SST BENEFITS CONSULTING

COUNTY of SAN BERNARDINO
EXECUTIVE SUMMARY
DEFINED CONTRIBUTION PLANS
1st QUARTER 2010

	1st Qtr	1 Yr.	3 Yr.	5Yr.
457 Plans Performance	4.70%	53.35%	-2.33%	5.01%
Customized Benchmark	5.15%	51.68%	-3.14%	3.22%
Difference	-0.45%	1.67%	.81%	1.79%
401(k) Plan	4.94%	53.93%	-2.11%	5.11%
Customized Benchmark	5.21%	51.00%	-3.38%	3.04%
Difference	-0.27%	2.93%	1.27%	2.07%
Retirement Medical Trust	4.62%	52.22%	-1.84%	5.14%
Customized Benchmark	5.20%	49.77%	-1.19%	3.99%
Difference	-0.58%	2.45%	-0.65%	1.15%

PORTFOLIO ANALYSIS

ASSETS:

The total assets in all of the County of San Bernardino plans have increased from $507 million at the end of the fourth quarter, 2009 to $522 million at the end of the first quarter, 2010. This includes $2,400,000 in the Self Directed Brokerage Account, (close to the amount in December, but much higher than the amount in the Self Directed Brokerage Account at the end of the third quarter, $836,319).

457 PLAN CASH POSITION:

The stable value rate for the first quarter was 2.00%. Only $1.4 million transferred from the Stabilizer to the mutual funds. This is half of what transferred in the third quarter. The percentage of assets in the fixed interest bearing account has decreased from 39.74% as of December 31, 2009 to 37.58%.

401(K) PLAN CASH POSITION:

The percentage of assets in the fixed interest bearing account changed very little. The assets in the Stabilizer decreased from 30.00% as of December 31, 2009, to 27.98%. Only a net of $311,000 transferred out of the Stabilizer.

Retirement Medical Trust Cash Position:

There was a small decrease in the percentage of assets in the fixed interest account with 82.44% now in the ING General account.

457 Plans Mutual Funds Position:

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 portfolio is -0.08 which is better than the benchmark of -0.14 (over three years).

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 21.25 which is higher than the benchmark of 20.39.

The Alpha, a measurement of the value added by the investment manager is 1.12. 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).

401(k) Mutual Funds Position:

The Sharpe Ratio for the 401(k) portfolio improved and is now -0.07 which is better than the benchmark of -0.15 (over three years).

The three-year Standard Deviation for the portfolio is 21.24. It is higher than the benchmark of 20.12. The Alpha is 1.70 and the Beta is 1.05.

Retirement Medical Trust (RMT) Mutual Funds Position:

The percentage of mutual fund assets in the RMT has grown from 16.23%, as of December 31, to 17.66% including the risk based asset allocation funds. The increase is primarily due to equity appreciation.

The RMT under performed the 457 and 401(k) portfolios due to a higher mutual fund allocation to Growth Fund of America and Thornburg Growth, which had an under performance to the benchmark in the first quarter. That is the same reason the portfolio under performed the customized index.

The Sharpe Ratio for the RMT portfolio is -0.07 and is the same as the benchmark. The three-year Standard Deviation for the portfolio is 20.17. It is higher than the benchmark of 19.25. The Alpha is -0.42 and the Beta is 1.04. The negative Alpha is caused by performance against the Beta. The performance was not as good as expected based on the portfolio risk.

