

QUARTERLY REPORT

September 30, 2018

Shown below is the quarterly report on the status of the Montgomery County Consolidated Retiree Health Benefits Trust ("CRHBT") for the quarter ending September 30, 2018. This quarterly report is designed to assist you in understanding the current status of the CRHBT.

History

The Consolidated Retiree Health Benefits Trust was established in 2008 as a Section 115 Trust to provide funding for retiree health benefits for retirees and their dependents of Montgomery County and other

Participating Agencies and Other Trust Participants

Participating agencies include Montgomery County Government, Revenue Authority, Credit Union, Department of Assessment & Tax, Strathmore Hall Foundation, Housing and Opportunity Commission, Washington Suburban Transit Commission, and Village of Friendship Heights. Beginning in June 2012, funding for retiree health benefits for Montgomery County Public Schools ("MCPS") and Montgomery College were also contributed to the CRHBT.

Board of Trustees

The Board of Trustees consists of 19 members: The Montgomery County Directors of Management and Budget, Finance, and Human Resources; the Council Administrator; a Police Bargaining Unit Representative; a Fire & Rescue Bargaining Unit Representative; an Office, Professional, and Technical (OPT) and Service, Labor and Trades (SLT) Bargaining Unit Representative; a Non-Bargaining Unit Representative; a Retired Employees Representative; two persons recommended by the Council who are knowledgeable in pensions, investments, or financial matters; two individuals knowledgeable in pensions, investments, or financial matters appointed by the County Executive; three members nominated by the Montgomery County Board of Education including a designee of the Superintendent, a Bargaining Unit Representative and retiree of MCPS; and 3 members nominated by the Board of Trustees of Montgomery College including a designee of the President, a Bargaining Unit Representative, and a retiree of Montgomery College.

Performance Results

The total return for the quarter was a gain of 2.37%, 20 basis points (bps) ahead of the 2.17% gain recorded by the policy benchmark. For the one year ending September 30, 2018, the gain of 8.42% was 170 bps ahead of the 6.72% gain recorded by the policy benchmark. The one-year gross return places the CRHBT's performance in the second quartile of the universe of comparable funds constructed by the Board's consultant, Wilshire Associates. Our three-year performance of 10.13% ranked at the median, while our five-year and ten-year returns of 7.37% and 7.66%, respectively, ranked in the third quartile.

The total market value of trust assets at September 30, 2018 was \$993.2 million. The CRHBT's asset allocation was: Domestic Equities 21.3%, International Equities 18.0%, Global Equities 4.1%, Fixed Income 25.5%, Inflation Linked Bonds 10.7%, Public Real Assets 9.1%, Private Real Assets 3.4%, Private Equity 6.9%, Private Debt 0.9%, and 0.2% Cash.

Major Initiatives/Changes

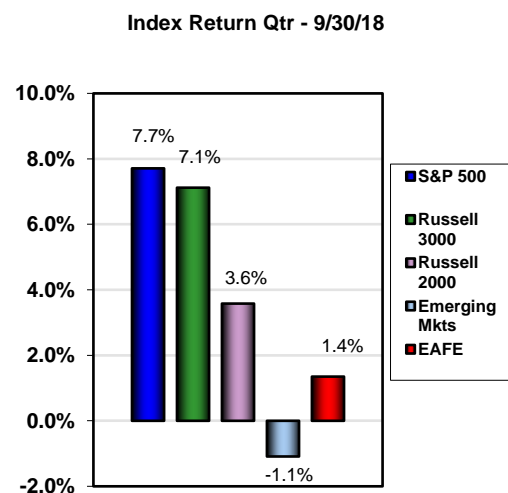
During the quarter, the following commitments were made: \$2 million to Longpoint Realty Fund I, L.P. a private real estate fund, \$4 million to Franklin Park Private Equity Co-Investment Fund I, L.P., a private equity co-investment fund, and \$3 million to Franklin Park Private Debt Co-Investment Fund I, L.P., a private debt co-investment fund. Allocations to public managers include: Wellington International Quality Growth, an international equity fund, TimesSquare International Small Cap Fund, an international small cap equity fund, and Arrowstreet Global Equity Fund, a global equity fund.

