

QUARTERLY REPORT

March 31, 2019

Shown below is the quarterly report on the status of the Montgomery County Consolidated Retiree Health Benefits Trust ("CRHBT") for the quarter ending March 31, 2019. 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, 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 8.57%, 39 basis points (bps) behind the 8.96% gain recorded by the policy benchmark. For the one year ending March 31, 2019, the gain of 6.27% was 8 bps behind the 6.37% gain recorded by the policy benchmark. The one-year gross return places the CRHBT's performance in the top decile of the universe of comparable funds constructed by the Board's consultant, Wilshire Associates. Our three-year performance of 9.56% ranked in the top quartile. Our five-year performance of 6.27% ranked at the median and our 10-year return of 10.84% ranks in the top quartile.

The total market value of trust assets at March 31, 2019 was \$1,015.4 million. The CRHBT's asset allocation was: Domestic Equities 17.4%, International Equities 16.5%, Global Equities 3.9%, Fixed Income 25.5%, Inflation Linked Bonds 12.2%, Public Real Assets 8.5%, Private Real Assets 3.8%, Private Equity 8.3%, Private Debt 1.3%, Opportunistic 1.8%, and 0.9% Cash.

Major Initiatives/Changes

During the quarter, the following commitments were made: \$1.0 million to Whitehorse Liquidity Partners III, L.P., a private debt fund and C\$2.5 million to Woodbourne Canada Partners IV, a private real estate fund. Additionally, we committed to the following diversified hedge fund strategy: Blackstone MC Custom Fund, L.P.

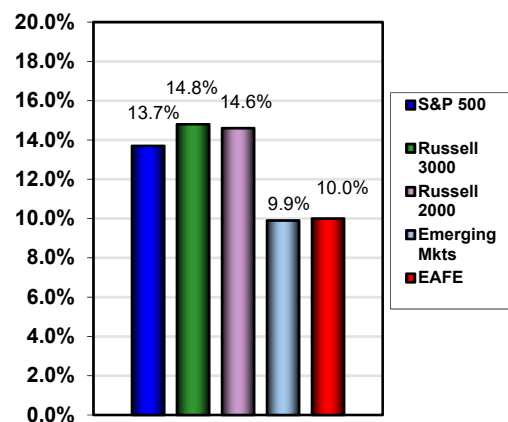
QUARTERLY REPORT

Capital Markets and Economic Conditions

Economic data reflected that GDP increased at an annualized rate of 3.2% in the first quarter of 2019, outpacing market expectations of 2.5%. This economic growth figure represents the best start for a year since Q1 of 2015. Net trade was a positive contributor to growth as exports grew and imports dropped sharply. While overall growth was strong, consumer spending slowed relative to last quarter, in part due to weak sales of goods, particularly automobiles. The other driver of GDP growth was rising inventories, which comprised 20% of overall growth in the quarter. While the headline number of 3.2% appears strong, many economists expressed caution given the volatile nature of net exports and inventories. The economy added 557,000 jobs during the quarter, a decrease from Q4's 700,000 gain. Following a slight increase at the end of 2018, the U.S. unemployment rate decreased by 0.2% to 3.8% as the labor force participation rate decreased slightly. Q1 inflation was slightly above expectations as the Consumer Price Index increased 1.9% year-over-year relative to expectations of 1.8%. The housing market continued to show signs of sluggishness as new housing starts decreased to an annual rate of 1,139,000 units, which represents the lowest level since 2017. U.S. building permits also trended down following a brief recovery in Q4. Economists attribute the housing market weakness to higher prices and labor shortages in the construction sector.

