

QUARTERLY REPORT

June 30, 2022

Shown below is the quarterly report on the status of the Montgomery County Consolidated Retiree Health Benefits Trust ("CRHBT") for the quarter ending June 30, 2022. 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 agencies or political subdivisions who elect to participate.

Participating Agencies and Other Trust Participants

Participating agencies include Montgomery County Government, Revenue Authority, SkyPoint Federal Credit Union, Department of Assessments and Taxation, Strathmore Hall Foundation, Housing Opportunities 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 Executive Director; 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 loss of 9.66%, 80 basis points (bps) ahead of the 10.46% loss recorded by the policy benchmark. For the one year ending June 30, 2022, the loss of 7.55% was 14 bps behind the 7.41% loss 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, NEPC. Our three-year performance of 7.17% and five-year performance of 7.92% places the CRHBT in the second and top quartile, respectively, of the universe.

The total market value of trust assets on June 30, 2022, was \$1,543.9 million. The CRHBT's asset allocation was: Domestic Equities 13.7%, International Equities 14.2%, Global Equities 4.3%, Fixed Income 19.7%, Inflation Linked Bonds/Gold 16.0%, Public Real Assets 6.0%, Private Real Assets 4.3%, Private Equity 12.7%, Private Debt 1.6%, Opportunistic 4.4%, and 3.1% Cash.

Major Initiatives

During the quarter, the CRHBT committed \$6 million to Franklin Park Venture Capital Fund XIV, a venture capital fund, \$6 million to Franklin Park International Fund XI, a private equity fund, and \$6 million to Franklin Park Co-Investment Fund V, a private equity co-investment fund. Additionally, ERS made commitments of \$6 million to BV Investment Partners XI, a private equity fund, and \$1.7 million to Enlightenment Capital Solutions Fund IV, a private debt fund.

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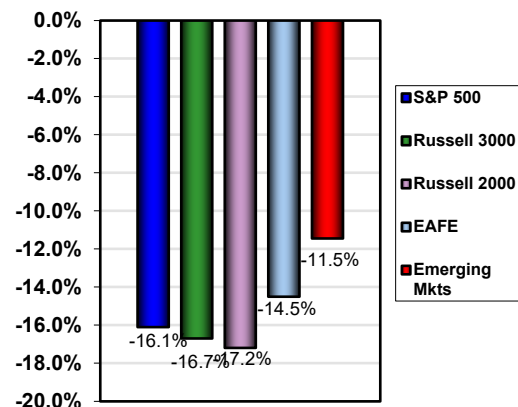
Capital Markets and Economic Conditions

Second quarter GDP for 2022 declined 0.6% according to the second estimate released by the Bureau of Economic Analysis, ahead of the 0.9% decline that was originally estimated. The change was driven by upward revisions to consumer spending and private inventory investment that were partly offset by a downward revision to residential fixed investment. The decrease in real GDP is driven by the continued upward inflection of inflation and the monetary response by central banks enacted to combat the inflation. The 0.6% decline in GDP reflected decreases in private inventory investment, residential fixed investment, federal government spending, and state and local government spending, that were partly offset by increases in exports and consumer spending. Imports, which are a subtraction in the calculation of GDP, increased. By the end of Q2 2022, the unemployment rate has remained steady, unchanged from Q1, at 3.6%, with the economy adding 372,000 jobs in June because of an increase in hiring in leisure and hospitality, healthcare, food services and warehousing.

The consumer price index (CPI) rose 9.1% from a year ago, notably above the 8.8% Dow Jones estimate. The annual change was the fastest annual gain since November 1981. Food prices rose 10.4% for the year, while education and communication commodities fell 5.7% in June. Core CPI, which excludes volatile food and energy costs, rose 5.9% also higher than the 5.7% estimate. The housing picture which has remained resilient has started to slow, with housing starts falling 2% in June 2022 to a seasonally adjusted annual rate of 1.559 million units, the lowest level since September 2021. Home prices for the quarter were up 14.2% from a year ago, slightly slower than the 15.4% year-over-year price increase experienced in the first quarter. The median single-family existing home price in the second quarter was \$413,500, the first time this quarterly price has ever risen above \$400,000.

