MARKET REVIEW
FIRST QUARTER, 2017

INDEX	1ST QUARTER %	1 YEAR %	3 YEAR %	5 YEAR %
Dow Jones Industrial	5.19	19.91	10.61	12.15
NASDAQ Composite	9.82	21.39	12.08	13.84
Standard & Poor's 500	6.07	17.17	10.37	13.30
Russell 1000	6.03	17.43	9.99	13.26
Russell Midcap	5.15	17.03	8.48	13.09
Russell 2000	2.47	26.22	7.22	12.35
BBgBarclay US Aggregate Bond	0.82	0.44	2.68	2.34
MSCI World ex. US	6.38	14.77	5.52	9.37
MSCI Emerging Markets	11.45	17.22	1.18	0.81
COUNTY OF SAN BERNARDINO 457(b) PLAN PERFORMANCE	**6.39**	**16.40**	**7.39**	**11.17**
COUNTY OF SAN BERNARDINO 401(k) PLAN PERFORMANCE	**6.35**	**16.88**	**7.72**	**11.53**
COUNTY OF SAN BERNARDINO RMT PLAN PERFORMANCE	**5.21**	**12.60**	**6.04**	**8.95**

U.S. equity continued its year-end rally well into the new year, posting a positive 5.7 percent return for the quarter (Russell 3000). As a result, major market indexes such as the Dow Jones Industrial Average and S&P 500 Index reached record territories over the quarter. On March 1st, one the most widely quoted indices, the Dow Jones Industrial Average, hit a high of 21,115.6. International equity posted even better performance than their U.S. equity counterparts, returning 7.4 percent over the quarter (MSCI EAFE). Short-term rates continued to rise as the Fed increased the benchmark rate another 25 basis points, their second rate hike in three months. Long-term rates rose early into the quarter, with the 10-Year Treasury topping out at 2.6 percent, the highest it's been in nearly two years. The 10-Year Treasury settled in at 2.4 percent, slightly lower from where it stood a quarter ago. The broad U.S. fixed income market, as a result, posted a small 0.8 percent gain for the quarter (Barclays Aggregate).

The Trump effect was still at play in the first quarter as investors continued to warm to the president's proposals that included tax cuts, deregulation and infrastructure spending, all which could positively impact the market. The market rally stalled late in the quarter as the administration's efforts to repeal and replace the Affordable Care Act collapsed, suggesting President Trump's proposals may have a harder time making their way through Congress. Consumer confidence, however, continued to reach new highs not seen since 2000. Some of the same factors shaping the consumer's attitude, such as higher income and more favorable job prospects were the same factors the Fed considered when it increases rates. With continued improvement on these fronts, along with the Fed's inflation target, more increases may well be on the way.

The Fed expects more rate hikes over the year, which will normalize the funds rate from its current accommodative stance. Once the Fed normalizes rates, a potentially more impactful even will be unwinding the large bond portfolio acquired from their quantitative easing programs. If future rate hikes proceed as planned, then this process known as “balance sheet normalization” could happen this year. Unlike what we witnessed over the first quarter, where short-term rates rose and long-term rates declined, balance sheet normalization could put pressure on long-term rates to rise as well. With an eventual 3 percent Fed estimate for the funds rate, long-term rates would need to rise just to keep pace. Together, it is all a part of the Fed’s normalization process and an indicator that the economy is healthy and improving.

U.S. Equity	International Equity	Fixed Income
U.S. equity posted a positive 5.7 percent return for the quarter (Russell 3000). All U.S. equity styles except for small value posted positive returns for the quarter as growth outperformed value. Large growth was the best performing U.S. equity style, posting a positive 8.9 percent return (Russell 1000 Growth) and small value was the worst performing style, posting a negative 0.1 percent return (Russell 2000 Value).	Developed international equity outperformed U.S. equity, returning a positive 7.4 percent (MSCI EAFE) as growth outperformed value. The best performing region for the quarter was the Pacific ex Japan which returned a positive 11.8 percent (MSCI Pacific ex Japan). Japan was the worst performing region, returning a positive 4.6 percent (MSCI Japan) for the quarter.	The broad U.S. fixed income market posted a small positive 0.8 percent return (Barclays U.S. Aggregate). High Yield was the best performing sector, returning a positive 2.7 percent (BC High Yield). Mortgage Backed Securities (MBS) was the worst performing sector, returning a positive 0.5 percent (BC MBS). Global fixed income outperformed the broad U.S. fixed income market, returning a positive 1.5 percent (BofA ML Global Broad Market).

