

QUARTERLY REPORT

September 30, 2020

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, 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 5.80%, 101 basis points (bps) ahead of the 4.79% gain recorded by the policy benchmark. For the one year ending September 30, 2020, the gain of 9.15% was 68 bps ahead of the 8.47% gain recorded by the policy benchmark. The one-year gross return places the CRHBT's performance in top decile of the universe of comparable funds constructed by the Board's consultant, NEPC. Our three-year performance of 8.61% and five-year performance of 9.56% both ranks in the top decile of the universe.

The total market value of trust assets at September 30, 2020 was \$1,285.5 million. The CRHBT's asset allocation was: Domestic Equities 15.3%, International Equities 16.7%, Global Equities 4.0%, Fixed Income 19.9%, Inflation Linked Bonds 14.1%, Public Real Assets 6.3%, Private Real Assets 3.4%, Private Equity 9.7%, Private Debt 1.5%, Opportunistic 4.5%, and 4.6% Cash.

Major Initiatives/Changes

During the quarter, the following commitments were made: Currency Managers – First Quadrant, PE Global, and CIBC; Private Debt - \$1 million to Post Road II, \$1 million Franklin Park Private Debt Co-Investment II.

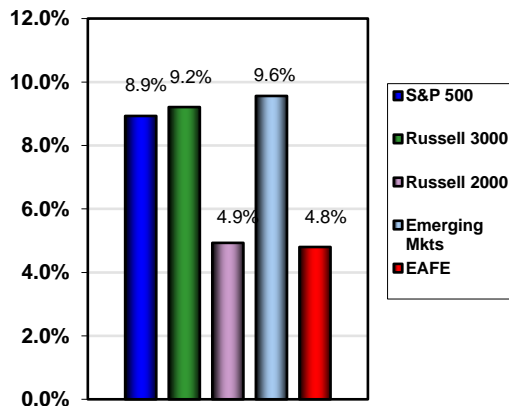
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Capital Markets and Economic Conditions

Following the worst quarter in the country's history, economic data reflected that GDP grew at an annualized rate of 33.1% during Q3 2020, exceeding the estimate of 32% from the Dow Jones economist survey. The accelerated GDP growth was primarily driven by a return of both business and residential investment, along with stronger than expected consumer activity. Conversely, a decrease in government spending following the expiration of the CARES Act slightly offset GDP growth. By the end of Q3 2020, the unemployment rate further fell to 7.9%, which reflected a continued trend of economic activity normalization. During the quarter, notable job creation occurred in sectors such as leisure & hospitality, retail, healthcare, and professional & business services. Each month during the quarter experienced sequential growth in inflation, and CPI during at the end of Q3 2020 was 1.4%. Over the last 12 months, the food index increased 3.9%, offset by a larger decline in the energy index of 7.7%. Also, during the quarter, the residential housing market showed strength. The growth in mortgage origination volumes was primarily due to homeowners taking advantage of historically low interest rates, as the U.S. weekly average 30-year fixed income rate hit an all-time low of 2.86% in the month of September. Increased residential sales activity, combined with a lower than average inventory, has led to sharp increases in home prices in many parts of the country.

Public Equity Markets: Equities advanced globally as investors continued to be comforted with the response from central banks. Over \$8.5 trillion has been added globally to complement the \$11 trillion in fiscal plans intended to support growth, which in aggregate is more than four times the level seen during the global financial crisis in 2008. U.S. equities continued to advance following the momentum built in the prior quarter. Some of the positive economic news released during the quarter included improving

Index Return-Quarter Ending 9/30/20



employment trends and consumer confidence. Larger cap stocks performed better as growth continued to outperform value by a wide margin across all market caps. Among the S&P 500 sectors, consumer discretionary, industrials and materials were the best performers, while energy was the only detracting sector. Our combined domestic equity performance was a gain of 9.24%, slightly outperforming the 9.21% gain of the Russell 3000 Index.

