MARKET REVIEW
FOURTH QUARTER, 2014

INDEX	4TH QUARTER %	1 YEAR %	3 YEAR %	5 YEAR %
Dow Jones Industrial	5.20	10.04	16.29	14.22
NASDAQ Composite	5.40	13.40	22.05	15.85
Standard & Poor's 500	4.93	13.69	20.41	15.45
Russell 1000	4.88	13.24	20.62	15.64
Russell Midcap	5.94	13.22	21.40	17.19
Russell 2000	9.73	4.89	19.21	15.55
Barclay US Aggregate Bond	1.79	5.97	2.66	4.45
MSCI World ex. US	-3.69	-4.32	10.47	5.21
MSCI Emerging Markets	-4.50	-2.19	4.04	1.78
COUNTY OF SAN BERNARDINO 457(b) PLAN PERFORMANCE	**3.19**	**7.58**	**17.47**	**12.81**
COUNTY OF SAN BERNARDINO 401(k) PLAN PERFORMANCE	**3.33**	**7.78**	**17.63**	**12.98**
COUNTY OF SAN BERNARDINO RMT PLAN PERFORMANCE	**2.71**	**7.26**	**14.42**	**11.39**

US capital markets posted strong results in the fourth quarter, capping off what was a very good year for both U.S. equities and fixed income. U.S. equities posted a positive 5.2 percent for the quarter, finishing the year up 12.6 percent (Russell 3000 Index). U.S. fixed income posted a healthy 1.8 percent return for the quarter, finishing the year up 6.0 percent (Barclays Capital Aggregate Bond Index). Rates continued to decline over the quarter, with the 10-year Treasury finishing at 2.17 percent, down a full 0.86 percent from where it ended in 2013. International equities ended the quarter and year in negative territory, posting a negative 3.5 percent for the quarter and a negative 4.5 percent return for the year (MSCI EAFE). The underperformance in international equities was largely due to the rising U.S. dollar against its foreign currency counterparts, translating into lower returns for U.S.-based investors.

While a strong GDP (Gross Domestic Product) report helped spark a late year-end rally in the U.S markets, the fourth quarter produced additional notable events. Earlier in the quarter the Fed ended its long term bond buying quantitative easing program known as "QE3." This supplied some comfort knowing the Fed continued to feel the U.S. economy would grow without additional stimulus. Oil prices however became more of a concern with their continued sharp decline over the quarter. While lower prices at the pump provided consumers with more disposable income around the holiday season, investors were less sure what the drop meant for the U.S. economy long term. Some countries, like Russia, where oil plays a central role witnessed stock markets that fell with the price of oil. Because of oil's importance to the U.S. economy, it will certainly be closely followed in 2015.

Oil's importance to the U.S. has grown significantly over the past few years. Today, the U.S. economy is more dependent on the oil industry than at any time in its recent past. In fact, the U.S. is now one of the world's largest oil producers, recently surpassing Saudi Arabia. Because of this, lower oil prices will certainly dampen the industry's growth prospects if they remain at their current low levels for any extended period of time. Oil has also played an important role in the recent U.S. economic recovery. In addition to the price of oil, investors will be watching the Fed closely in 2015. With QE3 now over, the next important monetary policy action will be when and to what extent the Fed begins to tighten short term rates. A small rate hike is expected to happen near the middle of the year. Monetary policy is different abroad as foreign central bankers are looking to ease monetary policy, not tighten it.