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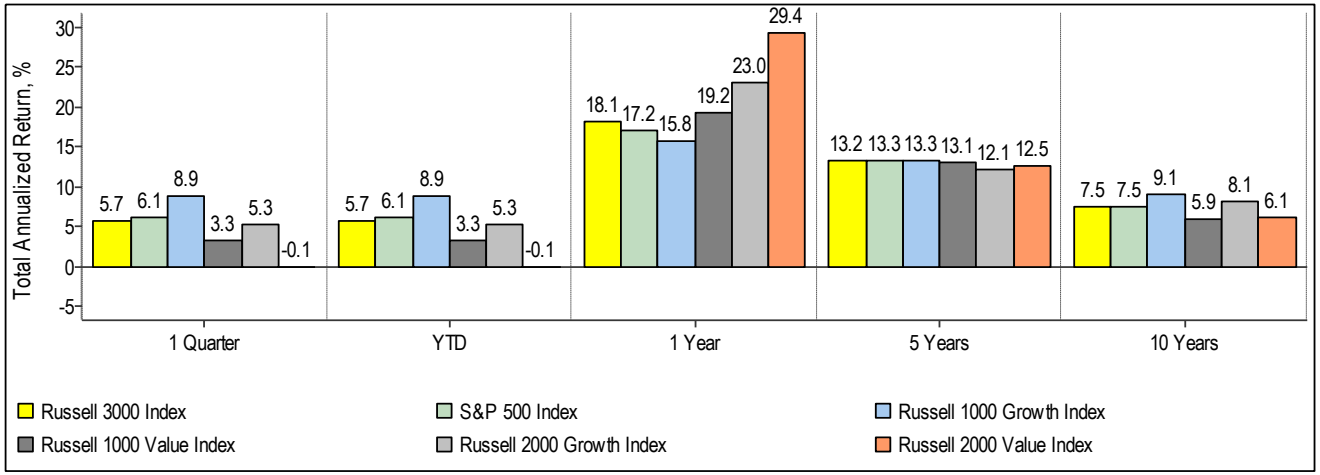
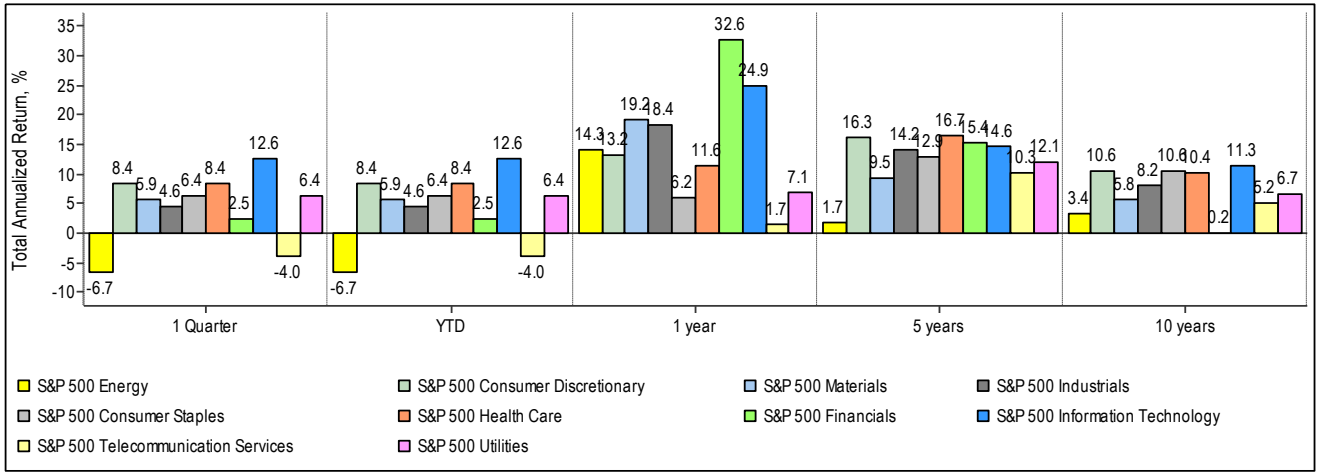
Domestic Equity Overview