International developed markets also advanced but trailed their domestic counterparts. Denmark, Sweden, and Ireland were the strongest performing developed markets during the quarter. Overall, the Nordic countries led the returns with an aggregate 13.9% return. Emerging markets continued on the positive momentum shown in the second quarter, outpacing both the international developed and U.S. markets. The majority of the emerging markets saw positive returns for the quarter with Taiwan, India, Korea, and China leading the returns. China's resilient economy withstanding the effects from the pandemic continued to surprise investors. Our combined international equity performance was a gain of 10.49%, outperforming the 6.79% return recorded by the benchmark. Our global equity allocation recorded a gain of 9.26%, outperforming the 8.13% gain of the MSCI ACWI Index.

Private Equity: During the third quarter, a total of 269 private equity funds reached their final close, securing \$109 billion in commitments, below the \$125 billion raised in the prior quarter. Total capital raised was down 40% relative to Q3 of 2019, demonstrating the continued impact that COVID-19 has had on the fundraising market. The average fund size raised ticked down slightly relative to Q2 as this figure dropped from \$450 million to \$441 million. North America continued to dominate the fundraising landscape, representing 57% of the number of funds raised and 47% of the total assets raised during the third quarter. Within the buyout space, the number of completed deals increased significantly relative to Q2's multi-year low, with 1,334 deals being consummated, a 36% recovery relative to Q2. While this increase indicates a strong recovery in dealmaking, 7% less deals were completed relative to Q3 of 2019. Aggregate deal value in Q3 saw a similar recovery, increasing 69% to \$108 billion. Additionally, average deal value increased 56% to \$432 million. While the number of deals completed is still below pre-pandemic levels, both aggregate deal value and average deal size have fully recovered. Buyout multiples increased slightly relative to Q2 with the median buyout EV-to-EBITDA multiple increasing from 10.2x to 10.5x. The healthcare and technology sectors continue to be the most attractive M&A targets in this market,

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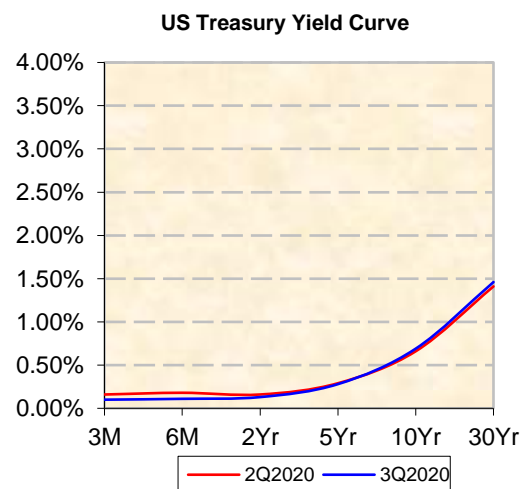
representing 37% of completed deals by count and 49% by deal value. Exit activity experienced a sharp rebound relative to Q2 as the number of exits increased from 312 to 447, the aggregate exit value increased from \$40 billion to \$186 billion, and the average exit value increased from \$385 million to \$1.05 billion.

Relative to Q2, venture activity experienced a strong rebound with the number of deals increasing 12% to 4,481, aggregate deal value increased 53% to \$109 billion, and average deal size increased 33% to \$34 million. While the number of deals executed is still down relative to Q3 of 2019, both aggregate deal value and average deal size are at new all-time highs. Exit activity was incredibly strong in Q3 with the number of exits increasing 47% to 551, aggregate exit value increasing 207% to \$117 billion, and average exit value increasing 94% to \$418 million.

During the quarter, our private equity managers called a combined \$3.5 million and paid distributions of \$3.7 million. Our current allocation to private equity is 9.8%, with a market value of \$125.2 million. From its 2013 inception through June 30, 2020, the total private equity program has generated a net internal rate of return of 24.9% versus an 13.3% return for the dollar-weighted public market equivalent (the Russell 3000 Index plus 300 bps).

