managed the fund, but with more volatility and a larger downside capture. So, the fund tends to take more risk for each unit of return it delivers. The team has performed admirably for being so new, but there is no evidence this fund will outperform on a risk-adjusted basis going forward after fees.

RECOMMENDATION: No action at this time.



FUND # 16	PERKINS SMALL CAP VALUE		JSCVX
	ASSETS: \$ 14,128,136	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	19.44	8.51	4.76	29.45	11.45	2.19	-10.01	-2.94	2.57

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	4	27.7	0.72	-0.95	0.60	15.58
PEER AVERAGES		5.9	1.21	-3.55	0.64	20.35

This Gold rated four (4) star fund did not perform well in the robust first quarter and also failed to keep pace in the surprisingly strong third quarter. This outcome is not unexpected with the cautious management style and a cash position of 16%. The standard deviation is 23% lower than the peer group. This fund also has better profitability and debt/equity metrics than the benchmark. This fund scores better when investors are risk adverse.

RECOMMENDATION: No action at this time.



INTERNATIONAL STOCK:

FUND # 17	AMERICAN FUNDS CAPITAL WORLD GROWTH & INCOME						RWIEX		
	ASSETS: \$ 29,167,336			BEST FIT INDEX: MSCI WORLD NR			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	22.40	5.87	-1.41	19.64	7.25	-2.00	2.76	-1.38	0.59
	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV			
FUND STATISTICS	4	19.6	0.98	-1.13	0.41	17.45			
PEER AVERAGES		4.0	0.85	5.19	0.49	17.98			

While foreign funds have struggled in the past year, this fund has done a good job of keeping up. Even though the domestic allocation is much lower than the appropriate benchmark (33% versus 46%), the 10% allocation to bonds, cash and other helped to moderate downside from foreign exposure. The overweight to defensive and underweight to cyclicals will no doubt help to continue a downside cushion versus the peers and index. While there is softness in three (3) year number, it is likely to resolve itself over time as the past three (3) years represented only the bull portion of this market.

RECOMMENDATION: No action at this time.



FUND # 18	DFA INTERNATIONAL SMALL COMPANY						DFISX
	ASSETS: \$ 11,532,757		BEST FIT INDEX: MSCI EAFE SMALL CAP 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	12.68	5.29	-2.97	15.01	6.27	-2.68	-2.33	-0.98	-0.29
	M*	MGR TENURE		BETA	ALPHA	SHARPE	3 YR STD DEV		
FUND STATISTICS	3	13.8		0.99	2.43	0.37	19.84		
PEER AVERAGES		4.6		0.90	4.22	0.43	18.83		

While this small/mid international fund is mostly passive, it is not entirely passive. It does not attempt to add value by picking better stocks. It attempts to trade better over time (providing liquidity to pick stocks up cheap and compress spreads). This trading strategy leads to a portfolio that may diverge slightly from the index it attempts to track and you end up with tracking error in the short-term. The fund is trailing its index over the past six month by over 1% (something you don't see in a traditional index fund), but over the one (1), three (3) and five (5) year periods it is within 13 bps of the index. This fund provides a low-cost way to provide exposure to a unique asset class.

 **RECOMMENDATION: Remain on Watch List due to performance.**



FUND # 19		DODGE & COX INTERNATIONAL STOCK						DODFX		
		ASSETS: \$ 7,344,362		BEST FIT INDEX: MSCI WORLD EX US VALUE 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	15.67	2.69	-3.70	15.98	2.70	-5.08	-0.31	-0.01	1.38	
	M*	MGR TENURE		BETA	ALPHA	SHARPE	3 YR STD DEV			
FUND STATISTICS	4	11.4		1.07	0.19	0.23	20.96			
PEER AVERAGES		5.2		0.99	0.68	0.23	19.80			

Morningstar has reclassified this fund as a Foreign Blend option and this makes sense to us. For the better part of the past decade the fund has been on the border of value/blend. The fund does still work like a value offering though; it rarely chases expensive growth stocks. The managers are not afraid to make strong allocations to specific sectors. They are currently over or under-weight several individual sectors compared to the peer and index. This can lead to great performance, but also to poor performance in the short-term if they are wrong (or right, but early).