- All U.S. equity styles except small value were positive for the quarter
- Growth outperformed Value
  - Large growth was the best performing style, up 8.9%
  - Small value was the worst performing style, down 0.1%
- Best performing sectors for the quarter:
  - Info Technology, up 12.6%
  - Health Care and Consumer Discretionary, up 8.4%
- Worst performing sectors for the quarter:
  - Energy, down 6.7%
  - Telecommunication Services, down 4.0%

U.S. Equity Index Performance



U.S. Equity Sector Performance



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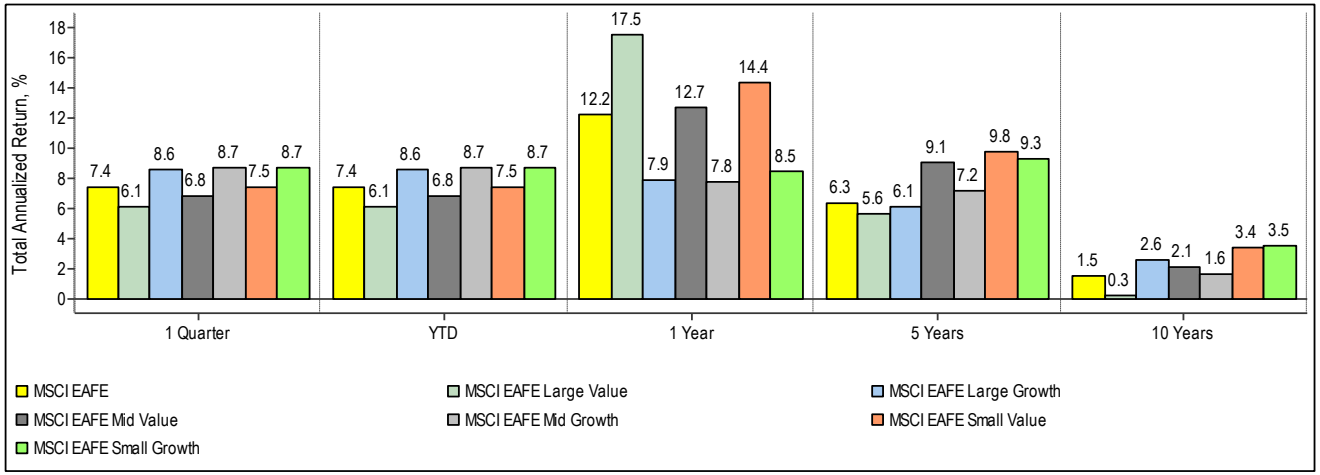
International Equity Overview