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Capital Markets and Economic Conditions

Economic data reflected that GDP increased at an annualized rate of 3.5% in the third quarter of 2018, slightly outpacing market expectations of 3.4%. Consumer spending, which accounts for over two thirds of the U.S. economy, advanced at a 4.0% rate, which is the strongest level since 2014. Business spending contracted 7.9% as the benefits from the 2017 corporate tax cuts began to wane after delivering substantial gains in the prior quarters. The export picture was also negative as imports continued to outpace exports at an increasing margin. The economy added 569,000 jobs during the quarter, a decrease from Q2's 681,000 gain. The U.S. unemployment rate dropped sharply during the quarter, decreasing from 4.0% to 3.7%, which represents the lowest level since 1969. Q3 inflation was below expectations as the Consumer Price Index increased 2.3% year-over-year due to sharp slowdown in gas prices and shelter costs that grew less than expectations. The housing market continues to exhibit some weakness as higher mortgage rates and labor shortages in the construction sector led to drops in housing starts and building permits.

Public Equity Markets: Domestic equity markets posted solid results during the quarter due to the continuation of strong economic reports especially related to employment and corporate earnings that generally exceeded investor expectations. The unemployment rate remained near a cyclical low, reflecting the ongoing health of the domestic market. Domestic equities hit a record high in August, exceeding the previous peak set in January 2018, which marked the longest bull market on record. Growth stocks outperformed value stocks and large cap stocks outperformed small cap stocks. The S&P 500 delivered



strong gains during Q3, with the healthcare, industrials, communication services, IT, and consumer discretionary sectors posting strong returns. The healthcare sector rallied on strong company earnings and a wave of mergers and acquisitions, along with the appeal of the sector's defensive tilt. Our combined domestic equity performance was a gain of 7.57%, outperforming the 7.12% gain of the Russell 3000 Index. The outperformance was driven by strong active management across the portfolio.

International developed markets posted positive returns but trailed their domestic counterparts. Europe outperformed Asia with the Nordic markets showing strong performance. Asia, Japan and New Zealand advanced while Hong Kong and Australia posted losses despite showing gains in local currency, as their performance was impacted by the strength in USD. In terms of sectors, healthcare and communication

services performed the best while real estate and utilities detracted. In Europe, concerns about the global growth due to the uncertainty surrounding Brexit and U.S. trade policy weighed on equities. Market sentiment in Europe was further impacted by the trade war worries between the U.S. and China. Emerging market equities continued to struggle in Q3 with two of the four largest markets, China and India experiencing declines. The U.S. and China trade war escalations and disappointing earnings and economic data weighed on the Asia Pacific region. Emerging markets were also impacted by the turmoil in Turkey and Argentina, which experienced strong declines in their currencies – these markets rely on foreign capital to finance their current account deficit. Our combined international equity performance was a gain of 0.66%, outperforming the 0.55% gain recorded by the benchmark. Our global equity allocation recorded a gain of 5.48%, outperforming the 4.28% gain of the MSCI ACWI Index.

Private Equity: During the third quarter a total of 214 PE funds reached a final close, securing \$121 billion in commitments; while this represents a 15% decrease from the same time period in 2017, it is the highest quarterly fundraising total in 2018. Although fewer funds have reached a final close in 2018, of the 799 funds that have closed, 80% achieved their target size, the largest proportion for the past five years. The average capital raised per fund increased from \$316 million in Q2 2018 to \$556 million in Q3 2018. As of Q3 2018, the number of PE funds in the market has reached a new record of 3,921. While just one more North American fund closed in Q3 2018 than in Q3 2017, the collective capital raised accounted for a \$4.5 billion increase when compared to the amount raised in the prior year. The number of Asia-focused funds continues to increase and now 44% of the funds in the market are targeting the region. In Q2 2018, relative