U.S. Equity	International Equity	Fixed Income
U.S. equity posted a 5.2 percent return for the quarter (Russell 3000 Index). All U.S. equity styles posted positive returns for the quarter, with small cap equity outperforming large cap equity. Small cap growth was the best performing U.S. equity style, posting a positive 10.1 percent return (Russell 2000 Growth). The worst performing style was large growth, posting a positive 4.8 return (Russell 1000 Growth).	Developed international equity under-performed U.S. equity over the quarter, returning a negative 3.5 percent (MSCI EAFE). All international equity styles except for mid value experienced negative returns for the quarter. The best performing region for the quarter was Pacific ex Japan, which returned a negative 1.5 percent (MSCI Pacific ex Japan). Emerging markets was the worst performing region, returning a negative 4.4 percent (MSCI EM).	The broad U.S. fixed income market posted a healthy gain for the quarter, returning a positive 1.8 percent (Barclays Capital U.S. Aggregate). Government bonds were the best performing sector, returning a positive 1.9 percent (BC Government). High yield was the worst performing sector, returning a negative 1.0 percent (BC High Yield Corporate). Global fixed income underperformed the broad U.S. fixed income market, returning a negative 0.65 percent (BofA ML Global Broad Market) for the quarter.

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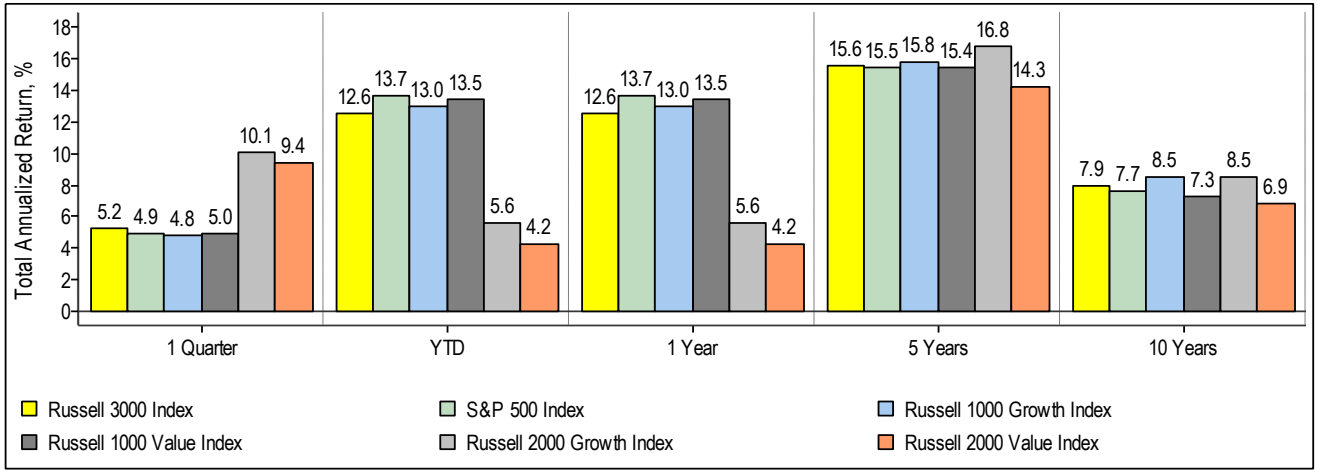
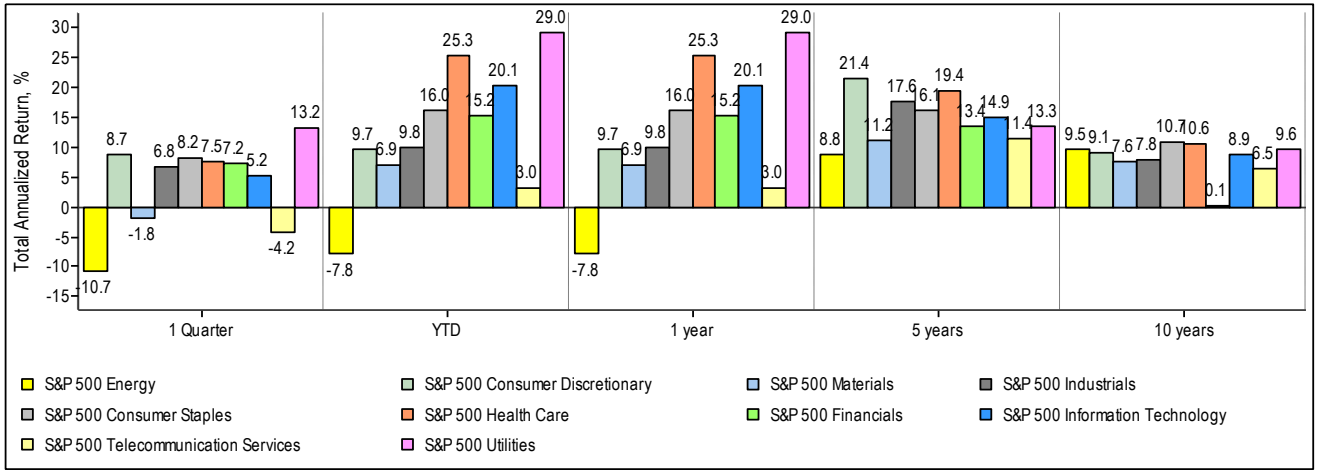
Domestic Equity Overview

