

QUARTERLY REPORT

December 31, 2020

Shown below is the quarterly report on the status of the Montgomery County Consolidated Retiree Health Benefits Trust (“CRHBT”) for the quarter ending December 31, 2020. 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 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 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 gain of 9.73%, 119 basis points (bps) ahead of the 8.74% gain recorded by the policy benchmark. For the one year ending December 31, 2020, the gain of 15.12% was 247 bps ahead of the 12.65% gain recorded by the policy benchmark. The one-year gross return places the CRHBT’s performance in top quartile of the universe of comparable funds constructed by the Board’s consultant, NEPC. Our three-year performance of 10.45% and five-year performance of 11.13% both ranks in the top decile of the universe.

The total market value of trust assets at December 31, 2020 was \$1,410.6 million. The CRHBT’s asset allocation was: Domestic Equities 16.3%, International Equities 17.8%, Global Equities 4.3%, Fixed Income 20.8%, Inflation Linked Bonds 13.7%, Public Real Assets 6.2%, Private Real Assets 3.3%, Private Equity 9.6%, Private Debt 1.3%, Opportunistic 4.3%, and 2.4% Cash.

Major Initiatives/Changes

During the quarter, the following private commitments were made: \$2.5 million to Excelsior Renewable Energy Investment Fund I LP, a private real asset fund, \$2 million to CapRock Industrial Partners III LLC, a private real asset fund, \$3 million to Magna Hotel Fund VII LP, a private real asset fund, and \$1.3 million to VSS Structured Capital VI LP, a private debt fund. Allocations to public fund managers include GMO Emerging Country Debt Fund and Marathon Emerging Markets Bond Fund, emerging markets debt funds.

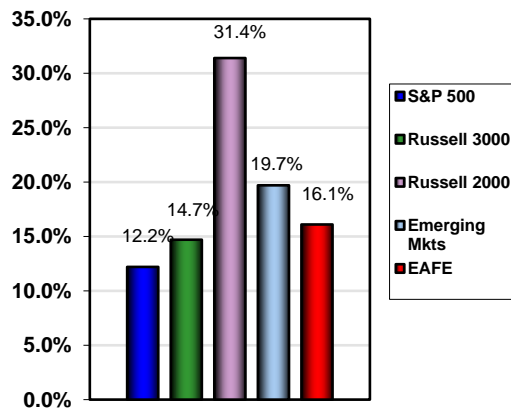
QUARTERLY REPORT

Capital Markets and Economic Conditions

Following one of the strongest GDP reports in U.S. history in Q3, growth moderated in Q4 and grew at an annualized rate of 4.0%, slightly below the estimate of 4.3% from the Dow Jones economist survey. The growth was driven by increases in exports, nonresidential fixed investment, consumer spending, residential investment and inventories while declines in government spending at the federal, state, and local level hindered growth. For the full year of 2020, GDP shrank 3.5%, which is the worst year since 1946 when the U.S. was de-mobilizing following World War II. By the end of Q4 2020, the unemployment rate further fell to 6.7%, although the rate of decrease in the unemployment rate slowed due to concerns over a rapid increase in COVID-19 cases across most regions of the country. While job gains continue to be strong in professional services, and education, weakness in leisure, retail, and transportation continue to weigh on the employment picture. While CPI grew from depressed levels in Q3, inflation held steady at 1.4% in Q4. While gasoline prices were elevated, most other consumer prices remained subdued. The housing picture remained resilient as new housing starts finished the year at 1.68 million, the highest level since before the housing crisis. Home prices continued to increase during the quarter although the rate of change began to decrease to more normal levels by the end of the quarter. The strength in housing was primarily driven by the continued drop in mortgage rates as the average 30-year fixed mortgage rate hit an all time low level of 2.67% by year-end.

Public Equity Markets: Equities continued to advance globally as markets responded positively to vaccine advancements, expectations for continued fiscal support and loose monetary conditions. In addition, reported results of U.S. elections raised hopes for a less volatile and disruptive policy outlook. U.S. equity markets continued to advance on the momentum built in prior quarters. Smaller cap stocks performed better while value outperformed growth across the capitalization spectrum. All of the S&P 500 sectors advanced during the quarter with energy and financials leading the returns. Our combined domestic equity performance was a gain of 17.12%, outperforming the 14.68% gain of the Russell 3000 Index.

Index Return-Quarter Ending 12/31/20



International developed markets also advanced outperforming their domestic counterparts. Austria, Spain, and Australia were the strongest performing developed markets during the quarter. Switzerland was the weakest performer with an 8.2% return. In addition to the accommodative monetary conditions and expansionary fiscal policies worldwide, the Brexit agreement between the UK and European Union further bolstered the market sentiment. Emerging markets continued on the positive momentum shown in the previous two quarters, outpacing both the international developed and U.S. markets. The majority of emerging markets saw positive returns for the quarter with

Colombia, Hungary, Korea, and Brazil leading the returns. Kuwait and Egypt were the only detracting markets. Our combined international equity performance was a gain of 17.32%, slightly outperforming the 17.22% return recorded by the benchmark. Our global equity allocation recorded a gain of 18.22%, outperforming the 14.68% gain of the MSCI ACWI Index.