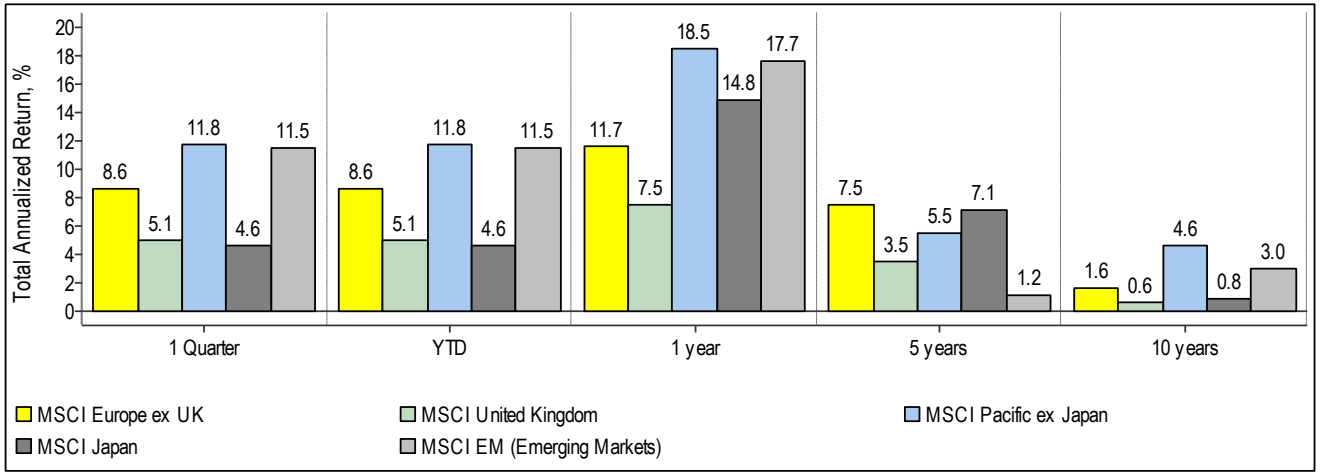
- All international equity styles posted strong returns for the quarter
- The best performing international equity styles for the quarter:
  - Small and Mid growth, up 8.7%
- The worst performing style for the quarter:
  - Large value, up 6.1%

International Index Performance by Style and Capitalization



- Best performing region for the quarter:
  - Pacific ex Japan, up 11.8%
- Worst performing region for the quarter:
  - Japan, up 4.6%

International Index Performance by Region



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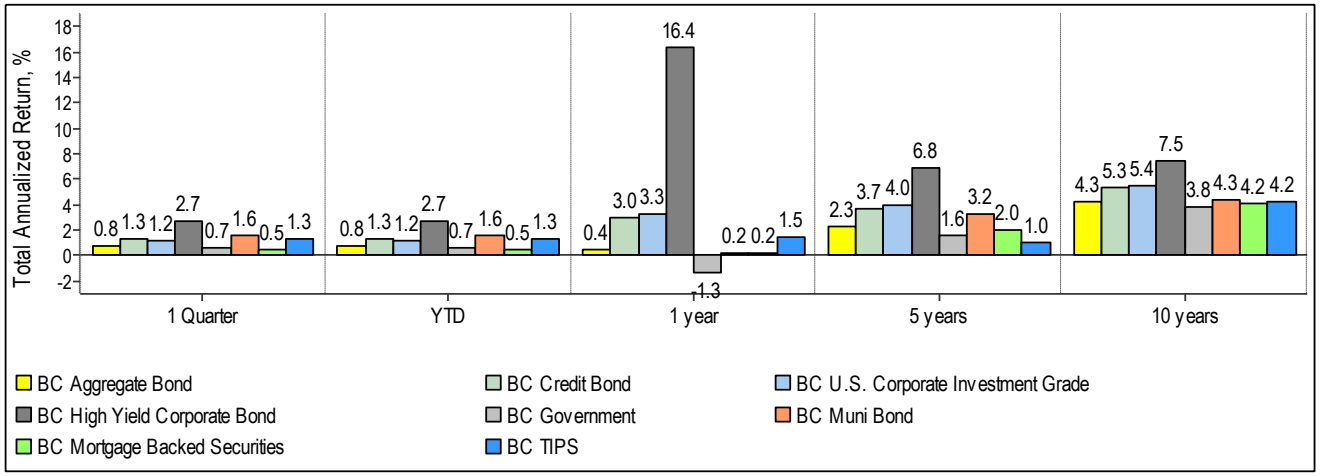
Fixed Income Overview