- U.S. equity produced strong positive returns for the quarter across all styles
- Small cap equity outperformed large cap equity
  - Small cap growth was the best performing style, up 10.1%
  - Large growth was the worst performing style, up 4.8%
- Best performing sectors for the quarter:
  - Utilities, up 13.2%
  - Consumer Discretionary, up 8.7%
- Worst performing sectors for the quarter:
  - Energy, down 10.7%
  - Telecom, down 4.2%

U.S. Equity Index Performance



U.S. Equity Sector Performance



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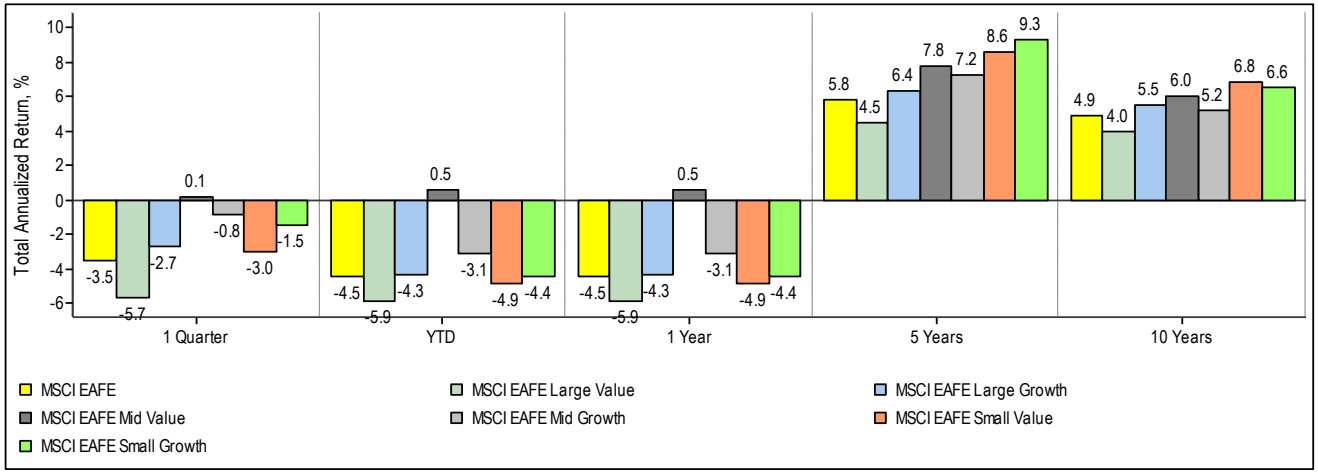
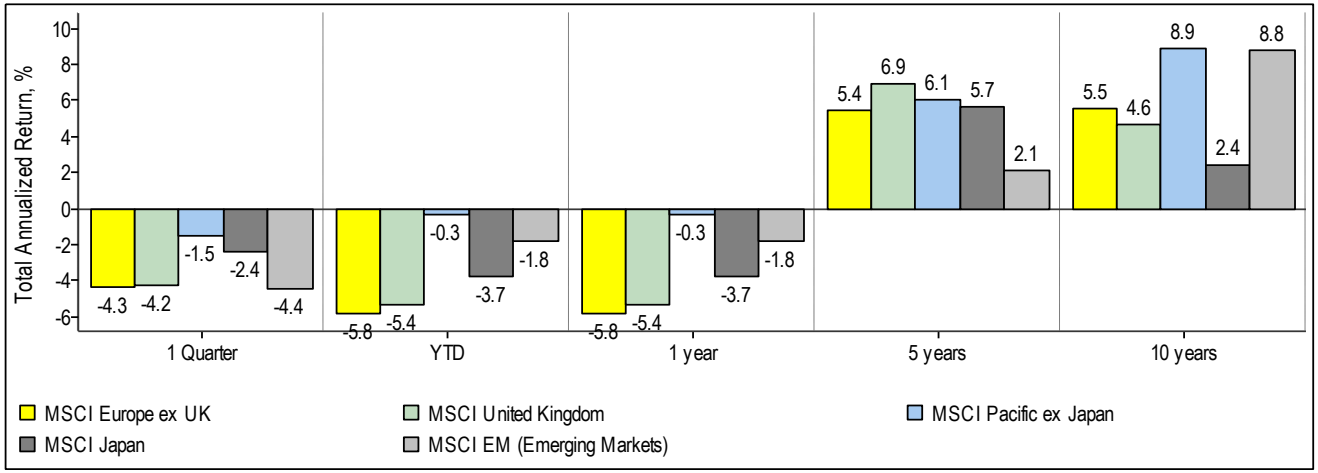
International Equity Overview

