



OFFICES OF THE COUNTY EXECUTIVE

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County Executive

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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, 2024. 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 6,681 ERS and GRIP active members and 6,872 retirees participating in the ERS as of June 30, 2024.

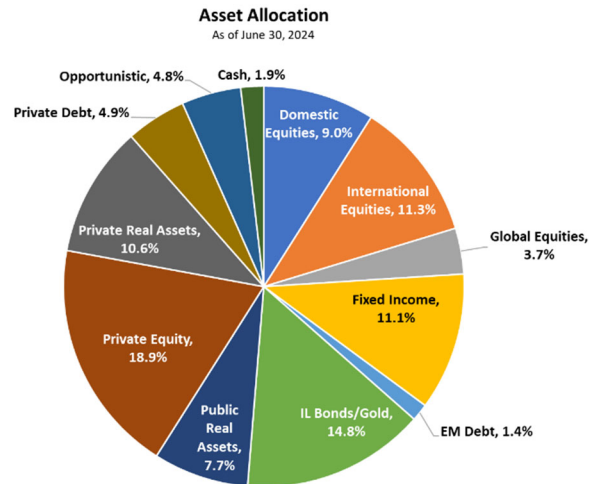
Performance Results

The ERS' gained 1.13% for the quarter— matching the performance of the policy benchmark which returned 1.13%. The ERS was up 9.20% for the twelve-month period ending June 30, 2024, outpacing the policy benchmark by 2.01%, which was up 7.19%. The one-year gross return places the ERS' performance in the third quartile of comparable pension funds constructed by the Board's consultant, NEPC. The Fund had an annualized 3.31% return over the last three-year period and 7.77% for the five-year period (ending June 30, 2024)—the Fund was in the second quartile vs. the peer universe for both the three and five-year periods. **Over the longer term, the Fund has delivered first-quartile annualized returns of 7.31% over the last ten-year period.**

We estimate that the funded status of the ERS was 92.9% based on a market value of assets and 96.2% on an actuarial (smoothed) value of assets as of June 30, 2024. The actual funded status will be affected by the ERS' 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, 2024.

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Major Initiatives

During the quarter, the ERS closed two infrastructure co-investments, two private equity funds, one real asset fund, and one private debt fund.

Capital Markets and Economic Conditions

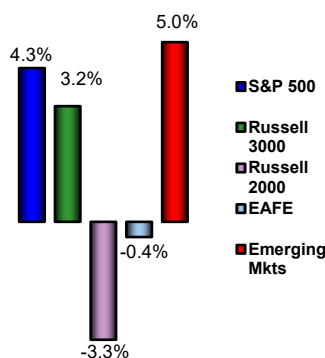
Second quarter GDP for 2024 increased at an annual rate of 3.0% according to the second estimate released by the Bureau of Economic Analysis, higher than the 1.4% in the previous period and above the advance estimate (2.8%). The update primarily reflected an upward revision to consumer spending. The estimate reflects increases in consumer spending, private inventory investment, and nonresidential fixed investment; imports (which are a subtraction to GDP) increased. Compared to the previous quarter's growth rate, the acceleration in the second quarter primarily reflected an upturn in private inventory investment and an acceleration in consumer spending. These movements were partly offset by a downturn in residential fixed investment. By the end of Q2 2024 the unemployment rate increased to 4.1%, slightly above the 4.0% forecast. In June, nonfarm payrolls increased by 206,000 for the month, better than the 200,000 Dow Jones forecast though less than the downwardly revised gain of 218,000 in May, which was cut sharply from the initial estimate of 272,000.

The consumer price index (CPI) rose 3.0% from a year ago, slightly lower than the consensus estimate (3.1%). Both food and energy prices increased year-over-year. Core CPI, which excludes volatile food and energy prices, rose 3.3% from a year ago, largely driven by the increased pricing in non-energy services, such as shelter. Housing starts finished the quarter at a seasonally adjusted annualized rate of 1.35 million for June. This is 3% above the revised May estimate of 1,314,000 but is 4.4% below the June 2023 rate of 1,415,000. The median existing home sale price at the end of the first quarter was \$412,300, up 4.0% from the end of the previous quarter.