Public Equity Markets: Equities declined sharply with the S&P 500 Index posting a 16.1% loss for the quarter. Concerns of a looming recession and elevated levels of inflation weighed on sentiment. Investors moved towards defensive stocks as these were comparatively resilient while investors holding energy stocks benefited as the sector was buoyed by commodity prices. Large and small cap value stocks outperformed their growth counterparts. All eleven sectors of the S&P 500 Index posted negative returns with the consumer discretionary declining 26.2%. Our combined domestic equity performance was a loss of 16.5%, outperforming the 16.7% loss of the Russell 3000 Index.

Index Return-Quarter Ending 6/30/22



International developed markets fared better than their U.S. counterparts, but still declined 14.5% for the quarter. European equities continued to be impacted by the conflict in Ukraine and sanctions on Russia. Same as with all regions, the Pacific ex-Japan region fell sharply in the face of global inflation and recession fears. Hong Kong benefitted from the perception that China may begin relaxing some of the Covid-19 related restrictions. The Japanese market fell over the quarter, reflecting the plunging yen which fell to its lowest level in more than 20 years. Emerging markets outperformed international developed markets, with all of them, except China, posting negative returns during the quarter, driven by global recession concerns and the Ukraine

conflict. For instance, Taiwan and Korea, which are major manufacturing exporters, are impacted by recession concerns, while markets such as Poland and Hungary border Ukraine, and Egypt relies heavily on grain from Ukraine. In addition, the strength of the USD also impacted EM performance. Meanwhile, China generated a 3.4% return reflecting the anticipated easing of Covid-19 measures. Our combined international equity performance was a loss of 13.3%, outperforming the 14.0% decline recorded by the benchmark. Our global equity allocation recorded a loss of 14.9%, outperforming the 15.7% loss of the MSCI ACWI Index.

Private Equity: During the second quarter, a total of 465 funds reached their final close, securing \$201 billion in commitments, approximately the same level raised in the prior quarter. Relative to Q1, the number of funds raised in Q2 decreased 11%, representing a rise in average fund size. The number of funds raised

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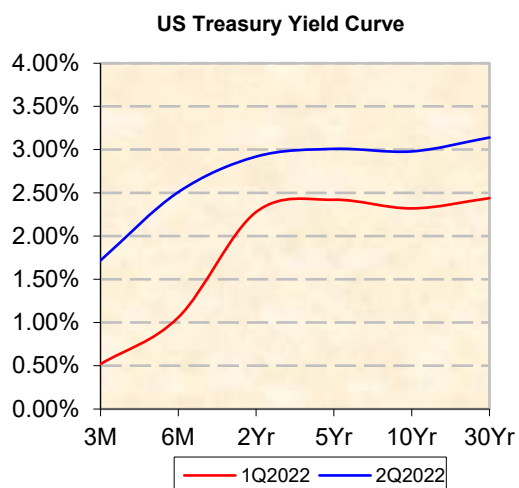
and the amount of capital raised continues to remain below the near record highs of the same quarter in 2021, down 53% and 66% respectively. North America continued to dominate the fundraising landscape, representing 76% of the aggregate capital raised and 62% of the total number of funds raised. U.S. buyout deal activity was down during the quarter as the number of completed deals decreased 21% to 1,003, the aggregate deal volume decreased 36% to \$83 billion, and the average deal size decreased 7% to \$931 million. Public technology companies sold off, and in response, buyout multiples in the U.S. halted their trend upward, coming in at 11.8x Enterprise Value-to-EBITDA. The technology sector continues to be the most robust representing 26% of aggregate U.S. buyout deal value. Buyout exit activity in the second quarter included 215 exits, a 16% drop from the prior quarter, however, aggregate exit values increased 102% to \$109 billion and the average exit size increased 126% to \$2.4 billion. The global private equity sector has \$2.4 trillion in dry powder, another record high, which could serve to support transactional activity.