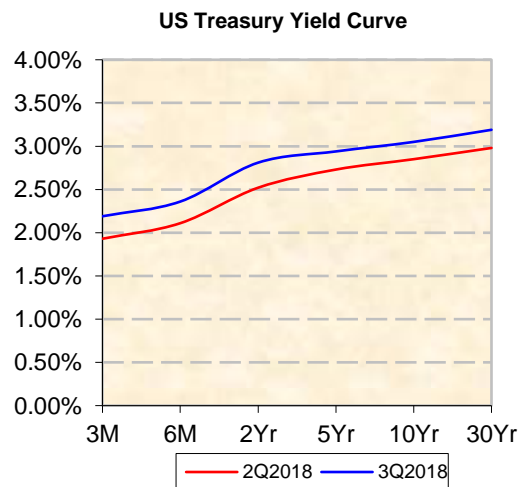
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to the prior quarter, the number of global buyout deals decreased 5% to 1,205 and the aggregate value of deals declined 28% to \$93 billion. Asian deal value rose from the previous quarter to \$13 billion in Q3 2018, while deal value fell 38% in North America. However, four of the five largest buyout deals in Q3 2018 were based in North America, led by Cannae Holdings, CC Capital, and Thomas H. Lee Partners' acquisition of Dun & Bradstreet (\$6.9 billion). Exit activity dropped 5% from Q2 2018 to 484 private equity backed exits in Q3 2018, for an aggregate \$85 billion. Levels of dry powder remain elevated, reaching a record \$1.14 trillion, with buyout funds accounting for the majority at 56%.

Venture capital fundraising had their most successful quarter in six years with 101 funds securing \$18 billion, accounting for 15% of all private equity capital raised in Q3 2018. 3,894 venture capital financings were announced globally during the quarter, down from 3,946 financings in Q2 2018, but up 20% when compared to Q3 2017. 1,592 of the venture capital financings took place in North America, the highest number since 2015, representing 41% of the global total. Venture deal value dropped from \$74 billion in Q2 2018, the highest quarterly figure since 2007, to \$69 billion in Q3 2018, the second highest figure during the period.

During the quarter, our private equity managers called a combined \$3.3 million and paid distributions of \$4.1 million. Our current allocation to private equity is 6.86%, with a market value of \$68.1 million. From its 2013 inception through June 30, 2018, the private equity program has generated a net internal rate of return of 23.8% versus a 15.8% return for the dollar-weighted public market equivalent (the Russell 3000 Index plus 300 bps).

Fixed Income: The yield curve moved upwards in a parallel fashion, as yields increased across all maturities on the curve. During the quarter, yields on the short end rose slightly faster than on the longer end, causing the yield curve to marginally flatten - a trend which has occurred over the past several quarters as the Fed continues to tighten monetary policy. The yield on the 30-year bond increased by 21 bps during the quarter and ended the period at 3.19%. The spread between 2-year and 10-year Treasuries, the main gauge of the yield curve, tightened by 9 bps to 24 bps, the tightest level since prior to the 2008 global financial crisis. For the quarter, the 2-year Treasury yield ended at 2.81%, up 29 bps from the prior period, while the 10-year Treasury yield rose by 20 bps to 3.05%. The high yield portfolio's performance for the quarter was a gain of 2.01%, underperforming the 2.44% gain of the Merrill Lynch High Yield II Constrained Index. The long duration portfolio's performance for the quarter was a loss of 0.58%, underperforming the 0.47% loss posted by the Barclays Long Govt/Credit Index. Our global inflation-linked bond portfolio, combined with a portable alpha overlay, recorded a loss of 3.41%, underperforming the custom benchmark's loss of 2.33%.



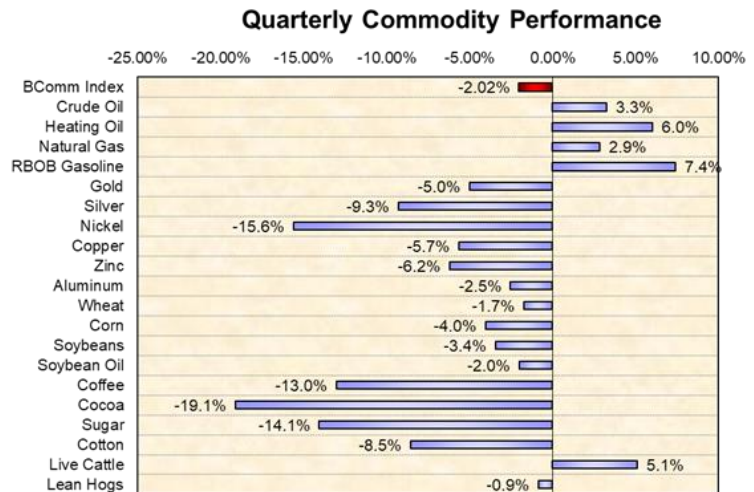
Private Debt: Private debt fundraising in the third quarter continued its strong run, as 31 funds reached a final close, securing a total of \$24 billion in aggregate capital commitments. Through Q3, 2018 fundraising is already \$11 billion ahead compared to the same period last year. North American funds are leading the growth in the asset class, with 54% of the capital raised targeting that region. Direct lending strategies still have the largest investor appetite, garnering \$19 billion of the \$24 billion of assets raised in Q3. However, mezzanine strategies are beginning to see a rise in interest, as investors may be willing to move down in the capital structure for higher yielding investments. During the quarter, our private debt managers called a combined \$2.7 million and paid distributions of \$0.4 million. Our current allocation to private debt is 0.86%, with a market value of \$8.5 million. Due to the young age of the portfolio, performance data is not relevant.