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Public Equity Markets: U.S. equities advanced on strong earnings and outlook statements released by information technology and communication services companies, which were positively impacted by the ongoing enthusiasm around AI. During the quarter, NVIDIA and Apple stocks were up by 37% and 23%, respectively. Meanwhile, materials and industrials were the worst-performing sectors. Within financials, many U.S. banks announced plans to increase dividends after passing annual stress tests from the Federal Reserve. Large-cap equities outperformed their smaller-cap counterparts, with growth outperforming within

Index Return-Quarter Ending
6/30/24



both large and small-cap stocks. Our combined domestic equity portfolio posted a gain of 2.3%, trailing the 3.2% return of the Russell 3000 Index

International developed markets trailed their U.S. counterparts, declining 3.3% for the quarter. In Europe, stocks fell on the uncertainty caused by the announcement of parliamentary elections in France and dwindling expectations for steep interest rate cuts. The call for elections in France surprised the markets, causing French equities to underperform the broader eurozone index. The consumer discretionary sector declined due to weakness in auto and luxury goods stocks. Forward-looking data pointed to a slowdown in the eurozone's economic recovery. In Europe, Portugal and Denmark were the best-performing markets. Japanese equity market generated a positive return of 1.7% in local terms but turned negative after the depreciation of the Japanese yen, impacted by the strength of the USD on a stronger U.S. economy and expectations for higher

interest rates to remain longer. Singapore was one of the best-performing markets in Asia ex-Japan.

EM equities posted positive returns for the quarter, ahead of developed market equities. Performance was mixed across countries. India and Taiwan continued to post strong returns. India's positive macro dynamics generated positive, market-leading returns, while Taiwan's standout company, Taiwan Semiconductor Manufacturing Co., capitalized on A.I. tailwinds. Chinese equities outperformed the broader index amid optimism about government support and some better-than-expected economic data. In Latin America, Brazilian equities fell as the Central Bank of Brazil paused its monetary easing cycle. Mexican equities also lagged the index. The landslide victory of Claudia Sheinbaum, the governing Morena party's candidate in the presidential election, raised concerns about increased state control over the economy and the potential for controversial constitutional reforms to be implemented. Our combined international equity performance was up 1.2%, underperforming the 1.3% return recorded by the benchmark. Our global equity allocation posted a 2.8% gain, slightly underperforming the 2.9% return of the MSCI ACWI Index.

Private Equity: During the second quarter, a total of 492 funds reached their final close, securing \$195 billion in commitments. Relative to the prior quarter the number of funds raised remained consistent, while the amount of capital raised decreased 7%. North America's domination of the fundraising landscape continued, representing 70% of global aggregate capital raised and 64% of the number of funds raised. U.S. buyout deal activity rebounded during the quarter- while the number of deals fell 4% to 1,045, the aggregate deal volume increased 92% to \$96 billion as the average deal size jumped 65% to \$731 million. Health care and telecommunications and media were the most robust sectors during the quarter, each representing roughly 21% of aggregate U.S. buyout deal value. Buyout exit activity for the quarter increased relative to the prior quarter- although the number of exits decreased 7% to 216, the aggregate exit value rose 10% to \$42 billion and the average exit size jumped 39% to \$838 million. The global private equity sector has \$2.7 trillion in dry powder and continues to hover around record highs.

U.S. venture fundraising activity in Q2 increased slightly relative to the prior quarter. The number of funds raised rose 4% to 167, the aggregate capital increased 5% to \$19 billion, while the average fund size decreased 4% to \$122 million. Similarly, U.S. venture dealmaking activity increased slightly throughout the quarter as the number of deals ticked up 3% to 1,548, the aggregate deal volume rose 13% to \$38 billion, and the average deal size increased 19% to \$32 million.