RECOMMENDATION: No action at this time.



FUND # 20	JANUS ASPEN OVERSEAS						JAIGX		
	ASSETS: \$ 3,077,500		BEST FIT INDEX: MSCI WORLD EX US GR USD			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	3.46	-2.74	-5.42	15.98	2.70	-5.08	-12.52	-5.44	-0.34
	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV			
FUND STATISTICS	2	11.8	1.04	-7.94	0.00	24.60			
PEER AVERAGES		5.2	0.99	0.68	0.23	19.80			

As an opportunistic fund, this fund has either very strong performance or weak performance. Performance was weak in 2011 and has continued in that direction year to date 2012. This international fund has 40% exposure to emerging markets led by a 18% stake in India and a 13% stake in Brazil. The over exposure to the Sensitive sector also has detracted from performance. The largest holding with 8% of the assets, Li & Fung, was the biggest detractor in the portfolio. The manager, Brent Lynn, believes there is a disconnect between the intrinsic values of the fund's holdings and their stock prices. The one change Lynn has made is to sell off 11% of the holdings.

 **RECOMMENDATION: Add to Watch List due to performance.**



BONDS:

FUND # 21	LOOMIS SAYLES INV GRADE BOND						LSIIX		
	ASSETS: \$ 13,024,256			BEST FIT INDEX: BARCLAYS 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	12.01	9.72	8.38	12.45	9.32	6.96	-0.44	0.40	1.42
	M*	MGR TENURE		BETA	ALPHA	SHARPE	3 YR STD DEV		
FUND STATISTICS	5	15.8		0.57	2.44	1.85	5.06		
PEER AVERAGES		5.6		0.09	8.44	1.82	5.16		

Fund manager, Kathleen Gaffney, is no longer one of the top managers of this fund. She has moved to a competitor after being passed up for a team leader position.

As a multi sector bond fund, compared to the peer group, this fund has a lower exposure to AAA rated bonds and a higher exposure to BBB rated bonds. Performance was weak in the fourth quarter, 2011 but has picked up in 2012 with year to date performance almost 11% higher than the peer group.

 **RECOMMENDATION: Add to Watch List due to manager change.**



FUND # 22	OPPENHEIMER INTERNATIONAL BOND						OIBYX		
	ASSETS: \$ 5,057,848		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	9.71	5.32	6.65	7.52	5.80	6.32	2.19	-0.48	0.33
	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV			
FUND STATISTICS	3	8.5	0.93	1.61	0.61	9.07			
PEER AVERAGES		5.0	0.80	0.99	1.04	6.66			

The one (1) year performance against the peer group improved from the second quarter by 548 basis points due to investors having a great appetite for risk. During the quarter this fund's management has lowered the credit quality with a significant reduction in AA rated bonds and an increase in BBB and Non-Rated bonds. This fund takes on more risk than its competitors and that has caused a higher than average standard deviation. However, the turnover ratio is well below average.

RECOMMENDATION: No action at this time.



FUND # 23	PIONEER GLOBAL HIGH YIELD	GHYYX
ASSETS: \$ 4,978,074	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	16.80	11.66	6.30	17.56	11.40	7.13	-0.76	0.26	-0.83

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	2	11.2	1.17	-2.79	1.29	8.82
PEER AVERAGES		5.5	-0.46	13.75	1.54	7.34

The one (1) year performance against the peer group improved by 500 basis points over the risk adverse second quarter. This fund will deviate widely from the peer group due to the heavy exposure to emerging markets, high yield corporates and foreign currencies. This year the U.S. high yield market has outperformed the foreign markets creating a headwind for this fund. Over time this unique strategy has paid off. Since inception in August, 2001, this fund has outpaced the category average by 2.8% annually.