Public Equity Markets: Following heavy losses in the December quarter, domestic equity markets rebounded strongly during the first quarter of 2019 when it became clear that the Federal Reserve would not be hiking rates in 2019 and left the door open for the next rate move being a cut. Additionally, the market was supported by the ending of the government shutdown and tensions easing in the U.S-China trade negotiations. The market rally was the strongest gain for the S&P 500 since Q2 of 2009. Growth stocks outperformed value stocks and small cap stocks outperformed large cap stocks for the quarter. Within the

Index Return-Quarter Ending 3/31/19



S&P 500 sectors, technology, real estate, industrials, and energy outperformed while healthcare and financials lagged the market. Healthcare was the worst performing sector due to concerns over regulatory change, particularly with several Democratic presidential candidates announcing support for a Medicare-for-All proposal. Having suffered a difficult Q4, the technology sector was the standout performer, posting a nearly 20% return in Q1. Our combined domestic equity performance was a gain of 14.83%, outperforming the 14.04% gain of the Russell 3000 Index. Outperformance was driven by strong gains from our large cap growth manager.

International developed markets rallied strongly in Q1 but significantly lagged their domestic counterparts as two of the biggest markets, Japan and Germany, both failed to keep pace with the rally. Europe outperformed Asia as the United Kingdom and Switzerland performed well while Japan struggled due to the weakening Yen. In terms of sectors, technology and healthcare led the market while communication services, financials, and consumer discretionary lagged. Eurozone equities were mixed as sentiment was positive due to central banks moving away from tighter monetary policy but there was still general concern about sluggish economic growth. Much like in the U.S., growth significantly outperformed value and small cap slightly outperformed large cap. Emerging markets finished in line with developed international markets but with much dispersion as China and Russia posted robust gains while Brazil and India failed to keep pace. Our combined international equity performance was a gain of 10.84%, outperforming the 10.31% gain recorded by the benchmark. Our global equity allocation recorded a gain of 15.00%, outperforming the 12.18% gain of the MSCI ACWI Index.

Private Equity: During the first quarter of 2019 a total of 219 funds raised a combined \$100 billion, in line with the \$95 billion secured in the first quarter of 2018. However, the number of funds closed decreased from 340 funds in Q1 2018 as capital is becoming more concentrated among a smaller number of large funds. Funds targeting North America achieved their second highest Q1 fund raising total of 133 funds for \$63 billion. Europe on the other hand remains in a fundraising lull, with 45 funds closing on \$22 billion, the lowest level of Q1 activity since 2015. Similarly, Asia focused funds marked their fifth consecutive quarterly decline in number of funds closed and the second lowest quarterly amount secured in the past five years

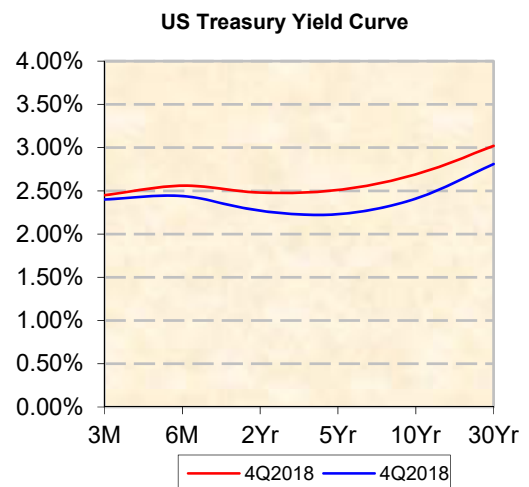
QUARTERLY REPORT

with 28 funds securing \$14 billion. While the number of funds closed globally was low, those funds that did close in the first quarter were able to successfully do so in a short timeframe; the proportion of funds that failed to reach their targets has fallen year over year to a new low of 16%. The private equity market remains competitive with 3,926 funds seeking approximately \$1 trillion at the end of the start of the second quarter. In the first quarter, an aggregated \$101 billion in buyout deals were announced, down from the \$130 billion raised during the same time period in the prior year. The slowdown was primarily driven by a 65% decrease in the value of European deals, from \$53 billion to \$19 billion; the number and value of deals in North American and Asia also declined, but by smaller margins. The number of buyout exits and the aggregated values announced in Q1 2019 declined 27% from the prior quarter, dropping from \$67 billion to \$37 billion. Dry powder continues to reach new highs, with \$1.26 trillion held in private equity funds as of the end of the first quarter.