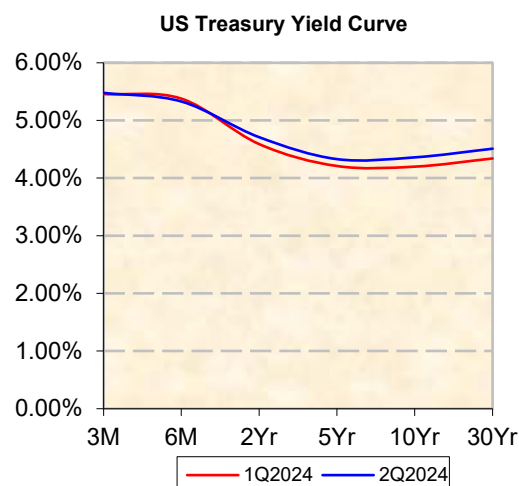
During the quarter, our private equity managers called a combined \$18.4 million and paid distributions of \$30.6 million. Our current allocation to private equity is 18.9%, with a market value of \$925.5 million. From its 2003 inception through March 31, 2024, the total private equity program (including fund-of-funds) has generated a net internal rate of return of 13.7% versus a 13.7% return for the dollar-weighted public market

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equivalent (the Russell 3000 Index plus 300 bps). The direct private equity program, which began in 2009, has generated a 22.1% return versus 17.3% for the benchmark.

Hedge Funds: For the quarter, industry-wide hedge funds rose by 0.7% based on the HFRI Composite Index. On a sub-strategy basis, the Event-Driven Index gained 0.5%, the Relative Value Index advanced 1.4%, the Equity Hedge Index increased 1.0%, and the Macro Index declined by 0.8%. The System's diversifying hedge funds recorded a gain of 1.7% versus a gain of 0.5% for the Conservative Index. The diversifying portfolio outperformance is primarily attributable to strong selection within the quant and global macro sectors. The System's directional hedge funds recorded a gain of 1.4% compared to the positive 0.3% return for the Strategic Index. The directional outperformance is primarily attributable to the credit sector where an overweight position and manager selection both contributed to returns.

Fixed Income: The yield curve shifted up as Treasury yields increased. The yield on the 2-year note maturities increased 12 bps to 4.7%, while the 10- and 30-year bond maturities increased by 16 and 17 bps respectively. The spread between 2-year and 10-year Treasuries, the main gauge of the yield curve, slightly steepened and ended the quarter at -35 bps, 4 bps steeper than the previous quarter's level. By the end of the quarter, the 10-year Treasury yield was 4.4% whereas the 30-year Treasury yield was 4.5%. The high-yield portfolio's performance for the quarter was a gain of 1.1%, in line with the Merrill Lynch High Yield II Constrained Index. The long-duration portfolio's return for the quarter was a loss of 1.6%, outperforming the custom long-duration benchmark's 1.8% loss. The emerging market debt portfolio gained 0.6%, outperforming the 0.3% performance of the JPM EMBI Global Diversified benchmark. Our global inflation-linked bond portfolio, combined with a portable alpha overlay, recorded a loss of 0.7%, underperforming the custom benchmark by 0.5%. The underperformance was driven by the overlay and was attributable to the strategy's alphas in currencies, equities, and commodities.



Private Debt: In the face of a more settled economic outlook, private debt funds raised \$45.4 billion from 36 funds in Q2 2024, which was an increase after a below-average first quarter. Out of the total fundraising activity in the quarter, North America-focused funds raised \$34.9 billion, representing 77% of the total. The average fundraising across 15 funds in North America was \$2.3 billion, while in Europe it was \$1.0 billion across 10 funds. This indicates that North America attracted more capital from each fund than Europe. Direct lending funds raised \$39.6 billion among 17 funds, followed by nine special situation funds with \$3.8 billion. Some of the largest funds closed during the quarter were the \$13.1 billion West Street Loan Partners V and the \$10.4 billion HPS Specialty Loan Fund VI, both direct lending strategies. Dry powder as of August 2024 was \$467.0 billion, which was the second highest after the peak amount recorded by Prequin in December 2023.