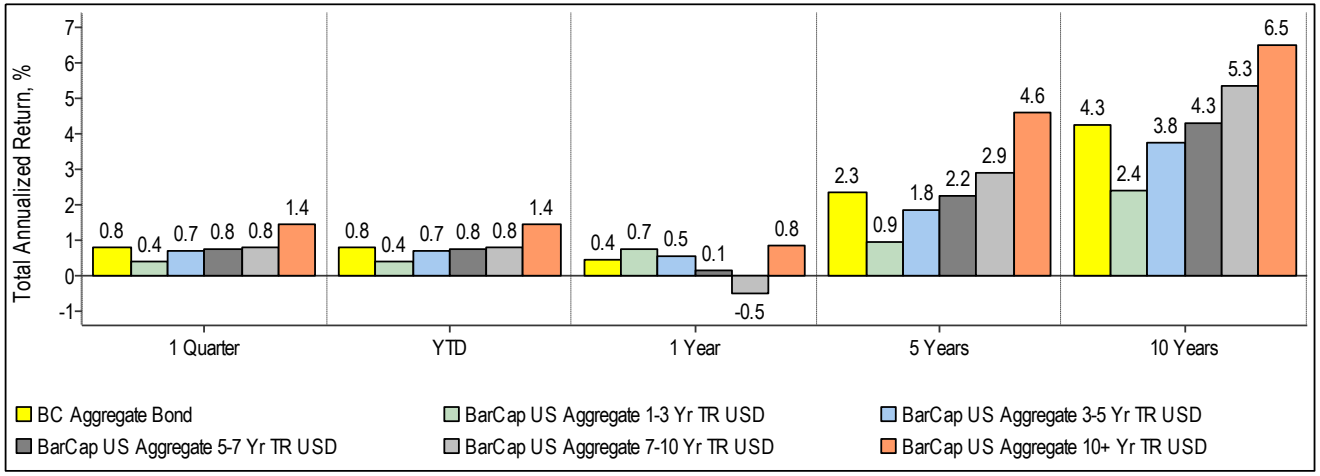
- Fixed income was slightly positive for the quarter
- The best performing sector for the quarter:
  - High Yield, up 2.7%
- The worst performing sector for the quarter:
  - MBS, up 0.5%

Fixed Income Sector Performance



- Performance was positive across all maturities as prices remained relatively unchanged.

Fixed Income Performance by Maturity



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Annualized Style Box Performance

1 Quarter (%)			
Value	Blend	Growth	
3.05	6.38	9.61	Large
3.76	5.15	6.89	Mid
-0.13	2.47	5.35	Small
Int'l Equity	Global Equity	Core Fixed Income	3-Month T-Bill
7.39	6.38	0.82	0.10

3 Year (Annualized %)			
Value	Blend	Growth	
8.55	10.63	12.68	Large
8.94	8.48	7.88	Mid
7.62	7.22	6.72	Small
Int'l Equity	Global Equity	Core Fixed Income	3-Month T-Bill
0.96	5.52	2.68	0.17

Year to Date (%)			
Value	Blend	Growth	
3.05	6.38	9.61	Large
3.76	5.15	6.89	Mid
-0.13	2.47	5.35	Small
Int'l Equity	Global Equity	Core Fixed Income	3-Month T-Bill
7.39	6.38	0.82	0.10

5 Year (Annualized %)			
Value	Blend	Growth	
12.72	13.32	13.89	Large
14.07	13.09	11.95	Mid
12.54	12.35	12.10	Small
Int'l Equity	Global Equity	Core Fixed Income	3-Month T-Bill
6.32	9.37	2.34	0.14

1 Year (%)			
Value	Blend	Growth	
18.97	17.57	16.29	Large
19.82	17.03	14.07	Mid
29.37	26.22	23.03	Small
Int'l Equity	Global Equity	Core Fixed Income	3-Month T-Bill
12.25	14.77	0.44	0.36

10 Year (Annualized %)			
Value	Blend	Growth	
5.30	7.45	9.61	Large
7.47	7.94	8.13	Mid
6.09	7.12	8.06	Small
Int'l Equity	Global Equity	Core Fixed Income	3-Month T-Bill
1.53	4.21	4.27	0.68

Performance as of March 31, 2017. 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