Hedge Funds: For the quarter, hedge funds advanced 4.1% based on the Composite Index. On a sub-strategy basis, the Event-Driven Index advanced 5.5%, the Relative Value Index gained 3.5%, the Macro Index lost 0.1%, and the Equity Hedge Index gained 5.1%. The System's diversifying hedge fund portfolio recorded a gain of 1.9% versus a gain of 2.3% for the Conservative Index. The diversifying portfolio underperformance is primarily attributable to manager selection within the quantitative strategies, macro rates, and the multi-strategy sectors. The System's directional hedge fund portfolio recorded a gain of 4.5% compared to the 5.8% return for the Strategic Index. The directional underperformance is primarily attributable to the System's opportunistic exposure to the aviation leasing sector and manager selection within the event driven sector.

Fixed Income: The yield curve steepened slightly as shorter maturity bond yields moved lower while the 30-year Treasury yields moved higher. The yield on the 30-year bond advanced by 5 bps during the quarter and ended the period at 1.5%. The spread between 2-year and 10-year Treasuries, the main gauge of the yield curve, steepened by 6 bps to 56 bps, as yields on the 2-year maturities fell and 10-year maturities rose. For the quarter, the 2-year Treasury yield ended lower by 3 bps to 0.1%, while the 10-year Treasury yield rose 3 bps to 0.7%. The high yield portfolio's performance for the quarter was a gain of 5.6%, outperforming the Merrill Lynch High Yield II Constrained Index by 86 bps. The long duration portfolio's return for the quarter was a gain of 1.0%, underperforming the Barclays Long Govt/Credit Index by 22 bps. Our global inflation-linked bond portfolio, combined with a portable alpha overlay, recorded a gain of 3.4%, outperforming the custom benchmark by 13 bps.



Private Debt: Private debt fundraising declined from 60 funds closed and \$38 billion raised during Q2 to 20 funds closed and raising an aggregate \$8.4 billion. During the quarter, all closed private debt funds were focused on the North American market, which represents 15 of the total 20 vehicles. North America focused funds also accounted for 97% of capital secured. Direct lending and mezzanine strategies secured the bulk of the capital followed by special situations and distressed strategies which appeal to companies with sound business models but have been experiencing short-term financing issues. Fund managers have been seeking record amounts of capital in the private debt market, with an aggregate target of \$295 billion, which is a 54% increase compared to January 2020 when funds were looking to raise \$192 billion. Meanwhile, the average fund size has increasing by 19% from \$436 million to \$521 million. One of the drivers of fundraising activity across the private debt sector has been the yield spread over 10-year government bonds. Across many sectors, and for investment grade issues, yield premiums have been more than 150 basis points, making these investments attractive on a relative basis. During the quarter, our private debt managers called a combined \$755,690 and paid distributions of \$748,510. Our current allocation to private debt is 1.6%, with a market value of \$19.8 million. From 2013 through June 30, 2020, the private debt

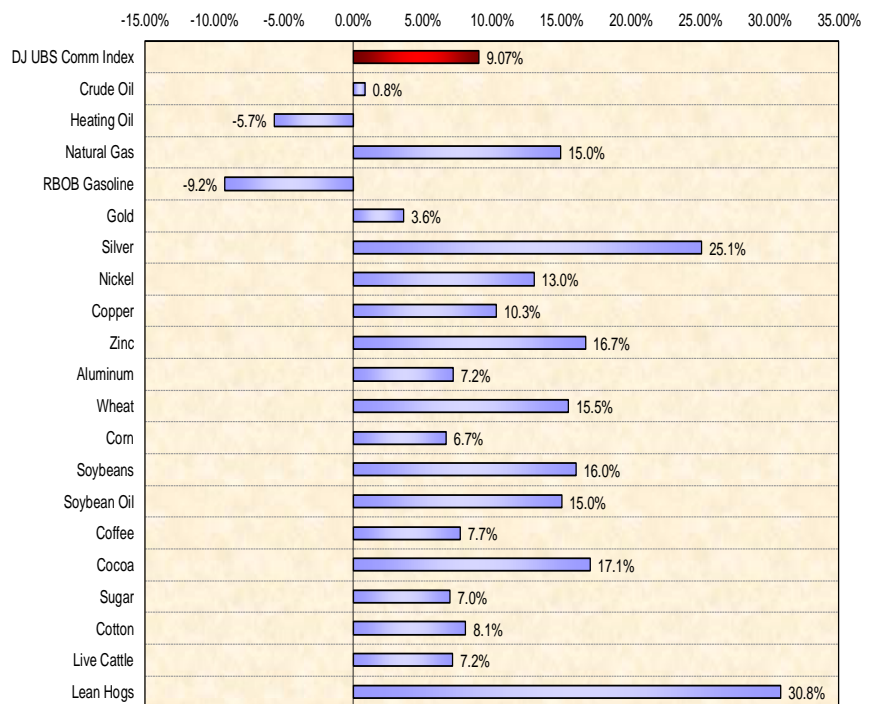
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program generated a net internal rate of return of 5.6% versus a 6.6% return for the dollar-weighted public market equivalent benchmark (ICE BofA Merrill Lynch High Yield Master II Constrained + 300 bps).