During the quarter, our private debt managers called a combined \$16.0 million and paid distributions of \$3.4 million. Our current allocation to private debt is 4.9%, with a market value of \$238.5 million. From 2013 through March 31, 2024, the private debt program generated a net internal rate of return of 11.8% versus an 8.0% 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 prices continued to decline due to weak NOI growth and higher cap rates, while private real assets increased due to resilient infrastructure cash flows. Infrastructure fundraising slowed as 27 funds raised \$20.5 billion compared to 31 funds raised \$36.1 billion in the prior quarter. Real estate prices were down 0.2% consisting of 1.2% from income and -1.4% from negative property appreciation. All property sectors were able to produce positive returns during the quarter except for office properties, which dragged down the returns into negative territory. Office properties declined by 2.3%. Hotels, Retail, Industrial, and Residential advanced by 2.1%, 0.9%, 0.3%, and 0.2%, respectively. Fundraising picked up as 180 funds raised \$34.8 billion compared to 101 funds raised \$34.0 billion in the prior quarter.

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During the quarter, our private real asset managers called a combined \$12.2 million and paid distributions of \$8.6 million. Our current allocation to private real assets is 10.6%, with a market value of \$518.9 million. From its 2006 inception through March 31, 2024, the total private real assets program (including fund-of-funds) has generated a net internal rate of return of 6.9% versus a 7.7% gain for the long-term benchmark (CPI plus 500 bps).

Public Real Assets: Global listed real estate securities as measured by the FTSE EPRA/NAREIT Developed Index posted a loss of 2.4% for the quarter, underperforming bonds (Barclays Global Aggregate, 0.1%) and global equities (MSCI World, 2.8%). Rate-sensitive global REITs lagged equities as the latest Federal Reserve dot plot signaled just one rate cut this year despite the softer inflation print. During the quarter, the Americas was the strongest region as a strong employment report and softer inflation revived hopes for a soft landing. Outperformance came from apartments (M&A and improved outlooks) and health care (earnings beat and raise) whilst hotels lagged on weaker operating outlooks. Asia was the weakest region, weighed by Japan. The yen broke below its recent lows against the U.S. dollar, sparking concerns that the Bank of Japan would have to bring forward rate hikes or taper quantitative easing more aggressively. Australia was the outperformer, lifted by the recent inclusion of a data center company. After a strong performance in the first part of the quarter, Europe gave back most of its performance amidst a rise in political uncertainty.

Listed infrastructure securities posted a loss of 0.4% during the quarter as measured by the Dow Jones Brookfield Global Infrastructure Index, underperforming global equities (MSCI World, 2.8%) and bonds (Barclays Global Aggregate, 0.1%). Overall, for the quarter, ports, gas midstream, gas distribution utilities, water & waste, electricity transmission & distribution outperformed the index, while diversified, other utilities, European regulated utilities, communications, airports, toll roads, and pipeline companies underperformed. Listed infrastructure generally held up well in Q2, performing in-line with global equities until underperformance in early June on the back of a short-term bounce in developed market sovereign yields and the surprise announcement by French President Emmanuel Macron to call for early elections in France following his party's heavy defeat in European elections (which negatively impacted large French infrastructure companies like Vinci and Aeroports de Paris due to perceived higher political risk).

For the quarter, the public real asset portfolio lost 0.2%, above the custom benchmark's loss of 1.4% primarily due to outperformance by our Global REIT manager.

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 2024 and the fiscal year to date.

Employees' Retirement System Contributions and Investment Income (millions)

	Qtr 6/30/2024	Fiscal YTD
Employer Contributions	\$ 15.0	\$ 64.9
Member Contributions	9.0	37.4
Net Investment Income (Loss)	49.6	376.6
	<u>\$ 73.6</u>	<u>\$ 478.9</u>

Deductions

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

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Employees' Retirement System Deductions by Type (millions)

	Qtr 6/30/2024	Fiscal YTD
Benefits	\$ 80.3	\$ 315.0
Refunds	5.3	23.0
Administrative Expenses	1.0	3.8
	\$ 86.6	\$ 341.8