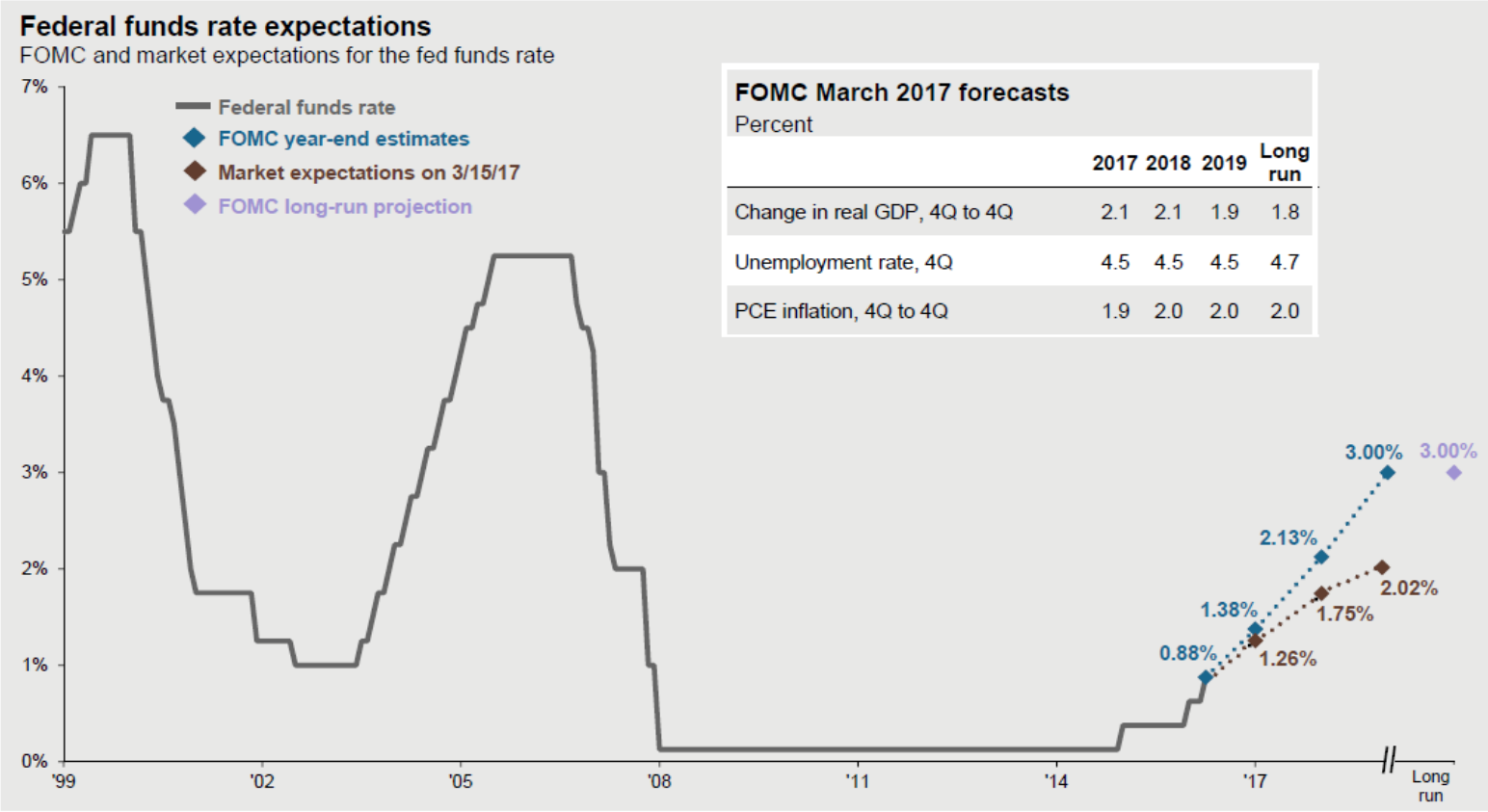
The following chart exhibits the volatility of asset class returns from year to year by ranking certain key indices in order of performance. Also included in the chart is a balanced index, which represents a mix of U.S. equity, international equity and fixed income indices. The chart graphically displays 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 volatility and the uncertainty that accompanies trying to pick the best asset class (or avoid the worst) in any given year.