PERFORMANCE OF INDEX FUNDS VS. ACTIVELY MANAGED FUNDS:

	1st Qtr.	1 year	3 year	5 year
Large Cap				
Vanguard Institutional Index	**5.39**	**49.91**	**-4.10**	**1.95**
American Growth Fund	4.17	45.94	-2.25	4.10
Columbia Marisco	5.65	60.73	-3.85	4.35
Janus Contrarian	8.42	75.10	-4.35	6.80
Main Stay ICAP Select Equity	6.82	48.49	-3.32	3.59
RiverSource Div Equity Inc.	5.31	53.52	-4.93	2.57
Mid Cap				
Vanguard MidCap Index Signal	**8.64**	**66.63**	**-3.39**	**4.18**
Thornburg Core Growth	1.57	50.25	-7.91	4.11
Fidelity Adv Lev Co	7.82	94.33	-3.62	4.54
RiverSource MidCap Value	7.86	69.88	-3.65	4.82
Small Cap				
Vanguard Small Cap Index	**9.65**	**72.54**	**-2.30**	**4.49**
Baron Growth	6.61	54.55	-3.35	2.23
Royce Value Plus	5.31	59.44	-4.65	5.46
Keeley Small Cap Value	7.06	61.91	-7.08	2.96

Usually we illustrate that a majority of the actively managed funds outperform the passively managed index funds, with the exception of large cap; that was not the case this quarter. The stocks that led the recent rally were more speculative, had more risk, weaker financials and overall lacked the pedigree that most of the active managers in this portfolio are looking for as prudent investments. The index funds have an advantage of low cost. Index funds cannot avoid any sector, like Media, or stock that meets the capitalization boundaries. Also, unlike actively managed funds, index funds are devoid of cash holdings. This is a disadvantage in some markets but can be an advantage in other markets, like the market we have currently.

MUTUAL FUNDS

1. American Growth Fund of America Market Cap: $44 billion

This fund has continued to underperform over the one and three-year periods against its peers and index, though as we commented last quarter, we believe this is due to a higher quality portfolio than its peers or the index. Unlike many growth stock managers, the managers of this fund are very selective regarding the price they are willing to pay for a stock. This philosophy holds the fund back during market rallies, as it will retain assets in cash rather than buying stocks at what they consider an unreasonable price. They currently have a nearly 10% cash position.

The fund has become very large in terms of assets, though its assets are down a third from its high. This has forced the fund to stick with the mega-cap stocks, as its Weighted-Average Market Cap demonstrates. We think this strategy will benefit this fund if markets become more volatile and smaller fare fall from favor.

Capital Group, the parent company for American Funds has increased the portfolio limits on the percentage of assets that can be invested internationally for this fund. The increase is from 15% outside the U.S. **and** Canada to 25% outside the U.S. **including** Canada. Canada represents 4.5% of the assets, so the actual increase in international equity limits is about 5.5%, from 19.5% including Canada to 25%.

2. **Columbia Marsico 21st Century Market Cap: $18 billion**

   Columbia Asset Management was sold by Bank of America to Ameriprise last Fall; the transaction is expected to close in late May, 2010. It is expected that the Columbia name will be retained and that there will be no changes to the management of this fund.

   This fund is managed in the exact opposite manner of Growth Fund of America. This fund offers a highly concentrated, high turnover, high volatility trading strategy to generate return. The market cap is only 40% of Growth fund which indicates it buys much smaller companies (but still considered large cap) and the manager is not afraid to make big bets. The bet that appears to be continuing is on financials, with nearly a third of the portfolio dedicated to that sector. This bet has paid off in a big way with large over performance over the past year, but any weakness in financials will hurt this fund.

   This fund fluctuates about 20 - 25% more than Growth fund, though its longer term returns have been about equal.

3. **Janus Contrarian Market Cap: $9.7 billion**

   There is a lot to like at this fund besides performance, which has been nothing less than spectacular. David Decker, the manager, has invested "nearly his entire liquid net worth" in this fund. This fund is very unique in the money management world (as its name would indicate) in that the manager is not constrained to a specific asset class, he can go where ever he wants to and buy stocks he finds favorable - regardless of country, size or category. This makes the fund extremely difficult to benchmark, but the prospectus compares the fund to the MSCI All Country World Index. Utilizing this index, the fund has beaten it by 20% over the past year. We have customized the peer group average comparison to reflect a more accurate investment of asset classes.

   Of course this over performance comes with a price, the fund can be volatile, falling about 60% during the bear market and posting high standard deviations for three and five years. The performance, while impressive on the upside, only brought the fund even with the index over three years.