Venture capital saw 2,944 deals announced in the first quarter for an aggregated \$52 billion, down from the record setting opening quarter in Q1 2018 which had 3,988 deals for \$55 billion. The first quarter represents the third consecutive record high quarterly deal value for North America and the third consecutive quarter where deal value has declined in Greater China. All regions saw a slowdown in the number of deals announced with Greater China and North America falling by 46% and 21% respectively compared to the first quarter of 2018. Exit activity in venture capital has continued to decline as the number of exits has fallen across almost all deal types over the past five years, dropping to 256 in Q1 2019, down from 404 in Q1 2014.

During the first quarter, our private equity managers called a combined \$6.2 million and paid distributions of \$0.39 million. Our current allocation to private equity is 8.2%, with a market value of \$76.5 million. From its 2013 inception through September 30, 2018, the private equity program has generated a net internal rate of return of 24.3% versus a 17.8% return for the dollar-weighted public market equivalent (the Russell 3000 Index plus 300 bps).

Fixed Income: Yields fell across the curve during the quarter, as specifically, the 10-year yield dropped to its lowest level since the end of 2017. The yield curve remains inverted with the 3-month T-Bill being higher than the 10-year bond signaling investor's continued concerns over economic growth and the looming end of the decade long bull-market cycle. The long-end of the curve also fell, further supporting the market's belief that growth and inflation will remain low. The yield on the 30-year bond decreased by 21 bps during the quarter and ended the period at 2.81%. The spread between 2-year and 10-year Treasuries, the main gauge of the yield curve, continued to tighten by 7 bps to 14 bps. For the quarter, the 2-year Treasury yield ended at 2.27%, down 21 bps from the prior period, while the 10-year Treasury yield fell by 28 bps to 2.41%. The high yield portfolio's performance for the quarter was a gain of 6.59%, underperforming the Merrill Lynch High Yield II Constrained Index by 81 bps. The long duration portfolio's return for the quarter was a gain of 6.39%, underperforming the Barclays Long Govt/Credit Index by 6 bps. Our global inflation-linked bond portfolio, combined with a portable alpha overlay, recorded a gain of 4.96%, underperforming the custom benchmark's gain of 7.02%.



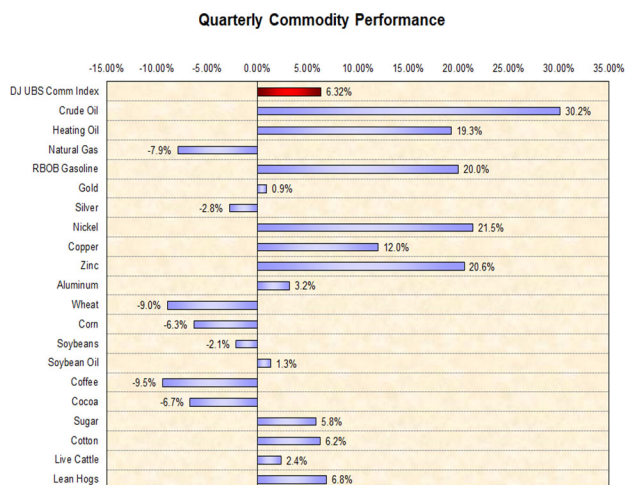
Private Debt: Private debt fundraising slowed significantly in the first quarter, as just 22 funds closed in comparison to the 60 funds that secured capital in Q4 2018. The \$22 billion of total capital closed on during Q1 also represents the lowest amount in any quarter since Q3 2016. Direct lending funds generated the most investor interest, as these strategies accounted for 75% of the aggregate capital raised in the quarter. On a positive fundraising note, only 22% of managers closed on capital below their target size in Q1 – an improvement from Q4 2018 when 38% of funds were unable to achieve successful capital raises in excess of their respective targets. Currently, there are 407 private debt vehicles in the market seeking to raise a total of \$182 billion. During the quarter, our private debt managers called a combined \$0.7 million and paid distributions of \$0.8 million. Our current allocation to private debt is 1.34%, with a market value of \$13.6 million. From 2015 through September 30, 2018, the private debt program generated a net internal rate of

QUARTERLY REPORT

return of 9.3% versus a 8.7% return for the dollar-weighted public market equivalent benchmark (ICE Merrill Lynch High Yield Master II Constrained + 300 bps).