Similar to private equity, U.S. venture fundraising activity was down in Q2 as the number of funds raised decreased 3% to 172 and the aggregate capital raised decreased 11% to \$39 billion. However, the average fund size raised bumped up 5% to \$270 million. U.S. venture deal making also decreased for the quarter with the number of consummated deals down 16% to 1,920, aggregate deal value down 25% to \$58 billion, and average deal size down 12% to \$37 million.

During the quarter, our private equity managers called a combined \$6.3 million and paid distributions of \$2.4 million. Our current allocation to private equity is 12.7%, with a market value of \$196.4 million. From its 2013 inception through March 31, 2022, the total private equity program has generated a net internal rate of return of 30.0% versus an 18.8% return for the dollar-weighted public market equivalent (the Russell 3000 Index plus 300 bps).

Hedge Funds: For the quarter, industry wide hedge funds fell by 4.7% based on the HFRI Composite Index. On a sub-strategy basis, the Event-Driven Index lost 6.1%, the Relative Value Index retreated 2.8%, the Macro Index rose 1.7%, and the Equity Hedge Index declined by 7.7%. The System's diversifying hedge funds recorded a gain of 2.9% versus a loss of 1.7% for the Conservative Index. The diversifying portfolio outperformance is primarily attributable to strong fund selection within the quantitative and multi-strategy sectors. The System's directional hedge funds recorded a loss of 2.4% compared to the negative 7.3% return for the Strategic Index. The directional outperformance is primarily attributable to positive fund selection within the residential mortgages sector.

Fixed Income: The yield curve shifted upwards noticeably for the quarter across maturities as the Fed hiked rates while the economy and employment remained strong. For example, the yield on the 2-year bill maturities moved up 64 bps, comparable with the 66 and 70 bps advances in yields for the 10- and 30-year bond maturities. Given the comparable rise in yields, the spread between 2-year and 10-year Treasuries, the main gauge of the yield curve, ended the quarter at 6 bps, close to unchanged from the previous quarter levels. By the end of the quarter, the 10-year Treasury yield was 2.98% whereas the 30-year Treasury yield was 3.14%. The high yield portfolio's performance for the quarter was a loss of 10.5%, underperforming the Merrill Lynch High Yield II Constrained Index by 0.5%. The long duration portfolio's return for the quarter was a loss of 12.3%, underperforming the custom long duration benchmark by 0.2%. The emerging market debt portfolio lost 12.8%, underperforming the JPM EMBI Global Diversified benchmark return by 1.3%.



Our global inflation-linked bond portfolio, combined with a portable alpha overlay, recorded a loss of 11.9%, outperforming the custom benchmark by 5.0%. The outperformance was driven entirely by the overlay, where the strategy's alphas in equities, nominal bonds, developed market currencies, and short rates provided strong returns.

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Private Debt: 2021 was a record-breaking year for private debt fundraising, the highest annual aggregate capital raised on record at \$213.7 billion. The Q2 fundraising of \$93 billion has been on track to be a close second. North America remained the number one market for private debt with 21 funds raising \$38.3 billion of capital in Q2. European debt funds managed to raise \$8.2 over the same period while Asian funds raised only \$6.6 billion. There has been an increase in special situations funds compared to last quarter, with aggregate capital raised rising from \$2.4 billion in Q1 to \$25.7 billion in Q2. This increase may be due to investors preparing to take advantage of value opportunities, which would benefit from any economic recovery. Direct lending fundraising, meanwhile, increased to \$24.6 billion in Q2 versus the \$19.6 billion raised in Q1. Some of the significant fund closings over the quarter were Carlyle Credit Opportunities Fund II, which raised \$4.6 billion, and Angelo Gordon's AG Credit Solutions Fund II, which raised \$3.1 billion. Dry powder in August 2022 was \$418.1 billion, which continue to remain the highest amount ever recorded by Preqin.