Private Real Assets: The NCREIF Property Index (NPI), a measure of private commercial real estate properties in the U.S., gained 1.7% in the third quarter 2018, down slightly from 1.8% last quarter. The total return consisted of a 1.1% income return and 0.6% capital appreciation. Occupancy levels rose to 94.2% which is the highest since the year 2000. Cap rates decreased to 4.3% which represents the lowest cap rate in the history of the NCREIF Property Index which began in 1978. Despite the strong fundamentals in

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occupancy and cap rates, rent growth decelerated for the quarter to a 0.7% growth rate, compared to 1.5% last quarter. The industrial sector continued to be the stellar performer with a 3.4% return in the third quarter. The other major property sectors lagged with office, apartments and retail returning 1.7%, 1.6% and 0.6% respectively. There were \$122.8 billion worth of deals announced in the U.S. oil and gas sector. However, four very large deals made up most of that deal volume, and out of those four deals two were affiliate transactions involving corporate restructurings. Shale continues to be a major contributor to deal-making, led by the Permian Basin. During the quarter, our private real assets managers called a combined \$2.9 million and paid distributions of \$0.9 million. From its 2013 inception through June 30, 2018, the total private real assets program (including fund-of-funds) has generated a net internal rate of return of 12.1% versus a 7.0% gain for the long-term benchmark CPI plus 500 bps.

Public Real Assets: The Bloomberg Commodity Index decreased 2.0% for the quarter as gains in the energy sector were offset by losses in precious metals, industrial metals, and livestock and agriculture. The energy complex continued to rally amidst global supply uncertainties and ongoing global growth; above average temperatures at the beginning of the quarter supported natural gas prices. Prices in precious metals continued to slide due to pressure from rising U.S. interest rates and strong economic data. Industrial metals declined as global trade disputes weighed on the sector, with prices of nickel and lead dropping the most following weaker demand from China. Agriculture and livestock prices were lower



for the quarter due to trade war fears, increased emerging market volatility, and a stronger U.S. Dollar. The devaluation of the Brazilian real incentivized growers to sell rather than store the season's harvest, depressing global prices for sugar and coffee.

Global listed real estate securities as measured by the FTSE EPRA/NAREIT Developed Index declined by 0.3%, led by weakness in Asia and the U.K. Within Asia, REITs in Singapore were positive due to office rent growth and retail rent stabilization. This strength was offset by weakness in Hong Kong and Japan due to trade tensions with the U.S. The lack of direction in the Brexit negotiations weighed on the U.K. listed real estate markets. U.S. REIT returns were mixed. Residential companies performed well as supply concerns eased in key markets. In contrast, self-storage companies declined due to concerns of new supply in the market.

Listed infrastructure declined by 0.8% for the quarter as measured by the Dow Jones Brookfield Global Infrastructure Index. There was wide dispersion among infrastructure sector returns with the leading detractors being: toll roads, pipeline companies, European regulated utilities and gas distribution utilities. The toll road sector was negatively impacted by company specific events in Italy and Australia. Pipeline companies were negatively impacted due to rising interest rates in Canada and poor sentiment. European regulated utilities declined due to a combination of higher interest rates in the U.K. and ongoing concern over potential nationalization. Weakness in these sectors were partially offset by gains in ports, U.S. transmission & distribution utilities, and water utilities. U.S. utilities benefited from favorable legislation and ports gained due to strong economic growth.

For the quarter, the public real asset portfolio declined 0.31%, underperforming the custom benchmark by 34 bps due to underperformance by our US REIT and MLP managers.