Private Real Assets: The NCREIF Property Index (NPI), a measure of private commercial real estate properties in the U.S., gained 1.8% in the first quarter 2019, up from 1.4% last quarter. The total return consisted of a 1.1% income return and 0.7% capital appreciation. The acceleration in capital appreciation return indicates that the commercial estate market has not yet peaked as some feared happened last quarter. Returns for retail properties rebounded during the quarter from a negative 0.4% to a positive 1.7% and was the main sector that contributed to the return acceleration. Occupancy came in at 93.8%, down slightly from the occupancy last quarter of 94.0%. Cap rates edged lower to 4.7%, reversing the uptrend and hitting the lowest level in the history of the NPI. The industrial sector continued to be the stellar performer with a 3.0% return in the quarter, although down from the prior quarter return of 3.4%. The other major property sectors lagged with office, apartments and hotel sectors returning 1.7%, 1.4% and 0.4% respectively. During the quarter, total deal volumes and values for the oil and gas sector were the lowest in years as investors remained focused on capital discipline. Midstream was the only segment that recorded solid activity as private investors took advantage of cheaper pricing given that public markets seem to have lost interest in the MLP space. During the quarter, our private real assets managers called a combined \$2.2 million and paid distributions of \$0.7 million. Our current allocation to private real assets is 3.8%, with a market value of \$38.2 million. From its 2013 inception through September 30, 2018, the total private real assets program (including fund-of-funds) has generated a net internal rate of return of 11.8% versus a 7.0% gain for the long-term benchmark CPI plus 500 bps.

Public Real Assets: The Bloomberg Commodity Index advanced 6.3% during the quarter, led by the energy sector. Crude oil was up nearly 30% on back of OPEC and Russia coordinated supply cuts and demand from China. Industrial metals benefited from Chinese stimulus and improved sentiment around trade and global growth. Nickel was up 22% after firmer steal prices and zinc benefited from declining inventory levels and concerns about the financial future of a large producer. In addition, aluminum and copper benefited from improving demand outlook. Precious metals were up early in the quarter on a weakening U.S. dollar and global growth outlook; however, the sector gave back some of the gains after dovish comments from central banks and renewed strength in the U.S. dollar. The agriculture sector was down, led by wheat and soybeans on inventory concerns and weaker exports. Lean hogs saw some strength after the African swine flu impacted supply.



Global listed real estate securities as measured by the FTSE EPRA/NAREIT Developed Index increased by 14.6%, led by a rebound in core real estate prices and lower interest rates. U.S. returns were strong, with broad gains across all property sectors. Growth oriented sectors such as retail, office and industrial outperformed defensive sectors such as net lease and healthcare. Hong Kong real estate outperformed the global index on improved trade negotiations between China and U.S. Japanese real estate underperformed but still posted strong gains and outperformed broader Japanese equities.

Listed infrastructure declined by 15.7% for the quarter as measured by the Dow Jones Brookfield Global Infrastructure Index. Sectors that outperformed included: gas midstream, pipeline companies, communications and toll roads. Electricity transmission & distribution was the primary laggard. Energy infrastructure recovered from the lows of 4Q18 due to favorable fundamentals and energy price recovery. The communication sector, which is perceived as a defensive sector, benefited from lower interest rates. The toll road sector benefited from expectations of strong GDP growth. The electricity transmission & distribution sector was hurt by the bankruptcy of PG&E.

For the quarter, the public real asset portfolio declined 12.83%, outperforming the custom benchmark by 51 bps due to outperformance by our REITs and MLP managers.