During the quarter, our private debt managers called a combined \$1.0 million and paid distributions of \$1.9 million. Our current allocation to private debt is 1.6%, with a market value of \$24.0 million. From 2015 through March 31, 2022, the private debt program generated a net internal rate of return of 11.8% 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, despite the increasing fear of recession, energy prices around the world remained elevated, with oil well above \$100/barrel during the quarter. Supporting energy prices are the current supply deficits along with geopolitical risks and supply disruptions caused by the Russian invasion of Ukraine. For Q2 2022, natural resource fund managers raised \$51 billion across 25 fund closures, only slightly less than the record \$60 billion raised in Q1 2022. Notwithstanding the record fundraising in the first half of the year of (\$111 billion), dry powder only slightly increased as fund managers have been able to deploy capital. Infrastructure funds also experienced heightened fundraising success driven by investor concern around inflation and the rise of mega funds. For instance, Q2 2022 saw 15 funds raise in aggregate over \$50 billion – averaging over \$3 billion per fund. In contrast, fundraising in real estate was more subdued, with 86 funds raising \$31.8 billion for the quarter, compared to 127 funds raising \$30.1 billion for the same quarter last year. Aggregating fundraising year-over-year rose by 6% due to a material increase in average fund size to \$430 million or 39% higher than the prior year period. Real estate returns continued to be driven by the industrial sector which experienced a 5.9% gain with the lowest returning sector being office with a 0.6% gain given uncertainty around continued work from home trends. In aggregate real estate gained 3.2%.

Our current allocation to private real assets is 4.3% with a market value of \$66.8 million. During the quarter, our private real asset managers called a combined \$1.1 million and paid distributions of \$2.5 million. From 2013 inception through March 31, 2022, the total private real assets program (including fund-of-funds) has generated a net internal rate of return of 10.6% versus an 8.2% 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 17.5% for the quarter, in line with global equities (-17.2%) and underperforming bonds (-8.3%). Asia-Pacific was the best regional performer (-9.4%), bolstered by non-REIT property stocks, which tend to be less sensitive to rising long bond yields. Japanese property developers are positively correlated with higher inflation expectations and benefitted from the depreciation of the yen. Europe was the worst performer (-28.5%), hurt by the outbreak of conflict in the Ukraine and significant currency headwinds. Inflationary pressures have been further exacerbated triggering a significantly more hawkish reaction by European central banks. Rate hike concerns impacted Nordic countries, particularly Sweden and Norway, given the higher indebtedness of property stocks in these regions and their propensity toward floating rate debt. The Americas sold off sharply on stagflation fears (-17.5%). Amidst the macroeconomic turbulence, net lease, data center and manufactured housing outperformed due to their more predictable and durable income streams.

Listed infrastructure securities posted a loss of 7.1% during the quarter as measured by the Dow Jones Brookfield Global Infrastructure Index, noticeably outperforming global equities and modestly outperforming bonds. Performance was led by toll roads, which was the only sector that posted a positive return in the quarter (2.3%). This outperformance was driven by take-private activity in the quarter (Atlantia and Atlas Ateria). Infrastructure sector dispersion continues to be wide with the top performing sector, toll roads,

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outpacing the worst performing sector, airports, by almost 19%. Utilities generally held up well in the period outside of Europe, given their defensiveness. Energy infrastructure retreated on the back of profit-taking following a strong start to the year, with volume and commodity-price exposed companies faring worst. Some concern has started to grow about demand destruction given the potential for major economies to tip into recession, although fundamental trends run counter to this fear.

For the quarter, the public real asset portfolio declined 12.1%, outperforming the custom benchmark's loss of 12.4% by 0.3% primarily due to outperformance by our Global Listed Infrastructure Manager, MSIM.

Outlook

The second quarter of 2022 added to the capital market woes that began during the first quarter of the year, resulting in the worst half-year performance since 1970. All segments of the markets were down during the quarter. Inflation remained at historic highs as the conflict in Ukraine continued, commodity prices rose sharply, new COVID variants spread across the globe, and supply-chain bottlenecks remained an issue. In response to these conditions, the Fed raised rates twice during the quarter, bringing year-to-date rate hikes to 1.5%. Looking forward, a hawkish Fed is expected to continue with large hikes that could bring the policy rate close to 3.0% by year-end and eventually to 4.0% by the end of 2023.