Private Real Assets: Private real estate fundraising, in terms of aggregate capital and number of funds closed, was down materially in Q3 2020 relative to the prior quarter (\$21 billion raised in Q3 vs. \$45 billion in Q2). The slower fundraising activity during the quarter reflects continued market uncertainty related to future demand for commercial real estate assets, especially in the retail and office sectors. In the natural resource sector, after a slow 1H 2020 fundraising environment due to global geopolitical tensions and the COVID-19 outbreak, total capital raised during Q3 improved marginally. During the quarter, private natural resource funds raised \$17 billion in aggregate across 16 funds. Of the 16 total funds that closed capital, 11 were primarily energy focused in nature. From a total capital perspective, these energy generation funds (which include renewable energy investments) accounted for ~84% of the total capital raised in Q3 2020. During the quarter, our private real assets managers called a combined \$2.9 million and paid distributions of \$0.4 million. Our current allocation to private real assets is 3.4%, with a market value of \$43.5 million. From 2013 inception through June 30, 2020, the total private real assets program (including fund-of-funds) has generated a net internal rate of return of 1.5% versus a 7.0% gain for the long-term benchmark CPI plus 500 bps.

Public Real Assets: Commodities continued their upward trend in the third quarter, advancing 9.1% with three of the four sections posted gains. Despite strong gains in both Q2 and Q3, the sector is still down 12.1% for the year due to the sharp selloff in Q1 that was driven by a COVID-19 demand shock and the supply glut caused by the breakdown in OPEC+ negotiations. Energy was mixed for the quarter as natural gas performed well due to an improving LNG demand picture, crude oil was roughly flat, and heating oil struggled. Industrial metals rallied primarily due to the industrial recovery in China in addition to pandemic-driven supply disruptions. Precious metals continued to rally with both silver and gold generating gains due to rising geopolitical tensions and vast stimulus measures across the global economy. Agriculture and livestock were the top performing sector in Q3 as lean hogs and soybeans benefited from a recovering China and cocoa rallied due to below average rainfall in Africa.

Quarterly Commodity Performance



Global listed real estate securities as measured by the FTSE EPRA/NAREIT Developed Index posted a modest gain of 2.1% in Q3, underperforming both global equities and bonds due to ongoing concerns about the pandemic's impact on the property sector. From a regional perspective, Europe was the top performing sector, aided by a 4% currency tailwind and Continental Europe slowly resuming economic activity following lockdowns. The United Kingdom lagged as limited progress has been made with EU trade negotiations. Asian markets were mixed as Australia rallied due to currency strength and Hong Kong continued to struggle due to the continued overhand of the recently passed national security law. Despite continued recovery in the U.S. economy, North America was the worst performing region due to concerns over further fiscal support and the continuing work from home trend that is hurting the office sector. The worst performing sectors continue to be the most impacted by the pandemic, particularly malls, shopping centers, and hotels.