- All international styles posted negative returns for the quarter except for mid value
- The best performing style for the quarter:
  - Mid value, up 0.1%
- The worst performing style for the quarter:
  - Large value, down 5.7%
- Best performing region for the quarter:
  - Pacific ex Japan, down 1.5%
- Worst performing region for the quarter:
  - Emerging Markets, down 4.4%

International Index Performance by Style and Capitalization



International Index Performance by Region



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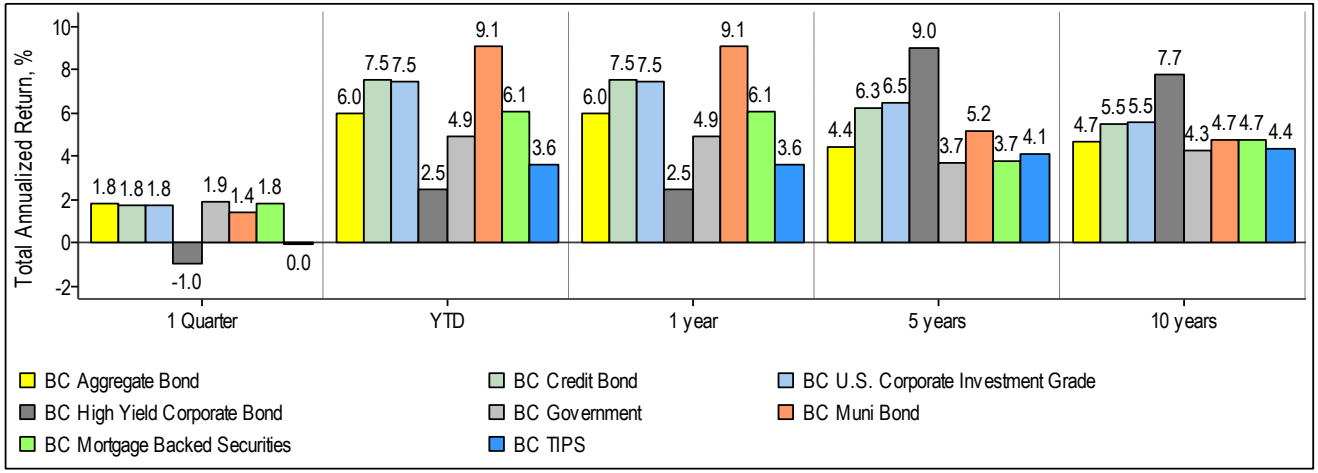
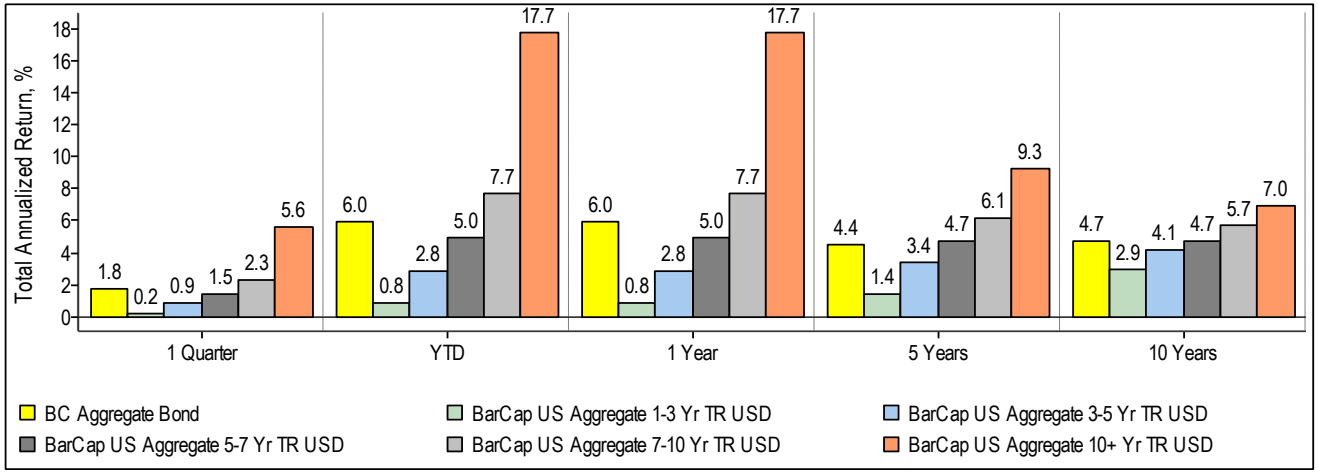
Fixed Income Overview