RECOMMENDATION: No action at this time.



BALANCED ALLOCATION:

FUND # 24	AMERICAN FUNDS INCOME FUND OF AMERICA						RIDEX		
	ASSETS: \$ 7,939,115		BEST FIT INDEX: MORNINGSTAR MODERATE			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	19.56	11.19	2.10	17.79	8.70	2.01	1.77	2.49	0.09
	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV			
FUND STATISTICS	4	20.8	0.69	3.01	1.12	9.88			
PEER AVERAGES		4.9	1.04	-0.40	0.83	10.70			

After a top 5 percentile ranking in 2011 performance has declined in 2012. This moderate asset allocation fund has 12% more stocks than the peer group. The bond holdings have an average credit rating of below Investment grade, BB, compared to a peer group average of AA. However, the duration is lower than the peer group as yield is coming from lower quality bonds rather longer term bonds. The equity holdings have a significant yield focus. The dividend yield is the first screen. In fact, this emphasis on dividends has led the management team to a significantly higher exposure to foreign stocks which tend to pay higher yields than domestic stocks.

Performance continues to be better than the benchmarks, but is driven by a strong fourth quarter. The Alpha is very high at 3.00 versus the peer group average of -0.40.

RECOMMENDATION: No action at this time.



TARGET FUNDS:

FUND # 25		VANGUARD TARGET RETIREMENT INCOME						VTINX		
		ASSETS: \$ 4,228,047		BEST FIT INDEX: MORNINGSTAR CONSERVATIVE INC			M* ANALYST RATING:  Gold			
RATES OF RETURN	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	11.63	7.98	4.95	12.99	7.59	3.76	-1.36	0.39	1.19	
FUND STATISTICS	M*	MGR TENURE		BETA	ALPHA	SHARPE	3 YR STD DEV			
FUND STATISTICS	5	9.0		0.76	1.59	1.60	4.90			
PEER AVERAGES		4.3		0.81	0.49	0.96	8.26			

Target Date fund review summary follows fund number 29.

FUND # 26		VANGUARD TARGET RETIREMENT 2020						VTWNX		
		ASSETS: \$ 4,069,059		BEST FIT INDEX: MORNINGSTAR MODERATE 2020			M* ANALYST RATING:  Gold			
RATES OF RETURN	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	18.18	9.27	2.19	18.45	8.05	1.10	-0.27	1.22	1.09	
FUND STATISTICS	M*	MGR TENURE		BETA	ALPHA	SHARPE	3 YR STD DEV			
FUND STATISTICS	4	6.3		0.80	1.50	0.87	10.92			
PEER AVERAGES		3.8		1.01	-0.35	0.87	10.46			

Target Date fund review summary follows fund number 29.



FUND # 27	VANGUARD TARGET RETIREMENT 2030						VTHR
	ASSETS: \$ 2,676,190		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	21.31	9.78	1.02	20.64	8.30	0.13	0.67	1.48	0.89

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	4	6.3	0.99	0.29	0.75	13.64
PEER AVERAGES		3.8	1.29	-2.13	0.74	13.23

Target Date fund review summary follows fund number 29.

FUND # 28	VANGUARD TARGET RETIREMENT 2040						VFORX
	ASSETS: \$ 2,546,543		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	23.31	10.00	0.80	22.13	8.35	-0.71	1.18	1.65	1.51

	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV
FUND STATISTICS	4	6.3	1.11	-0.44	0.70	15.21
PEER AVERAGES		3.8	1.45	-3.20	0.68	14.90

Target Date fund review summary follows fund number 29.



FUND # 29		VANGUARD TARGET RETIREMENT 2050						VFIFX		
		ASSETS: \$ 1,279,740		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	23.33	10.02	0.78	22.13	8.35	-0.71	1.20	1.67	1.49	
	M*	MGR TENURE		BETA	ALPHA	SHARPE	3 YR STD DEV			
FUND STATISTICS	4	6.3		1.11	-0.42	0.70	15.21			
PEER AVERAGES		3.3		1.48	-3.42	0.68	15.29			

The Vanguard low cost passively managed target funds are performing as expected. With the third quarter equity rally the Vanguard Target Retirement Income fund underperformed due to their more conservative asset class composition. The Retirement Income fund has a standard deviation that is 30% lower than the peer group.

