OFFICES OF THE COUNTY EXECUTIVE

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County Executive

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Chief Administrative Officer

October 24, 2025

Members of the Montgomery County Council

I am pleased to present to you the Quarterly Report of the Montgomery County Employees' Retirement System ("ERS") for the quarter ended June 30, 2025. This quarterly report is designed to assist you in understanding the current status of the ERS. This report was prepared pursuant to the provisions of the Montgomery County Code.

History

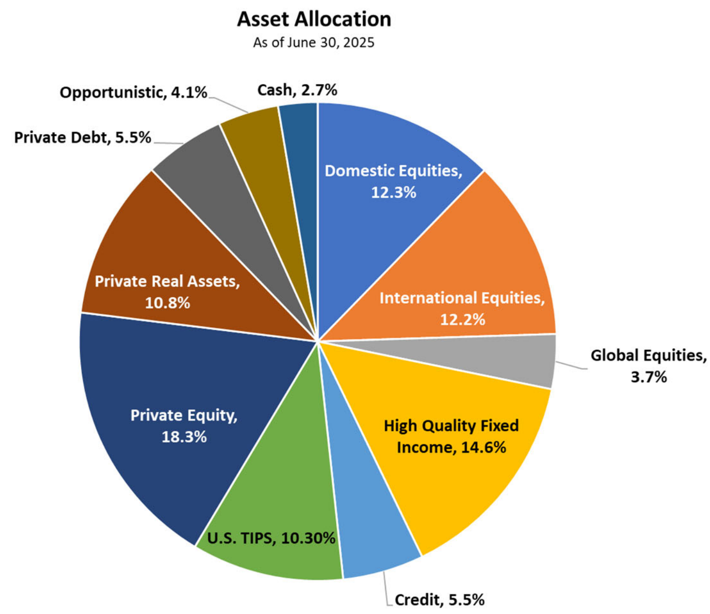
The Employees' Retirement System was established in 1965 as a cost-sharing multiple-employer defined benefit pension plan providing benefits to the employees of Montgomery County and other agencies or political subdivisions who elect to participate. The System is closed to employees hired on or after October 1, 1994, except public safety bargaining unit employees and employees who elect to participate in the Guaranteed Retirement Income Plan ("GRIP"). There were approximately 7,125 ERS and GRIP active members and 7,013 retirees participating in the ERS as of June 30, 2025.

Performance Results

The ERS gained 4.06% for the quarter, lagging the performance of the policy benchmark by 0.76%. The ERS was up 9.17% for the twelve-month period ending June 30, 2025, trailing the policy benchmark by 2.07%, which was up 11.24%. The one-year gross return places the ERS' performance in the fourth quartile of comparable pension funds constructed by the Board's consultant, NEPC. The Fund had an annualized 7.43% return over the last three-year period and 8.85% for the five-year period (ending June 30, 2025)—the Fund was in the fourth and third quartiles versus the peer universe for the three and five-year periods, respectively. **Over the longer term, the Fund has delivered second-quartile annualized returns of 7.90% over the last ten-year period.**

We estimate that the funded status of the ERS was 93.2% based on a market value of assets and 95.6% on an actuarial (smoothed) value of assets as of June 30, 2025. The actual funded status will be affected by the ERS's membership experience, as well as demographic and economic changes, and may be higher or lower when calculated by the actuary during the next valuation.

The following chart displays the asset allocation for the ERS on June 30, 2025.



Major Initiatives

During the quarter, the ERS closed one international private equity fund, one private debt co-investment fund, two private debt funds, two private equity funds, and one real estate fund.

Capital Markets and Economic Conditions

The U.S. economy grew during the second quarter of 2025, with consumers and businesses helping offset tariff volatility. According to the second estimate released by the Commerce Department, real gross domestic product (GDP) rose at a 3.3% annualized pace in the April-through-June period, following a 0.3% contraction during the first quarter of the year. Consumer spending and business investment, which rose by 1.6% and 5.7%, respectively, pushed the number higher.