In Europe, there is some dispersion between core inflation in the Eurozone (3.8%) and the UK (6.0%) which is likely to allow the European Central Bank (ECB) to tighten by less than the Bank of England. That being said, the ECB has recently turned hawkish, signaling a 25 bps rate hike in July and committing to winding down their quantitative easing programs. Futures markets are now expecting the ECB's rate to rise from -0.5% to 2.0% by the middle of 2023, in line with the ECB's policy target. The UK economy is likely to continue slowing in response to rising mortgage rates, high energy prices, and an increase in the national insurance levy.

Japan's economy continues to be weighed down by higher energy and food prices, which have been further exacerbated by the depreciation of the Yen. While inflation exceeded its 2.0% target for four straight months (currently at 2.2%), the Bank of Japan (BOJ) is likely to remain an outlier in keeping monetary conditions ultra-loose with price rises still modest compared with other major economies. Policymakers seem to be clinging to the hope that big manufacturers, which benefited from solid global demand and the profit-boost from a weak yen, will lead the way in boosting wages to help cushion the blow to households from rising living costs.

In response to this global economic environment, the IMF once again downgraded its global growth forecast for 2022, this time reducing growth expectations by 0.4%, from 3.6% to 3.2%. At the same time, the IMF has also increased its forecasts for inflation to 6.6% in developed countries and 9.5% in emerging markets — 0.9% and 0.8% higher than the organization forecasted in May.

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, European Central Bank, Bank of Japan, Albourne, MSIM, Principal, JP Morgan, Goldman Sachs, Preqin, Pitchbook, Standard and Poor's.

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Risk Profile

The risk/return statistics for the CRHBT for the 1, 3 and 5-year periods ending June 30, 2022 are shown below:

	<u>1 Year</u>				
	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	-7.75	8.90	-0.88	-0.99	-0.87
CRHBT Benchmark	-7.40	10.05	-0.73	-0.86	-0.74

	<u>3 Year</u>				
	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	6.84	10.49	0.62	0.90	0.65
CRHBT Benchmark	6.14	10.83	0.54	0.78	0.57

	<u>5 Year</u>				
	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	7.54	9.23	0.71	1.04	0.82
CRHBT Benchmark	6.88	9.59	0.62	0.92	0.72

Participating Agency Allocation

Agency	<u>4/1/2022</u>		<u>4/1/2022 - 6/30/2022</u>			<u>6/30/2022</u>	
	Balance \$	Balance %	Contributions	Expenses	Investment Gain/Loss	Balance \$	Balance %
Montgomery County Govt	\$789,119,674	47.80%	\$4,619,000	(\$2,420,580)	(\$74,456,460)	\$716,861,635	46.40%
MontCo Revenue Authority	\$4,707,865	0.29%	\$32,000	(\$14,373)	(\$441,935)	\$4,283,557	0.28%
Strathmore Hall Foundation	\$2,300,076	0.14%	\$13,000	(\$7,022)	(\$215,912)	\$2,090,142	0.14%
SkyPoint Federal Credit Union	\$1,932,052	0.12%	\$19,000	(\$5,898)	(\$181,365)	\$1,763,788	0.11%
Dept of Assessments & Tax	\$58,629	0.00%	\$0	(\$179)	(\$5,504)	\$52,946	0.00%
District Court of Maryland	\$0	0.00%	\$0	\$0	\$0	\$0	0.00%
HOC	\$26,060,134	1.58%	\$218,000	(\$79,560)	(\$2,446,309)	\$23,752,264	1.54%
WSTC	\$181,886	0.01%	\$2,000	(\$555)	(\$17,074)	\$166,257	0.01%
Village of Friendship Heights	\$588,596	0.04%	\$0	(\$1,797)	(\$55,253)	\$531,547	0.03%
Montg. Cty. Public Schools	\$735,208,811	44.53%	\$45,848,269	(\$2,287,991)	(\$70,626,090)	\$708,142,999	45.84%
Montgomery College	\$90,724,965	5.50%	\$5,608,000	(\$282,286)	(\$8,713,533)	\$87,337,145	5.65%
Total	\$1,650,882,687	100.00%	\$56,359,269	(\$5,100,241)	(\$157,159,434)	\$1,544,982,280	100.00%