Currently 20% of the assets are in emerging markets, mainly focused on Asia. There is also a large bet on the Financial sector (32%). These two allocations alone explain much of the over performance during the past year. This large bet on the Financial sector was early and afforded the manager the opportunity to buy financial stocks at a bargain. However, being early did impact the 2008 performance which was in the 96th percentile.

4. **Vanguard Institutional Index Market Cap: $44 billion**

This is a well performing index fund that outperforms the index. Most index funds under perform the index by at least the expense. The extremely low cost of 0.05% is also very attractive.

5. **Mainstay ICAP Select Equity Market Cap: $44 billion**

This fund continues to meet its objectives. The fund has become more concentrated in the Large Blend category (51% of assets) and remains concentrated in general with only about 30 stocks. Despite the concentrated nature of the fund its relative risk has been about the same as the index.

6. **RiverSource Diversified Equity Market Cap: $35 billion**

One of the managers, Warren Spitz left the fund late last year, though he is still with the company and acts as an advisor to the fund. This fund is meeting all the policy objectives set out for it and has continued to outperform. It focuses on dividend paying stocks and overall in 2009 dividends payments were reduced in 2008-09 which had some impact on the performance. Dividends are on the increase in 2010 so we expect improved performance this year. This fund has managed to avoid the trap of over-focusing on a specific sector, though it does have 20% of the assets dedicated to Materials.

7. **Thornburg Core Growth Market Cap: $9.4 billion**

This fund continues to struggle; it has now underperformed its index over all time periods and is just barely beating its peers over five, trailing for the one and three. Performance was impacted with a high allocation to the Telecommunication sector. Thornburg invests nearly three times the percent of assets in Telecommunication as its peer group. That sector was the worst performing sector of the sixteen major sectors with a negative first quarter performance of **-3.15%.** The one year performance was only 16.30%, by far the lowest performing sector. Having said that, the fund was up an incredible 46% in 2009, of course this was after a 50% loss in 2008. The fund's market cap is about twice the category average and is concentrated.

8. Fidelity Advisor Leveraged Company Stock Market Cap: $4.5 billion

The fund performance achieved a twelve month return in excess of 94%. The fund has outpaced its peers and index handily (31%) over these past twelve months due to the greatest risk rally in history. The manager focuses on companies with less than stellar credit ratings and heavy debt loads. When the credit markets dried up in 2008 and companies had difficulty gaining access to new capital this fund took a big hit. In 2009 when liquidity returned to the markets the lower quality investments rallied.

Investors who have been patient with the volatility of this fund have been rewarded. Despite this funds amazing year, its longer term record is mediocre with high fluctuation. The fund is trailing its index and category over three years and barely beating them over five. The three year standard deviation is 34 versus 25 for the index and yet, they have nearly identical returns. Over five years this funds standard deviation is 27 versus 20 for the index with almost identical returns.

9. Vanguard Mid Cap Index Market Cap: $4.8 billion

This is a well performing index fund that outperforms the index. Most index funds under perform the index by at least the expense. The low cost of 0.15% is also very attractive for a midcap index fund.

10. RiverSource MidCap Value Market Cap: $6 billion

This fund has outperformed over all time periods, though with more fluctuation than its peers and index. The fund currently has 25% of assets in the Materials sector, (similar to the RiverSource Diversified Equity fund), and this provided a boost to performance. Warren Spitz has officially stayed on as lead manager of this fund.

11. Baron Growth Market Cap: $2.5 billion

The following is a quote from Ron Baron regarding recent underperformance:
"Highly leveraged and, in our view, lower-quality companies performed well during this period, many of them recovering sharply from near bankruptcies. Baron Growth Fund, however, invests for the long term, primarily in what we believe are financially strong companies."

Baron Growth's history has shown that in fact they do pick and stand by quality companies. We believe this is a quality relative return fund and we believe the management and philosophy is sound. We also note that for all periods measured Morningstar rates the return as "Above Average" with risk "Low", an uncommon trait to find in a fund.