QUARTERLY REPORT

Outlook

During the first quarter of 2019, the U.S. Federal Reserve (“the Fed”) left the benchmark interest rate unchanged after raising the rate to the 2.25% to 2.5% range at the end of 2018. Despite indication that the labor market remains strong, the Fed’s sentiment softened during the quarter as the growth of economic activity slowed from its solid rate in the fourth quarter of 2018. It is now anticipated that there will be zero rate hikes for the remainder of 2019. GDP is forecasted to grow at 2.1% in 2019 and inflation is expected to be 1.8% in 2019 and 1.9% in 2020. With the economy operating near its objectives, the Fed conveyed that it will be patient when it comes to further policy moves and will remain data dependent.

The European Central Bank (“ECB”) expects policy rates to remain at the present levels at least through the end of 2019 and potentially longer if necessary. The ECB slashed its GDP growth projections for the eurozone to 1.1% in 2019, compared to the 1.7% forecasted in December. The outlook for inflation is for a falling rate through the fourth quarter of 2019. With the eurozone economy and inflation both slowing, the ECB unveiled more stimulus through a series of cheap loans to banks in the euro area. Negotiations for a Brexit deal remain ongoing and the European Union agreed to extend the deadline until the end of October 2019. The Bank of Japan (“BOJ”) put a timeframe on its forward guidance for the first time, conveying that the current very low interest rate levels would be maintained at least until the spring of 2020. The International Monetary Fund (“IMF”) cut its outlook for global growth to 3.3%, the lowest level since the financial crisis, amid a weaker outlook in most major developed economies and signs that higher tariffs are weighing on trade.

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 Schrodgers, 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, 2018 are shown below:

	<u>1 Year</u>				
	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	5.84	12.07	0.28	0.37	0.48
CRHBT Benchmark	6.35	12.26	0.31	0.42	0.52

	<u>3 Year</u>				
	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	9.11	7.11	1.06	1.35	1.28
CRHBT Benchmark	8.58	7.12	0.97	1.27	1.21

	<u>5 Year</u>				
	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	5.84	7.09	0.68	0.86	0.82
CRHBT Benchmark	5.71	6.98	0.66	0.85	0.82

QUARTERLY REPORT

Participating Agency Allocation

Agency	1/1/2019		1/1/2019 - 3/31/2019			3/31/2019	
	Balance \$	Balance %	Contributions	Expenses	Investment Gain/Loss	Balance \$	Balance %
Montgomery County Govt	\$450,739,401	48.13%	\$1,409,610	(\$601,584)	\$38,380,705	\$489,928,131	48.19%
MontCo Revenue Authority	\$2,876,741	0.31%	\$38,625	(\$3,852)	\$245,615	\$3,157,129	0.31%
Strathmore Hall Foundation	\$1,331,740	0.14%	\$18,875	(\$1,784)	\$113,726	\$1,462,557	0.14%
Credit Union	\$1,154,831	0.12%	\$8,250	(\$1,543)	\$98,438	\$1,259,975	0.12%
Dept of Assessments & Tax	\$12,631	0.00%	\$0	(\$17)	\$1,075	\$13,689	0.00%
District Court of Maryland	\$0	0.00%	\$0	\$0	\$0	\$0	0.00%
HOC	\$15,769,381	1.68%	\$278,050	(\$21,143)	\$1,347,862	\$17,374,150	1.71%
WSTC	\$99,326	0.01%	\$6,653	(\$135)	\$8,599	\$114,443	0.01%
Village of Friendship Heights	\$374,460	0.04%	\$0	(\$499)	\$31,859	\$405,820	0.04%
Montg. Cty. Public Schools	\$412,633,733	44.06%	\$0	(\$541,230)	\$35,107,432	\$447,199,935	43.98%
Montgomery College	\$51,488,252	5.50%	\$0	(\$67,534)	\$4,380,690	\$55,801,408	5.49%
Total	\$936,480,496	100.00%	\$1,760,063	(\$1,239,321)	\$79,716,000	\$1,016,717,238	100.00%