- Fixed income performance was positive across all sectors except for High Yield
- The best performing sector for the quarter:
  - Government, up 1.9%
- The worst performing sector for the quarter:
  - High Yield, down 1.0%
- Yields declined over the quarter, benefitting most fixed income sectors
- Longer term maturities, which are more sensitive to changes in yield, outperformed as a result

Fixed Income Sector Performance



Fixed Income Performance by Maturity



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Annualized Style Box Performance

1 Quarter (%)			
Value	Blend	Growth	
4.52	4.41	4.31	Large
6.05	5.94	5.84	Mid
9.40	9.73	10.06	Small
Int'l Equity	Global Equity	Core Fixed Income	3-Month T-Bill
-3.53	1.01	1.79	0.00

3 Year (Annualized %)			
Value	Blend	Growth	
20.42	20.28	20.13	Large
21.98	21.40	20.71	Mid
18.29	19.21	20.14	Small
Int'l Equity	Global Equity	Core Fixed Income	3-Month T-Bill
11.56	15.47	2.66	0.07

Year to Date (%)			
Value	Blend	Growth	
12.94	13.25	13.57	Large
14.75	13.22	11.90	Mid
4.22	4.89	5.60	Small
Int'l Equity	Global Equity	Core Fixed Income	3-Month T-Bill
-4.48	4.94	5.97	0.03

5 Year (Annualized %)			
Value	Blend	Growth	
14.55	15.01	15.48	Large
17.43	17.19	16.94	Mid
14.26	15.55	16.80	Small
Int'l Equity	Global Equity	Core Fixed Income	3-Month T-Bill
5.81	10.20	4.45	0.09

1 Year (%)			
Value	Blend	Growth	
12.94	13.25	13.57	Large
14.75	13.22	11.90	Mid
4.22	4.89	5.60	Small
Int'l Equity	Global Equity	Core Fixed Income	3-Month T-Bill
-4.48	4.94	5.97	0.03