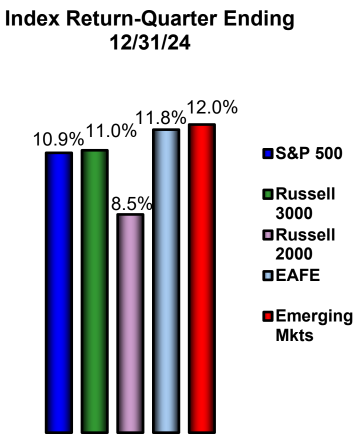
Net international trade made its largest contribution to GDP growth on record, adding 5.0% to growth in Q2. This was largely explained by imports plunging 29.9% as businesses had stockpiled in Q1 ahead of Trump's April 2nd tariffs announcement.

The labor market remained stable during the second quarter, although nonfarm payroll jobs dropped significantly. By the end of Q2, the unemployment rate was 4.2%, little changed from the first quarter's 4.1%. The U.S. economy added 191,000 jobs during the quarter, down from the 499,000 added during the first quarter. The lower numbers are in part explained by significant downward revisions to the May and June numbers, which resulted in 258,000 fewer jobs than previously reported.

According to the Bureau of Labor Statistics, the Consumer Price Index (CPI) inflation rate was 2.7% for all items in the second quarter of 2025. Core inflation, which excludes food and energy, picked up 0.2% in June, with the annual rate moving to 2.9%, in line with estimates. The impact of tariffs was mixed during the quarter, with apparel and home furnishing prices increasing while vehicle prices fell.

In the second quarter of 2025, overall U.S. housing starts showed mixed results: multifamily construction increased significantly year-over-year, particularly for-rent units, while custom home starts saw growth, and townhouse construction hit a record market share. However, single-family housing starts declined compared to the same period in 2024, reflecting ongoing market challenges. The median existing home sale price ended the quarter at $422,400, representing a 0.2% year-over-year increase, underscoring sustained, yet slowing, home price growth amid tight inventory and steady demand.

Public Equity Markets: Following a disappointing first quarter and a bumpy start to the second quarter due to "Liberation Day" tariffs, U.S. equity markets roared back after Trump's 90-day pause on reciprocal tariffs. The Russell 3000 index returned 11.0%. Within this index, the Information Technology and Communication Services sectors performed the best, while the Energy and Health Care sectors lagged the most. Large capitalization companies outperformed their Mid and small capitalization peers. Additionally, growth stocks outperformed value stocks. Our combined domestic equity portfolio posted a gain of 10.5%, underperforming the 11.0% return of the Russell 3000 Index.



Developed international markets, as measured by the MSCI EAFE, rose 11.8%, supported by currency tailwinds, rate cuts, and improving economic data in Europe and Japan. The quarter began with volatility due to new tariffs but recovered strongly, with the Financials and Industrials sectors leading the gains. All countries in the index posted positive USD returns during the quarter, with Portugal leading the way.

EM equities outperformed their developed market counterparts, with most countries posting double-digit gains. Taiwan and South Korea surged on strong global demand for AI chips, investor optimism around trade cooperation, and increased foreign inflows. Mexico also rallied, as investor confidence improved in response to constructive trade discussions with the U.S. and a continued search for diversification. China was one of the weakest performers, finishing the quarter up 2.0%, as investors grew concerned about the tariff escalation with the U.S., which weighed heavily on the country's export sector, leading to factory shutdowns, job losses, and subdued inflation data. In response to soft demand, the People's Bank of China signaled potential interest rate cuts and reductions in bank reserve requirements to support growth later this year. Sentiment improved late in the quarter as both sides signaled a willingness to negotiate, agreeing to pause new tariffs and maintain current levels during renewed talks. Our combined international equity performance was up 13.1%, outperforming the 12.6% return recorded by the benchmark. Our global equity allocation posted a 15.3% gain, outperforming the 11.5% return of the MSCI ACWI Index.