Performance was impacted over the past one-year due to negligible investments in the Media sector and in the Industrial Materials sector. Both sectors had great one-year performance and the peer group held a significant percentage of assets in both.

12. Royce Value Plus   Market Cap: $1.45 billion

Royce is one of the best small cap managers in the world and this fund has a good history of over performance with reasonable risk. The fund may occasionally make sector bets, but it has been able to manage these bets well. The fund has a very low debt-to-capital ratio of 14% versus 34% for the index.

13. Keeley Small Cap Value   Market Cap: $1.4 billion

The performance against the peer group is improving. The one-year performance as of September, 30, 2009 was a negative 14% and as of December 31, 2009 the one-year performance was a negative 10%. It is now negative to the peer group by 4.20%. This fund has a great long term record but trailed the peer group and index in 2008-09. The fund is not afraid to ignore sectors, or to go heavy into a sector it feels is undervalued, such as Industrial Materials which currently makes up 35% of the fund.

This fund is up 62% over the past twelve months bringing its five-year return positive against its peers, though not its index.

The manager, John Keeley, focuses on stocks not often included in the small cap indexes. He buys stocks of companies that were spun off from other companies, are emerging from bankruptcy or are trading below book value. 20% of the stocks in the portfolio are considered Micro, (having less than $250 million in capitalization).

14. Vanguard Small Cap Index   Market Cap: $1.1 billion

This is a well performing index fund that outperforms the index. Most index funds under perform the index by at least the expense.

15. Morgan Stanley Small Value   Market Cap: $1.1 billion

After several years of stellar results this fund finally under performed to their peer group, by 1.64% over the past twelve months. Even with the under performances the twelve month return was a blistering 69.44%. This fund also manages to earn a "Below Average" risk grade from Morningstar, despite being rather concentrated in an asset class where concentration can backfire. This fund remains a solid Small Cap offering.

16. American Funds Capital World Growth and IncomeMarket Cap: $44 billion

This fund is underperforming in the short term but this is mainly due to its higher quality portfolio which hasn't rallied as much as lower quality stocks. The long term record is enviable and the return historically has been "Above Average" with "Average" risk according to Morningstar. The fund is well diversified and has a relatively low turnover rate. This fund should continue to be a strong fund long term. Managers Alwyn Heong and Timothy Dunn have both retired from Capital Research and are no longer managing assets for this fund.

17. DFA International Small Company Market Cap: $826 million

Essentially an index fund, this fund has performed as expected and remains a great option for those looking for relative international small cap exposure. Year to date its 2010 performance ranks in the top 17% of its index.

18. Dodge and Cox International Stock Market Cap: $28 billion

Dodge and Cox is a good fund company, one of the best despite some slip ups in 2008, Bank of Scotland and the exposure to emerging markets. This fund in particular had a tremendous year, beating its peers and index by significant margins. Much of this over performance can be attributed to its hefty stake in emerging markets (which has stayed relatively constant at 21%) versus its rivals. The fund does take risk to achieve these higher returns and investors should expect fluctuation with this fund.

19. Janus Aspen Overseas Market Cap: $7.7 billion

This fund takes additional risk and earns a lot of returns, which has earned it the number one rank in its category for all time periods Morningstar covers. Exposure to emerging markets fueled some of the past twelve months nearly 90% return, but not all of it. This fund has double the exposure to emerging markets, 28% as its peers. The fund has a hefty stake in Asia, currently 44% and a 29% stake in financials.

This international fund took a big hit in 2008 because of its emerging market exposure. The standard deviation is higher than the peer group, as the Beta indicates, 1.23 versus 1.04 for the peer group.

We are concerned about the volatility that is present as the manager does make big sector bets. To mitigate some risk the manager has invested more assets in domestic companies that have a heavy overseas presence, e.g. Ford.