2006	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*YTD*
26.86 MSCI EAFE USD	11.81 Russell 1000 Growth	5.24 BarCap US Agg	37.21 Russell 1000 Growth	29.09 Russell 2000 Growth	7.84 BarCap US Agg	18.05 Russell 2000 Value	43.30 Russell 2000 Growth	13.45 Russell 1000 Value	5.67 Russell 1000 Growth	31.74 Russell 2000 Value	8.91 Russell 1000 Growth
23.48 Russell 2000 Value	11.63 MSCI EAFE USD	-22.48 Balanced Index*	34.47 Russell 2000 Growth	24.50 Russell 2000 Value	3.04 Balanced Index*	17.90 MSCI EAFE USD	34.52 Russell 2000 Value	13.05 Russell 1000 Growth	0.59 Balanced Index*	17.34 Russell 1000 Value	7.39 MSCI EAFE USD
22.25 Russell 1000 Value	7.05 Russell 2000 Growth	-28.92 Russell 2000 Value	32.46 MSCI EAFE USD	16.71 Russell 1000 Growth	2.64 Russell 1000 Growth	17.51 Russell 1000 Value	33.48 Russell 1000 Growth	8.15 Balanced Index*	0.55 BarCap US Agg	11.32 Russell 2000 Growth	5.35 Russell 2000 Growth
13.35 Russell 2000 Growth	6.97 BarCap US Agg	-36.85 Russell 1000 Value	20.58 Russell 2000 Value	15.51 Russell 1000 Value	0.39 Russell 1000 Value	15.26 Russell 1000 Growth	32.53 Russell 1000 Value	5.97 BarCap US Agg	-0.39 MSCI EAFE USD	7.56 Balanced Index*	3.94 Balanced Index*
12.17 Balanced Index*	6.61 Balanced Index*	-38.44 Russell 1000 Growth	20.05 Balanced Index*	12.47 Balanced Index*	-2.91 Russell 2000 Growth	14.59 Russell 2000 Growth	23.29 MSCI EAFE USD	5.60 Russell 2000 Growth	-1.38 Russell 2000 Growth	7.08 Russell 1000 Growth	3.27 Russell 1000 Value
9.07 Russell 1000 Growth	-0.17 Russell 1000 Value	-38.54 Russell 2000 Growth	19.69 Russell 1000 Value	8.21 MSCI EAFE USD	-5.50 Russell 2000 Value	11.79 Balanced Index*	17.42 Balanced Index*	4.22 Russell 2000 Value	-3.83 Russell 1000 Value	2.65 BarCap US Agg	0.82 BarCap US Agg
4.33 BarCap US Agg	-9.78 Russell 2000 Value	-43.06 MSCI EAFE USD	5.93 BarCap US Agg	6.54 BarCap US Agg	-11.73 MSCI EAFE USD	4.22 BarCap US Agg	-2.02 BarCap US Agg	-4.48 MSCI EAFE USD	-7.47 Russell 2000 Value	1.51 MSCI EAFE USD	-0.13 Russell 2000 Value

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

The Fed and Interest Rates

The below chart represents the history of the Fed funds rate and where it is projected to be over the coming years as estimated by the Federal Open Market Committee (FOMC) and as projected by the Fed futures market (market expectations). The Fed funds futures are pricing in a slower and more gradual rate increase.



FOMC March 2017 forecasts
Percent

	2017	2018	2019	Long run
Change in real GDP, 4Q to 4Q	2.1	2.1	1.9	1.8
Unemployment rate, 4Q	4.5	4.5	4.5	4.7
PCE inflation, 4Q to 4Q	1.9	2.0	2.0	2.0

Source: FactSet, Federal Reserve, J.P. Morgan Asset Management.
Market expectations are the federal funds rates priced into the fed futures market as of the date of the March 2017 FOMC meeting.
Guide to the Markets – U.S. Data are as of March 31, 2017.

Source: J.P. Morgan's 2Q'17 Guide to the Markets.

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Disclosures

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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