The 2020 target fund underperformed due to the conservative bond portfolio.

As a series of target funds their trailing five (5) year annualized gain beats 88% of its peers. The conservative bond holdings are heavily invested in somewhat longer durations and in government debt. This high quality bond portfolio is subject to interest rate risk and when higher yielding, lower quality bonds perform better, (as happened in the 3rd quarter), the performance of both the Retirement Income and 2020 funds will be impacted.

RECOMMENDATION: No action at this time.



SPECIALTY:

FUND # 30	ING GLOBAL REAL ESTATE						IRGIX		
	ASSETS: \$ 2,897,001			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	26.49	10.29	-1.94	29.82	10.07	-3.60	-3.33	0.22	1.66
	M*	MGR TENURE	BETA	ALPHA	SHARPE	3 YR STD DEV			
FUND STATISTICS	4	6.8	1.00	-1.12	0.65	18.19			
PEER AVERAGES		4.8	1.03	2.52	0.62	19.20			

Despite a year to date performance of 18.30% trails the benchmark for the one (1) year comparison. The holdings in both the United States, (45% of the portfolio) and Japan, (14%), had a negative impact on recent performance.

RECOMMENDATION: No action at this time.



ASSET ALLOCATION:

FUND # 31	ASSET ALLOCATION FUNDS AGGRESSIVE								
	ASSETS: \$ 24,519,137			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	22.49	8.72	0.33	22.18	8.86	0.10	0.31	-0.14	0.23

Asset Allocation fund review summary follows fund number 33.

FUND # 32	ASSET ALLOCATION FUNDS MODERATE								
	ASSETS: \$ 34,478,133			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	17.72	8.08	2.55	17.06	7.69	1.68	0.66	0.39	0.87

Asset Allocation fund review summary follows fund number 33.



FUND # 33
ASSET ALLOCATION FUNDS CONSERVATIVE

ASSETS: \$ 13,496,052

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	11.25	6.30	3.67	10.41	5.69	2.96	0.84	0.61	0.71

These funds are performing as expected. In the Aggressive Allocation the comparison against the benchmark is negative in the three (3) year comparisons by a very small difference. The major contributor to the under performance is Growth Fund of America.

RECOMMENDATION: No action at this time.



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 the Watch List:

ACTION	FUND #	TICKER	FUND NAME	INVESTMENT POLICY	QUARTER ADDED
	1	AGTHX	GROWTH FUND OF AMERICA	Remain on Watch List due to performance. This fund has underperformed to the benchmark in 13 of the last 16 quarters. The 3 / 5 year Information Ratios are (1.08) / (0.23).	4Q 2010
	7	RSEDX	COLUMBIA DIVERSIFIED EQUITY INCOME	Watch List due to performance. The 3 / 5 year Information Ratios are (0.1.10) / (0.81).	3Q 2012
	12	RSCMX	COLUMBIA MIDCAP VALUE	Remain on the Watch List due to performance. The 3 / 5 year Information Ratios are (0.39) / (0.23).	1Q 2012
	18	DFISX	DFA INTERNATIONAL SMALL COMPANY	Remain on Watch List due to performance. One (1), three (3) and five (5) year performance below standards. The 3 / 5 Information Ratios are 0.64 / 0.48.	4Q 2011
	20	JAIGX	JANUS ASPEN OVERSEAS	Watch List due to performance. The 3 / 5 year Information Ratios are (0.38) / (0.01).	3Q 2012
	21	LSIIX	LOOMIS SAYLES INVESTMENT GRADE	Watch List for manager change. The 3 / 5 year Information Ratios are 0.70 / 0.25.	3Q 2012