Outlook

Global growth is projected at 3.2 percent in 2024 and 3.3 percent in 2025, in-line with the International Monetary Fund's (IMF) April 2024 forecasts. Global activity and world trade firmed up at the turn of the year, with trade spurred by strong exports from Asia, particularly in the technology sector. However, services price inflation continues to hold up progress on disinflation, which in turn is preventing the normalization of monetary policy in many countries. With escalating trade tensions and increased policy uncertainty on the horizon, the prospects for higher-for-longer interest rates continue to increase. As a result of these trends, central banks in major advanced economies have become somewhat more cautious about the pace of policy easing, compared with their positions at the end of the first quarter. Consequently, markets' expectations of the number of policy rate cuts to be delivered in 2024 have been revised downward. Global headline inflation projections for 2024 and 2025 are 5.9 percent and 4.4 percent, respectively.

As output gaps start to close and inflation recedes, policymakers face two tasks: restoring price stability and addressing the legacies of recent crises, including replenishing lost buffers and durably uplifting growth. In the near term, this will require careful calibration and sequencing of the policy mix. In countries where upside risks to inflation—including those arising through external channels—have materialized, central banks should refrain from easing too early and remain open to further tightening should it become necessary. Where inflation data encouragingly signal a durable return to price stability, monetary policy easing should proceed gradually, which would simultaneously provide room for the required fiscal consolidation to take place. However, as the space for fiscal maneuver narrows, it is crucial for policymakers to remain firmly committed to achieving fiscal consolidation targets.

The U.S. economy is on firmer footing, but macro uncertainty is high. The Fed has exhibited reversion aversion, demanding a high bar on the inflation data to kick off rate cuts. This leaves some risk that the gradual slowing in the cycle could extend into a downturn. However, investors continue to believe the Fed will cut rates later in the year, with most betting on September as the likeliest date for the first move. Corporate earnings were robust in the first half of the year, with growth led by the Magnificent Seven. Additionally, profitability seemed to stabilize for the broader large-cap S&P 500 and small-cap Russell 2000 indices. Treasury yields remain extremely volatile due to the combination of choppy data and a data-dependent Fed, but bonds could offer good value over the medium-term; both in terms of their starting real yield and as a diversifier to more adverse economic scenarios. The IMF is projecting U.S. growth will remain stable at 2.6 percent for 2024 before falling to 1.9 percent in 2025 with the lagged effects of monetary policy tightening, gradual fiscal tightening, and a softening in labor markets slowing aggregate demand.

Eurozone shares moved lower in Q2 amid uncertainty caused by the announcement of parliamentary elections in France and dwindling expectations for steep interest rate cuts. The information technology sector gained with semiconductor-related stocks performing particularly well. The consumer discretionary sector saw declines amid weakness in automotive and luxury goods stocks. The European Central Bank cut interest rates by 25 basis points in early June. However, the scope for further cuts may be limited by sticky inflation. Annual inflation in the euro area was 2.6 percent in May, up from 2.4 percent in April. Growth

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in the euro area is projected to recover from its low rate of an estimated 0.5 percent in 2023 to 0.9 percent in 2024 and 1.5 percent in 2025. This growth is underpinned by stronger consumption on the back of rising real wages, as well as higher investment from easing financing conditions amid gradual monetary policy loosening this year. Continued weaknesses in manufacturing suggest a more sluggish recovery in countries such as Germany.

UK equities rose, and the FTSE 100 achieved fresh all-time highs. A flurry of new bids also helped the performance of small and mid-sized companies. The outlook is beginning to improve, albeit from a low base. Consumer and business confidence are rebounding and there are signs that house prices are beginning to recover. Core inflation, however, is proving sticky, and at 3.9 percent is preventing the Bank of England from signaling near-term rate cuts. Interest rate markets have priced 100 basis points of Bank of England (BoE) easing over the next 12 months, which seems realistic given inflation should get closer to the BOE's 2 percent target over the next year. Growth in the UK is projected to rise modestly from an estimated 0.1 percent in 2023 to 0.7 percent in 2024, as the lagged negative effects of high energy prices wane, then to 1.5 percent in 2025, as disinflation allows an easing in financial conditions and permits real incomes to recover.