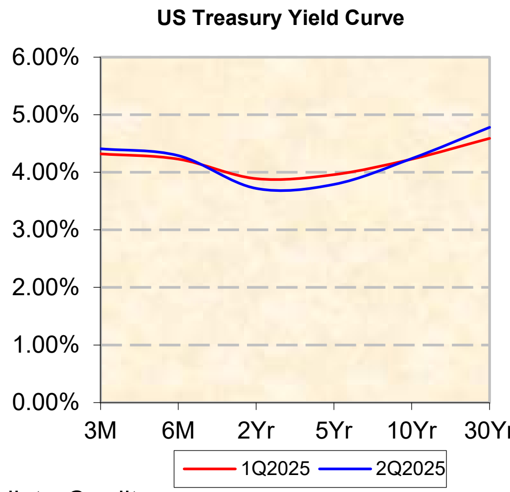
Private Equity: During the second quarter, a total of 544 funds reached their final close, securing $177 billion in commitments. Relative to the prior quarter, the number of funds raised declined 21% and the amount of aggregate capital dropped 2%. On a global basis, North America accounted for both 68% of the number of funds raised and 68% of the aggregate capital raised. U.S. buyout deal activity decreased relative to the prior quarter, as the number of deals fell 15% to 1,027, deal volume fell 46% to $71 billion, and the average deal size shrank 36% to $696 million. Information technology and consumer discretionary were the most robust sectors during the quarter, representing roughly 37% and 30% of U.S. buyout deal value, respectively. Buyout exit activity was mixed relative to the prior quarter, as the number of exits dropped 19% to 188, while the aggregate exit value increased 26% to $69 billion.

U.S. venture fundraising activity in Q2 was mixed compared to the prior quarter. While the number of funds raised dropped 10% to 198, the aggregate capital increased 20% to $16 billion, and the average fund size jumped 35% to $85 million. U.S. venture dealmaking activity was also mixed during the quarter. The number of U.S. venture deals fell 14% to 1,413, while aggregate deal volume increased 1% to $70 billion, and the average deal size rose 7% to $63 million.

During the quarter, our private equity managers called a combined $18.5 million and paid distributions of $70.0 million. Our current allocation to private equity is 18.34%, with a market value of $934.8 million. From its 2003 inception through March 31, 2025, the total private equity program (including fund-of-funds) has generated a net internal rate of return of 13.4% versus a 13.8% return for the dollar-weighted public market equivalent (the Russell 3000 Index plus 300 bps). The direct private equity program, which began in 2009, has generated a 20.8% return versus 17.1% for the benchmark.

Hedge Funds: For the quarter, industry-wide hedge funds rose by 2.1% based on the HFRI Composite Index. On a sub-strategy basis, the Event-Driven Index gained 4.6%, the Relative Value Index advanced 2.8%, the Equity Hedge Index rose 5.4%, and the Macro Index fell by 1.5%. The System's diversifying hedge funds recorded a gain of 1.2% versus a gain of 2.0% for the Conservative Index. The diversifying portfolio underperformance is primarily attributable to weak selection within the global macro sector.

Fixed Income: Yields shifted up in the short and long ends of the curve while declining in between. The yield on the 2-year note maturities decreased by 17 bps to 3.7%, while the 10-year bond maturity remained unchanged, and the 30-year bond maturities increased by 19 bps, respectively. By the end of the quarter, the 10-year Treasury yield was 4.2%, whereas the 30-year Treasury yield was 4.8%. The high-yield portfolio's performance for the quarter was a gain of 3.6%, slightly outperforming the Merrill Lynch High Yield II Constrained Index's 3.6% return. The long-duration portfolio's return for the quarter was a decline of 1.5%, which was in line with the custom benchmark's performance. The emerging market debt portfolio advanced 3.9%, outperforming the 3.3% gain of the JPM EMBI Global Diversified benchmark. The intermediate government portfolio's 1.5% return versus the BBG U.S. Intermediate Government benchmark, the intermediate corporate portfolio's 2.1% return versus the BBG U.S. Intermediate Credit benchmark, and the TIPS portfolio's 0.5% return versus the BBG U.S. TIPS benchmark, all were in line with their benchmark returns.



Private Debt: 34 private debt funds raised $25.4 billion in the second quarter of 2025, with seven of them raising more than $1 billion of capital. Overall, fundraising was the smallest quarterly sum since the third quarter of 2020. North America attracted the most capital, where 16 funds raised $15.0 billion, followed by 13 European funds raising $9.8 billion. While fundraising within Europe-focused funds has declined compared to last quarter, it is still above the five-year quarterly average. In terms of strategies, six Funds of Funds raised $12.1 billion, while direct lending, the last quarter's leader, saw 19 direct lending funds raising $8.6 billion in the second quarter. In July 2025, there were 1,332 funds targeting $460 billion of capital. The majority of these funds continued to be direct lending-focused, targeting 32.3% of the aggregate capital. Dry powder was about $570 billion.