Outlook

During the third quarter, the U.S. Federal Reserve ("the Fed") raised the benchmark interest another 25 bps for the third time in 2018 to a range of 2.0% to 2.25%. The expected rate increase was a result of official's increased confidence in the U.S. economy. It's widely anticipated that the Fed will raise interest

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rates an additional 25 bps in Q4 2018, with three more rate hikes priced in through 2019. In the third quarter, the U.S. dollar showed strong relative strength. A strong currency also acts in a tightening manner on the economy, as U.S. exports become less competitive and more expensive to foreign buyers. While unemployment remains at historical lows, it still remains to be seen if the tight labor market will cause the Fed to further increase their rate of interest rate hiking.

In contrast to the U.S., the European Central Bank (“ECB”) has still maintained an easy monetary policy stance, reiterating that there will be no interest rate increase through at least the summer of 2019. The ECB also confirmed its plans to slow bond purchases through the end of the calendar year when the bond buying program will officially end. Expansion is still driving forward in the Eurozone region; however, growth is expected to be more subdued going forward. Eurozone inflation was estimated at 2.1% for September, up slightly from 2% in August. As expected, the Bank of Japan (“BOJ”) decided to keep short-term interest rates at a target of -0.1%, while also pledging to guide the 10-year government bond to 0%. Inflation readings came in weaker than anticipated within a range of 0.5% to 1%, contracting slightly from the prior quarters. With inflation moving in the wrong direction, the BOJ will likely be forced to continue their very loose monetary policy for the foreseeable future while they attempt to address other structural factors which are contributing to holding back consumer price growth.

Sources: BlackRock, Bloomberg, Bridgewater, Eagle, FRM, Gryphon, JP Morgan MSCI, NCREIF, Northern Trust, Oil & Gas Investor, PE Hub, Private Equity Analyst, Pitchbook, Prequin, PwC Deals, Real Capital Analytics, RE Alert, S&P Schroders, T. Rowe Price, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, Wilshire Associates.

Risk Profile

The risk/return statistics for the CRHBT for the 1, 3 and 5-year periods ending September 30, 2018 are shown below:

		<u>1 Year</u>			
	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	7.92	3.86	1.55	2.14	2.05
CRHBT Benchmark	6.72	4.31	1.08	1.4	1.56

		<u>3 Year</u>			
	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	9.68	3.26	2.61	3.42	2.97
CRHBT Benchmark	9.30	3.07	2.63	3.18	3.03

		<u>5 Year</u>			
	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	6.94	5.37	1.14	1.35	1.29
CRHBT Benchmark	6.59	5.15	1.12	1.31	1.28

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Participating Agency Allocation

Agency	7/1/2018		7/1/2018 - 9/30/2018			9/30/2018	
	Balance \$	Balance %	Contributions	Expenses	Investment Gain/Loss	Balance \$	Balance %
Montgomery County Govt	\$470,098,955	48.02%	\$1,409,610	(\$684,305)	\$7,367,718	\$478,191,977	48.08%
MontCo Revenue Authority	\$2,940,798	0.30%	\$38,625	(\$4,295)	\$46,070	\$3,021,198	0.30%
Strathmore Hall Foundation	\$1,359,398	0.14%	\$18,875	(\$1,986)	\$21,295	\$1,397,582	0.14%
Credit Union	\$1,195,116	0.12%	\$8,250	(\$1,742)	\$18,728	\$1,220,352	0.12%
Dept of Assessments & Tax	\$13,253	0.00%	\$0	(\$19)	\$208	\$13,441	0.00%
District Court of Maryland	\$0	0.00%	\$0	\$0	\$0	\$0	0.00%
HOC	\$15,987,336	1.63%	\$278,050	(\$23,382)	\$250,410	\$16,492,414	1.66%
WSTC	\$104,216	0.01%	\$0	(\$152)	\$1,634	\$105,698	0.01%
Village of Friendship Heights	\$379,535	0.04%	\$6,653	(\$555)	\$5,945	\$391,577	0.04%
Montg. Cty. Public Schools	\$432,861,330	44.22%	\$0	(\$618,659)	\$6,785,023	\$439,027,694	44.14%
Montgomery College	\$54,012,243	5.52%	\$0	(\$77,196)	\$846,632	\$54,781,679	5.51%
Total	\$978,952,180	100.00%	\$1,760,063	(\$1,412,290)	\$15,343,662	\$994,643,613	100.00%