Private Equity: During the fourth quarter, a total of 490 private equity funds reached their final close, securing \$230 billion in commitments, well above the \$118 billion raised in the prior quarter but slightly below the \$248 billion raised in Q4 2019. The COVID-19 pandemic and the restrictions and hesitancy for general partners and limited partners to travel had an impact on 2020 fundraising with the number of funds raised and aggregate capital raised decreasing 24% and 15%, respectively. The average of the fund size increased significantly in Q4 as the figure rose from \$362 million to \$523 million, which represents the highest figure on record. North America continued to dominate the fundraising landscape, representing 58% of the total funds raised and 70% of the total assets raised during the fourth quarter. Within the buyout space, the number of completed deals increased significantly relative to Q3 with a record 2,023 deals being consummated, a 43% increase relative to Q3. This also represents a substantial increase in deal making relative to Q4 of 2019 signaling that there was pent up demand following a significant slowdown from earlier in the year. Aggregate deal value in Q4 experienced a similar recovery, increasing 41% to \$159 billion.

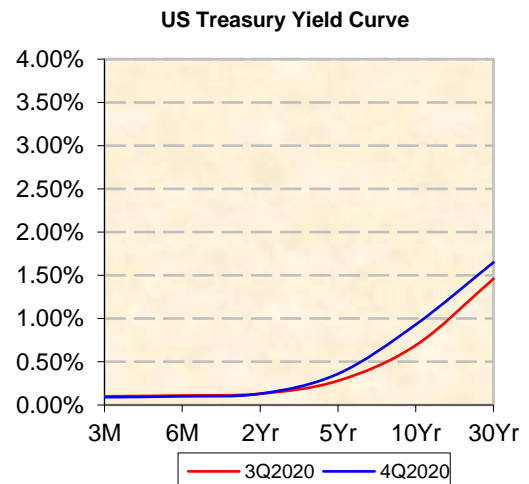
QUARTERLY REPORT

Average deal size increased 24% to \$504 million. Buyout multiples remain elevated and increased slightly during the fourth quarter with the EV-to-EBITDA multiple increasing slightly from 10.5x to 10.6x. After two quarters of low M&A activity, there was a rebound in the consumer, industrial, and business services sectors, which represented 44% of the number of deals and 35% of aggregate deal value. However, the technology sector continues to dominate the M&A market, comprising roughly 25% of both the number of deals completed and aggregate deal value. Exit activity was mixed during the fourth quarter as the number of exits rose by 40% to 685, the aggregate exit value increased 1% to \$192 billion, and the average exit value dropped 22% to \$739 million.

During the quarter, our private equity managers called a combined \$4.9 million and paid distributions of \$3.9 million. Our current allocation to private equity is 9.6%, with a market value of \$135.2 million. From its 2013 inception through September 30, 2020, the total private equity program has generated a net internal rate of return of 25.2% versus an 15.3% return for the dollar-weighted public market equivalent (the Russell 3000 Index plus 300 bps).

Hedge Funds: For the quarter, hedge funds advanced 10.8% based on the Composite Index. On a sub-strategy basis, the Event-Driven Index advanced 11.3%, the Relative Value Index gained 5.3%, the Macro Index gained 5.0%, and the Equity Hedge Index gained 14.8%. The Trust's diversifying hedge funds recorded a gain of 2.8% versus a gain of 5.8% for the Conservative Index. The diversifying portfolio underperformance is primarily attributable due to an overweight to relative value strategies with a corresponding underweight to equity long/short strategies, and manager selection within fixed income arbitrage. The Trust's directional hedge funds recorded a gain of 6.5% compared to the 10.9% return for the Strategic Index. The directional underperformance is primarily attributable to the Trust's overweight to relative value strategies with a corresponding underweight to equity long/short strategies.