10 Year (Annualized %)			
Value	Blend	Growth	
6.42	7.33	8.22	Large
9.43	9.56	9.43	Mid
6.89	7.77	8.54	Small
Int'l Equity	Global Equity	Core Fixed Income	3-Month T-Bill
4.91	6.03	4.71	1.54

Performance as of December 31, 2014. Data is for informational purposes only and cannot be guaranteed. Past performance does not guarantee future results. Russell Top 200, Top 200 Growth, and Top 200 Value used for Large Blend, Large Growth and Large Value categories. Russell Mid-cap, Mid-cap Growth and Mid-Cap Value used for Mid Blend, Mid Value and Mid Growth categories. Russell 2000, 2000 Growth and 2000 Value used for Small Blend, Small Growth and Small Value categories. MSCI EAFE used for International Equity category. MSCI Global used for World equity category.

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Kaleidoscope: Changing Leadership

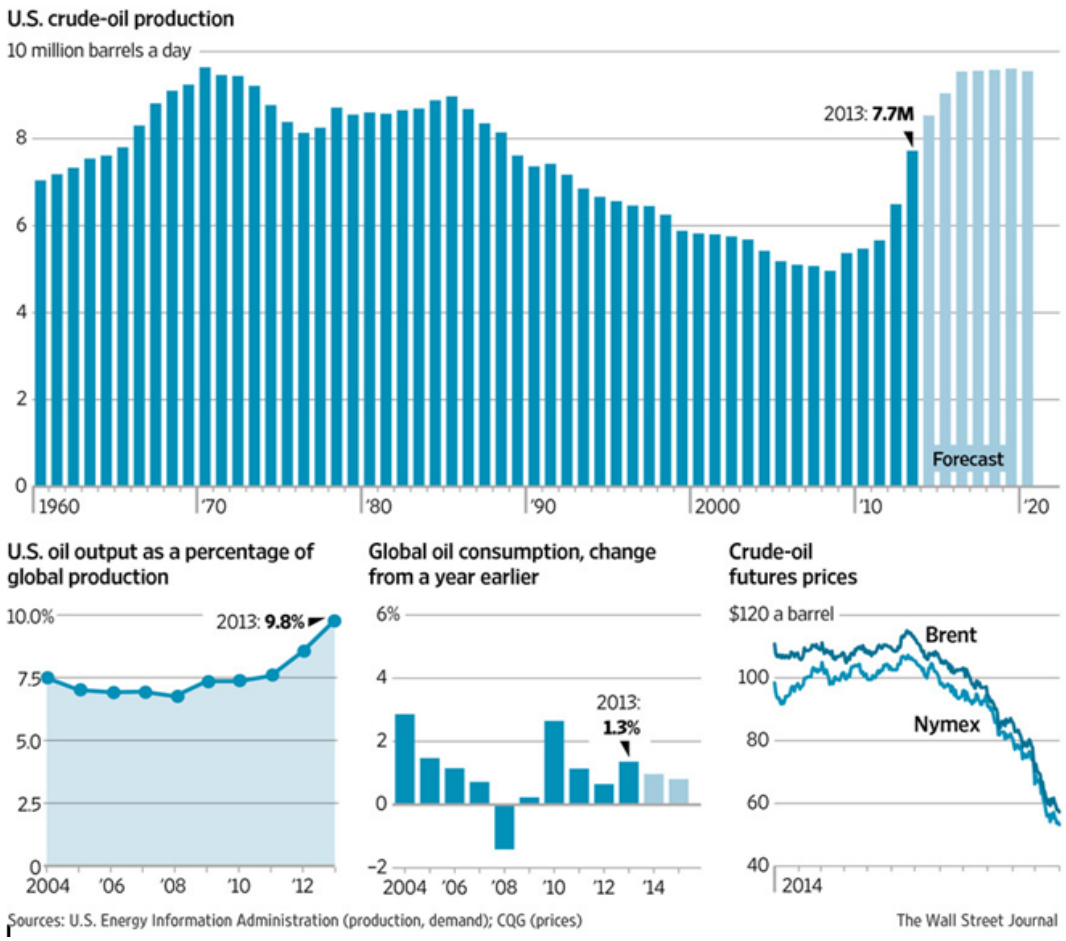
The following chart exhibits the volatility of asset class returns from year to year by ranking certain key indices in order of performance. Also included in the chart is a balanced index, which represents a mix of U.S. equity, international equity and fixed income indices. The chart graphically displays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