During the quarter, our private debt managers called a combined $3.3 million and paid distributions of $8.8 million. Our current allocation to private debt is 5.5%, with a market value of $279.2 million. From 2013 through March 31, 2025, the private debt program generated a net internal rate of return of 11.5% versus an 8.3% return for the dollar-weighted public market equivalent benchmark (ICE BofA Merrill Lynch High Yield Master II Constrained + 300 bps).

Private Real Assets: During the quarter, private real estate returns advanced, supported by positive cash flows and flat capital appreciation. Real estate prices were up 1.2% driven by income return. All property sectors produced positive returns during the quarter. Office, Industrial, Residential, and Retail advanced by 0.8%, 1.0%, 1.4%, and 1.9%, respectively. Real estate fundraising advanced as 208 funds raised $50.6 billion compared to 229 funds raised $40.4 billion in the prior quarter. Infrastructure fundraising decelerated as 26 funds raised $28.4 billion compared to 34 funds raised $64.0 billion for the previous quarter.

During the quarter, our private real asset managers called a combined $23.8 million and paid distributions of $17.4 million. Our current allocation to private real assets is 10.8%, with a market value of $550.8 million. From its 2006 inception through March 31, 2025, the total private real assets program (including fund-of-funds) has generated a net internal rate of return of 6.1% versus a 7.7% gain for the long-term benchmark (CPI plus 500 bps).

Additions

The primary sources of additions for the ERS include contributions from members and employers and investment income. The following table displays the source and amount of additions for the quarter ending June 2025 and the fiscal year to date.

Employees' Retirement System
Contributions and Investment Income (millions)

	Qtr 6/30/2025	Fiscal YTD
Employer Contributions	$ 20.5	$ 81.0
Member Contributions	10.2	47.8
Net Investment Income (Loss)	198.1	425.4
	$ 228.8	$ 554.2

Deductions

The deductions from the Employees' Retirement System include the payment of retiree and survivor benefits, participant refunds, and administrative expenses.

Employees' Retirement System
Deductions by Type (millions)

	Qtr 6/30/2025	Fiscal YTD
Benefits	$ 82.7	$ 331.0
Refunds	6.9	24.3
Administrative Expenses	1.1	4.5
	$ 90.7	$ 359.8

Sources: BlackRock, Bloomberg, MSCI, NCREIF, Northern Trust, T. Rowe Price, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, Russell, Albourne, JP Morgan, Goldman Sachs, Preqin, Pitchbook, Federal Reserve, Marathon Asset Management, Standard and Poor's.

EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF FIDUCIARY NET POSITION

June 30, 2025

Assets		
Equity in pooled cash and investments	$	330,844
Investments:		
Northern Trust		5,096,384,239
Aetna		498,527
Fidelity - Elected Officials Plan		1,191,697
Fidelity - DRSP / DROP		7,983,491
Total investments		5,106,057,954
Contributions receivable		5,992,895
Prepaid expenses / Other assets		20,573
Total assets		5,112,402,266
Liabilities		
Benefits payable and other liabilities		2,714,774
Net position restricted for pensions	**$**	**5,109,687,492**

EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

For the Quarter Ended June 30, 2025

	Quarter	Fiscal YTD
Additions		
Contributions:		
Employer	$ 20,487,459	$ 81,001,432
Member	10,185,733	47,817,892
Total contributions	30,673,192	128,819,324
Investment income (loss)	203,791,047	441,386,257
Less investment expenses	5,701,466	15,991,597
Net investment income (loss)	198,089,581	425,394,660
Total income (loss)	228,762,773	554,213,984
Deductions		
Retiree benefits	63,513,539	254,618,820
Disability benefits	15,610,162	62,692,971
Survivor benefits	3,549,121	13,663,283
Refunds	6,895,668	24,340,554
Administrative expenses	1,128,668	4,535,575
Total deductions	90,697,158	359,851,203
Net Income (Loss)	**138,065,615**	**194,362,781**
Net position restricted for pensions		
Beginning of period	**4,971,635,256**	**4,915,338,090**
Restatements (per GASB 101)	**(13,379)**	**(13,379)**
Beginning of period, as restated	**4,971,621,877**	**4,915,324,711**
End of period	**$ 5,109,687,492**	**$ 5,109,687,492**