Fixed Income The yield curve steepened slightly as longer dated maturity bond yields moved higher. The yield on the 10- and 30-year bonds advanced by 24 and 19 bps during the quarter, respectively. The spread between 2-year and 10-year Treasuries, the main gauge of the yield curve, steepened by 24 bps to 80 bps, as yields on the 10-year maturities rose while yields on the 2-year maturities stayed flat as the Federal Reserve has committed to keeping short-term rates at 0%. For the quarter, the 10-year Treasury yield was 0.93% whereas the 30-year Treasury yield was 1.65%. The high yield portfolio's performance for the quarter was a gain of 7.23%, outperforming the Merrill Lynch High Yield II Constrained Index by 76 bps. The long duration portfolio's return for the quarter was a gain of 0.61%, underperforming the Barclays Long Govt/Credit Index by 107 bps. Our global inflation-linked bond portfolio, combined with a portable alpha overlay, recorded a gain of 6.96%, outperforming the custom benchmark by 370 bps. The overlay itself provided approximately half of the excess returns the portfolio recorded during the period, with the strategy's alphas in equities, emerging market FX, and commodities being particularly well rewarded.



Private Debt: Private debt fundraising increased to 59 funds closed and \$41.2 billion raised during Q4 from 37 funds closed and 14.5 billion raised in Q3. North America led fundraising with 39 funds and \$30.2 billion aggregate capital raised with an average fund size of \$862M. Direct lending and mezzanine strategies secured the bulk of the capital followed by distressed debt and special situations strategies, which continue to appeal to companies with sound business models but have been experiencing short-term financing issues. Private debt managers spent on average seven months for the first close where they reached 48% of the target size and 103% of the target size at final close in 2020. Dry powder at the end of Q4 was \$320 billion, up 19% from a year earlier, across the debt strategies led by senior debt. A combination of reduced M&A and abundant liquidity in other debt pools slowed deployment rates.

During the quarter, our private debt managers called a combined \$1.7 million and paid distributions of \$2.6 million. Our current allocation to private debt is 1.3%, with a market value of \$18.5 million. From 2013 through September 30, 2020, the private debt program generated a net internal rate of return of 5.9%

QUARTERLY REPORT

versus a 8.2% return for the dollar-weighted public market equivalent benchmark (ICE BofA Merrill Lynch High Yield Master II Constrained + 300 bps).

Private Real Assets: Private real estate fundraising faced significant challenges in 2020, as COVID-19 created a material industry disruption across all sectors. The \$118 billion aggregate capital raised in 2020 was down from \$179 billion during the prior year. However, real estate performance, after dipping sharply in Q1 2020, recovered throughout the rest of the year and into Q4 2020. In the natural resource sector, fundraising also materially slowed during calendar year 2020 due to COVID-19 both in terms of capital raised and number of funds closed. Aggregate capital raised fell 29% from 2019 levels, representing the first annual decline since 2016. Further, just 106 funds reached a final close in 2020, well below the historical average mark of 190. During the quarter, our private real asset managers called a combined \$20.6 million and paid distributions of \$0.9 million. Our current allocation to private real assets is 5.9%, with a market value of \$282.9 million. During the quarter, our private real assets managers called a combined \$2.9 million and paid distributions of \$0.7 million. Our current allocation to private real assets is 3.3%, with a market value of \$46.9 million. From 2013 inception through September 30, 2020, the total private real assets program (including fund-of-funds) has generated a net internal rate of return of 1.8% versus a 6.5% 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 strong gain of 13.3% in Q4, slightly underperforming equities but significantly outpacing bonds. REITs performed well following vaccine trial results from multiple drug companies that proved to be much more effective than earlier anticipated. Despite the rally, Q4 represented the fourth consecutive quarter of REIT underperformance relative to broader global equities. From a regional perspective, Europe was the best performing region for the index, primarily driven by a 5% currency appreciation tailwind relative to the U.S. dollar. Additionally, retail heavy countries such as France, Italy, and the Netherlands performed well following the positive vaccine news, which indicated that retail traffic could return earlier than anticipated. North America performed well but slightly lagged their European counterparts due to currency impacts. There was a clear shift towards value-oriented securities during the quarter as retail, office, and hospitality sectors that had lagged significantly in prior quarters, rebounded. While Asian REITs performed well on an absolute basis, they were the laggard of the index as Asian investors rotated away from the property sector in favor of more cyclical sectors such as banks and industrials. From a sector standpoint, every sector generated gains with the exception of the data center space. The top performing sectors were based on the re-opening theme, which includes shopping centers, malls, offices, and hotels.

Listed infrastructure securities increased by 7.3% for the quarter as measured by the Dow Jones Brookfield Global Infrastructure Index, further increasing the sector's underperformance relative to global equities for the year. The underperformance of listed infrastructure securities relative to equities in 2020 represents the largest divergence since the Global Financial Crisis. The sector benefitted from the broader rally in equities due to vaccine news and the most cyclical and highest beta sectors such as airports, midstream energy, and ports led the index. Airports were the top performing sector, generating a 28% return as investors priced in a 2021 air traffic recovery despite continued challenging fundamentals. The communications sector generated losses for the quarter on the back of investor rotation towards more economically sensitive areas. Utilities were mixed as gas distribution companies outperformed while European regulated utilities and electricity transmission and distribution companies lagged given their more defensive profiles. While all regions posted gains, Europe and Asia outperformed North America primarily due to a weakening U.S. dollar.