2004	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*
22.25 Russell 2000 Value	14.02 MSCI EAFE USD	26.86 MSCI EAFE USD	11.81 Russell 1000 Growth	5.24 BarCap US Agg	37.21 Russell 1000 Growth	29.09 Russell 2000 Growth	7.84 BarCap US Agg	18.05 Russell 2000 Value	43.30 Russell 2000 Growth	13.45 Russell 1000 Value
20.70 MSCI EAFE USD	7.05 Russell 1000 Value	23.48 Russell 2000 Value	11.63 MSCI EAFE USD	-22.48 Balanced Index*	34.47 Russell 2000 Growth	24.50 Russell 2000 Value	3.04 Balanced Index*	17.90 MSCI EAFE USD	34.52 Russell 2000 Value	13.05 Russell 1000 Growth
16.49 Russell 1000 Value	5.45 Balanced Index*	22.25 Russell 1000 Value	7.05 Russell 2000 Growth	-28.92 Russell 2000 Value	32.46 MSCI EAFE USD	16.71 Russell 1000 Growth	2.64 Russell 1000 Growth	17.51 Russell 1000 Value	33.48 Russell 1000 Growth	8.15 Balanced Index*
14.31 Russell 2000 Growth	5.26 Russell 1000 Growth	13.35 Russell 2000 Growth	6.97 BarCap US Agg	-36.85 Russell 1000 Value	20.58 Russell 2000 Value	15.51 Russell 1000 Value	0.39 Russell 1000 Value	15.26 Russell 1000 Growth	32.53 Russell 1000 Value	5.97 BarCap US Agg
9.84 Balanced Index*	4.71 Russell 2000 Value	12.17 Balanced Index*	6.61 Balanced Index*	-38.44 Russell 1000 Growth	20.05 Balanced Index*	12.47 Balanced Index*	-2.91 Russell 2000 Growth	14.59 Russell 2000 Growth	23.29 MSCI EAFE USD	5.60 Russell 2000 Growth
6.30 Russell 1000 Growth	4.15 Russell 2000 Growth	9.07 Russell 1000 Growth	-0.17 Russell 1000 Value	-38.54 Russell 2000 Growth	19.69 Russell 1000 Value	8.21 MSCI EAFE USD	-5.50 Russell 2000 Value	11.79 Balanced Index*	17.42 Balanced Index*	4.22 Russell 2000 Value
4.34 BarCap US Agg	2.43 BarCap US Agg	4.33 BarCap US Agg	-9.78 Russell 2000 Value	-43.06 MSCI EAFE USD	5.93 BarCap US Agg	6.54 BarCap US Agg	-11.73 MSCI EAFE USD	4.22 BarCap US Agg	-2.02 BarCap US Agg	-4.48 MSCI EAFE USD

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

Oil Production and Consumption

Over the past few years the U.S. has become one of world's top oil producers, surpassing even Saudi Arabia. As the U.S. helped increase the overall supply of oil, global oil consumption has not kept pace. This mismatch has contributed to the recent drop in oil prices.



Source: http://www.wsj.com/articles/oil-prices-hit-again-by-weak-china-data-buildup-in-u-s-stockpiles-1420019256?KEYWORDS=oil

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Disclosures

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

MSCI EAFE Small Growth represents the small cap growth stocks within the MSCI EAFE Index.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

S&P 500 Energy Index measures the performance of the energy sector in the S&P 500 Index.

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

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

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

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

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

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

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

S&P 500 Health Care measures the performance of the health care sector in the S&P 500 Index.

Disclosures

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