20. Loomis Sayles Investment Grade Bond

This fund was hard hit during the bear market but has bounced back as the credit markets have thawed and the portfolio remains above investment grade with an average credit quality of A, ("A" is defined as Strong by the rating agencies). Performance continues to grow against the peer group average. In terms of ranking against the competition, this fund ranks in the top 1% over the five and ten-year periods. It ranks in the 5th percentile over the past year and in the 7th percentile over the three year period. These rankings are impressive when taken into consideration the performance in 2008 was in the 82nd percentile.

This fund is volatile with a standard deviation of 2.5 times the benchmark index. However despite its volatility investors have been rewarded over time.

21. Oppenheimer International Bond

This fund continues to perform well, though it is not without its own risk. While management prides itself on its risk management, the fund invests in derivative instruments that have unique risks. This is a bond fund that should be used as a complement to a fixed income portfolio. The fund is really focused on currencies and has substantial exposure to emerging markets. There is one bond issued from the Spanish government in the top twenty-five holdings and no significant investments in Greece or Portugal.

The manager has a large team supporting him and he himself has run this fund from its inception, with the exception of the years 2003 through 2004.

22. Pioneer Global High Yield

This fund has handily beat its peers this past year, by 26%, though is about even over three years. Interesting to note is that while the fund has handily beat its prospectus index over the last twelve months, it has not done so over the past three and five year periods, trailing by 2% and 0.75% respectively. However, it does outperform its peer group in all periods. During the credit crisis of 2008, this fund took bigger hits than it's peers. Helping performance is that many companies with lower financial ratings paid down debt with excess cash and the increased merger and acquisition activity also aided performance.

This fund is tough to compare to typical high-yield funds because it is anything but typical. The fund is global in nature, may purchase bonds in other currencies and has exposure to emerging markets; all of which will help or hinder the fund versus its peers depending on the environment. However, recent focus has been on domestic securities and emerging markets were under weighted.

23. American Funds Income Fund of America

This fund is interesting in that it buys relatively less risky stocks, but relatively more risky bonds. The stock portion is made up of higher quality dividend payers while the bond portion has a higher than average (for a balanced fund) allocation to what are essentially lower quality, higher yield bonds. The fund is well managed with a good track record.

24. Pax World Balanced

This fund continues to underperform over every time period measured. The one year performance has declined from a **-2.53%** in December, 2009 to **-8.20%**.

Recommendation: **Deletion**

25-29. Vanguard Target Retirement Date Funds

Vanguard is a great company with good funds and low costs; the Target Date lineup is no different. The conservatively managed Retirement Income fund trails its benchmark by only one basis point, 0.01% over a five year period.

30. ING Clarion Global Real Estate

This fund provides reasonable exposure to real estate both domestically and internationally with a focus on international, which makes up 63% of assets. ING has this fund and the entire ING Global Real Estate division up for sale, BlackRock has emerged as a potential bidder. BlackRock is partially owned by Bank of America Merrill Lynch (as well as PNC and Barclays PLC). We will continue to monitor, but see this as a positive development as BlackRock is not expert in this area, despite strength in nearly all other asset management categories, leading us to believe BlackRock would depend on current management for this fund's continued operation.

Recommendation: **Watch List due to potential ownership change**

31-33. Asset Allocation Funds

The three risk based asset allocation funds are performing as designed. The Aggressive Allocation Fund is under achieving due to the more conservative approach of this fund to the benchmark.

Performance of the Conservative Allocation Fund was affected by the 50% weight of the Stabilizer with the 2% credited interest rate. Only 25% of the assets are exposed to equities; the benchmark has 40% exposure to equities. Also, there is a higher allocation to international stocks due to the investment style of the domestic equity funds.

WATCH LIST

Pursuant to the County of San Bernardino Investment Policy Statement, investments must meet and/or exceed their respective peer group benchmarks for both the three (3) and five (5) year periods. The following investment does not meet that standard:

24. Pax World Balanced – This is the fourth quarter Pax World Balanced has been placed on the Watch List. We recommend deletion due to its continued under performance against the benchmark.

30. ING Clarion Global Real Estate – Due to potential ownership change