For the quarter, the public real asset portfolio returned 9.27%, outperforming the custom benchmark gain of 10.34% by 107 bps due to the underperformance of our Global REIT manager.

Outlook

During the fourth quarter of 2020, the U.S. Federal Reserve ("Fed") voted to keep short-term interest rates targeted at 0%-0.25%. The Fed also reasserted its intention to keep interest rates near the zero bound for the foreseeable future until inflation moves and holds above the 2% target (the Fed's new policy allows for inflation to run above the 2% threshold before beginning to taper rates). Specifically, the Fed indicated that interest rates could stay at these low levels until 2023, which was the first time that a 2023 outlook was formally provided. While the calendar year 2020 GDP decline is expected to be less than the initial forecast,

QUARTERLY REPORT

the Fed lowered its 2021 growth outlook from 5% to 4% and its 2022 outlook from 3.5% to 3%. The U.S. unemployment rate projections were brought down to 7.6%, and 2020 inflation projections were revised upwards to 1.2%. Both revisions came because of stronger than expected economic data during 2H 2020, as many economists now forecast a sharp rebound for the U.S. after experiencing recessionary conditions earlier in the year.

Following sharp drop-off in growth during the 1H 2020, recovery in the European Union (“EU”) was beginning to take hold until a new wave of COVID-19 infections in Q4 2020 slowed activity levels again. The European Central Bank (“ECB”) is expecting activity to be subdued through at least Q1 2021, with a gradual resolution of the health crisis expected to return real GDP to pre-pandemic levels by mid-2022. The ECB’s baseline forecasts call for inflation to rebound to the 1% level in 2021, up from the 0.2% measured in 2020. During the quarter, the Bank of Japan (“BoJ”) kept its pledge to purchase government debt without limit to steer long-term interest rates around zero. While the Japanese economy was also hit hard during the pandemic, there have been near-term signs of stability and resiliency. The BoJ now forecasts 2021 GDP growth to be 3.9%, up from the previous estimate of 3.6%.

Sources: BlackRock, Bloomberg, Bridgewater, Eagle, FRM, Gryphon, Wellington, JP Morgan MSCI, NCREIF, Northern Trust, Oil & Gas Investor, PE Hub, Private Equity Analyst, Pitchbook, Preqin, 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 December 31, 2020 are shown below:

	<u>1 Year</u>				
	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	14.68	15.10	0.94	1.09	0.97
CRHBT Benchmark	12.65	15.30	0.80	0.96	0.83

	<u>3 Year</u>				
	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	10.01	10.16	0.84	1.06	0.99
CRHBT Benchmark	9.25	10.25	0.76	1.02	0.90

	<u>5 Year</u>				
	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	10.68	8.62	1.11	1.26	1.24
CRHBT Benchmark	10.20	8.56	1.06	1.13	1.19

QUARTERLY REPORT

Participating Agency Allocation

Agency	10/1/2020		10/1/2020 - 12/31/2020			12/31/2020	
	Balance \$	Balance %	Contributions	Expenses	Investment Gain/Loss	Balance \$	Balance %
Montgomery County Govt	\$619,661,067	48.13%	\$0	(\$1,562,209)	\$60,730,611	\$678,829,469	48.13%
MontCo Revenue Authority	\$3,826,409	0.30%	\$0	(\$9,647)	\$375,012	\$4,191,774	0.30%
Strathmore Hall Foundation	\$1,881,982	0.15%	\$0	(\$4,745)	\$184,446	\$2,061,683	0.15%
SkyPoint Federal Credit Union	\$1,572,361	0.12%	\$0	(\$3,964)	\$154,101	\$1,722,499	0.12%
Dept of Assessments & Tax	\$15,762	0.00%	\$0	(\$40)	\$1,545	\$17,268	0.00%
District Court of Maryland	\$0	0.00%	\$0	\$0	\$0	\$0	0.00%
HOC	\$21,199,654	1.65%	\$0	(\$53,446)	\$2,077,697	\$23,223,905	1.65%
WSTC	\$148,083	0.01%	\$0	(\$373)	\$14,513	\$162,223	0.01%
Village of Friendship Heights	\$475,999	0.04%	\$0	(\$1,200)	\$46,651	\$521,450	0.04%
Montg. Cty. Public Schools	\$568,792,806	44.18%	\$0	(\$1,433,966)	\$55,745,207	\$623,104,047	44.18%
Montgomery College	\$69,913,225	5.43%	\$0	(\$176,256)	\$6,851,928	\$76,588,897	5.43%
Total	\$1,287,487,349	100.00%	\$0	(\$3,245,846)	\$126,181,710	\$1,410,423,213	100.00%