The Japanese equity market generated a positive return of 1.7 percent in Japanese yen terms for TOPIX Total Return during the quarter. However, due to the continued depreciation of the Japanese yen, the foreign currency-based return turned negative. The yen weakness was primarily driven by the strength of the US dollar, which was supported by a stronger US economy and the expectation of a "higher for longer" interest rate scenario. In March, the BoJ raised interest rates for the first time in 17 years and seems likely to raise rates further, albeit slowly. The economic outlook looks decent, with manufacturing picking up, the China outlook becoming more supportive, and the depreciation in the Japanese yen supporting inbound tourism. Despite these positives, the IMF is projecting a decline in growth from an estimated 1.9 percent in 2023 to 0.7 percent in 2024, due to temporary supply disruptions and weak private investment in the first quarter of the year. Growth is expected to rebound to 1.0 percent in 2025.

Emerging market (EM) equities finished ahead of developed peers in Q2. Softer US macroeconomic data helped ease concerns about the timing of US interest rate cuts and a rebound in China also supported EM returns. Turkey was the best performer over Q2 helped by optimism that economic policy will remain orthodox. Taiwan also posted double-digit returns because of continued investor enthusiasm for AI. Positive performance in South Africa and India was driven by post-election macro-optimism. Investors also responded positively to Chinese authorities' support for the housing sector and President Xi's reform rhetoric. The remaining markets underperformed, including Korea and some of the energy-related markets such as Kuwait, UAE, Colombia, and Saudi Arabia. Brazil and Mexico posted the biggest losses. Broadly, EM growth is expected to remain at 4.3 percent in both 2024 and 2025, but there could be significant divergence in growth across EM countries.

Sources: BlackRock, Bloomberg, Bridgewater, FRM, MSCI, NCREIF, Northern Trust, T. Rowe Price, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, The World Bank, The International Monetary Fund, European Central Bank, Bank of Japan, The Organization for Economic Cooperation and Development, Russell, Albourne, MSIM, Principal, JP Morgan, Goldman Sachs, Preqin, Pitchbook, Federal Reserve, Marathon Asset Management, Schroders, Standard and Poor's.

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EMPLOYEES' RETIREMENT SYSTEM STATEMENTS OF FIDUCIARY NET POSITION

June 30, 2024

Assets

Equity in pooled cash and investments	\$ 1,454,673
Investments:	
Northern Trust	4,900,127,578
Aetna	519,642
Fidelity - Elected Officials Plan	1,295,269
Fidelity - DRSP/DROP	12,881,096
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Total investments	4,914,823,585
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Contributions receivable	4,357,109
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Total assets	4,920,635,367
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Liabilities

Benefits payable and other liabilities	5,297,277
Net position restricted for pensions	\$ 4,915,338,090
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EMPLOYEES' RETIREMENT SYSTEM STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

For the Quarter Ended June 30, 2024

	Quarter	Fiscal YTD
Additions		
Contributions:		
Employer	\$ 14,951,784	\$ 64,878,147
Member	<u>9,032,538</u>	<u>37,411,080</u>
Total contributions	<u>23,984,322</u>	<u>102,289,227</u>
Investment Income	60,999,616	400,497,362
Less investment expenses	<u>11,351,942</u>	<u>23,868,093</u>
Net investment Income	<u>49,647,674</u>	<u>376,629,269</u>
Total income	<u>73,631,996</u>	<u>478,918,496</u>
Deductions		
Retiree benefits	61,678,550	241,224,832
Disability benefits	15,391,104	61,121,142
Survivor benefits	3,223,623	12,719,539
Refunds	5,270,576	22,988,153
Administrative expenses	<u>1,006,339</u>	<u>3,795,631</u>
Total deductions	<u>86,570,192</u>	<u>341,849,297</u>
Net Income (Loss)	<u>(12,938,196)</u>	<u>137,069,199</u>
Net position restricted for pensions		
Beginning of period	<u>4,928,276,286</u>	<u>4,778,268,891</u>
End of period	<u>\$ 4,915,338,090</u>	<u>\$ 4,915,338,090</u>