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Listed infrastructure decreased by 1.7% for the quarter as measured by the Dow Jones Brookfield Global Infrastructure Index, further increasing its underperformance relative to global equities for the year. The underperformance was primarily driven by the energy infrastructure space with pipelines, gas distribution, and gas midstream posting losses for the quarter. The transportation sector, particularly ports and airports experienced strong gains from depressed levels. The communication sector experienced a slight drop in Q3 as investors took profits following significant gains in the first two quarters of the year. Utilities were mixed as gas distribution utilities struggled despite strong fundamentals while electrical transmission utilities performed well. There was limited regional dispersion in Q3 as Europe, Asia, and the Americas each returned between -2% and 0%.

For the quarter, the public real asset portfolio returned 3.9%, outperforming the custom benchmark gain of 3.1% by 73 bps due to outperformance commodities, global listed infrastructure, and REITs.

Outlook

During the third quarter of 2020, the U.S. continued its recovery and the Federal Reserve (“Fed”) continued with the highly accommodative policies of the first half of the year, including maintaining the Federal Funds rate between 0%-0.25%. The Fed also began implementing a policy that uses average inflation targeting (AIT) to set the policy interest rate, which signals the Fed’s willingness to wait until inflation has gone about its official target of 2% before it will intervene. The latest projections from the Fed’s dot plot suggests interest rates will remain at, or near, the zero-lower bound through 2023. The U.S. unemployment rate fell to 8.4% in August, down from 10.2% in July. The labor force participation rate also improved but remains below pre-COVID-19 levels. Industrial production continued to rise but was slightly lower than previous months, signaling a slowing recovery in manufacturing. The U.S. stock market posted positive results in the third quarter despite a decline in September driven by a decrease in investors’ risk appetites in response to a resurgence in European Covid-19 cases and uncertainty over the approval of a new fiscal stimulus package.

In Europe, the recovery was much more muted, with most economic indicators flat or declining. The slowdown was in response to sharply rising COVID-19 infections across the region, particularly in Spain and France. New restrictions to contain the virus have been announced, but for now these restrictions have been localized rather than countrywide, as earlier in the year.

Japanese markets continued to rally in a quarter dominated by the news of Prime Minister Shinzo Abe’s resignation. Emerging markets also continued to recover aided by optimism around a COVID-19 vaccine, positive economic indicators, and a weaker dollar.

Moving forward into the fourth quarter of the year, discussions around the economic outlook are likely to revolve around several different topics including, but not limited to, the ability and willingness of governments to provide further accommodation, the outcome of U.S. elections, Brexit, and what increasingly appears to be a second wave of COVID-19 infections.

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.

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Risk Profile

The risk/return statistics for the CRHBT for the 1, 3 and 5-year periods ending September 30, 2020 are shown below:

	<u>1 Year</u>				
	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	8.70	13.48	0.58	0.61	0.65
CRHBT Benchmark	8.41	13.82	0.55	0.59	0.61

	<u>3 Year</u>				
	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	8.16	9.37	0.70	0.84	0.87
CRHBT Benchmark	7.95	9.74	0.65	0.85	0.82

	<u>5 Year</u>				
	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	9.12	8.35	0.96	1.12	1.09
CRHBT Benchmark	9.02	8.09	0.97	0.96	1.11

Participating Agency Allocation

Agency	<u>7/1/2020</u>		<u>7/1/2020 - 9/30/2020</u>			<u>9/30/2020</u>	
	Balance \$	Balance %	Contributions	Expenses	Investment Gain/Loss	Balance \$	Balance %
Montgomery County Govt	\$592,699,159	48.13%	\$0	(\$691,127)	\$27,653,035	\$619,661,067	48.13%
MontCo Revenue Authority	\$3,659,919	0.30%	\$0	(\$4,268)	\$170,758	\$3,826,409	0.30%
Strathmore Hall Foundation	\$1,800,095	0.15%	\$0	(\$2,099)	\$83,985	\$1,881,982	0.15%
SkyPoint Federal Credit Union	\$1,503,947	0.12%	\$0	(\$1,754)	\$70,168	\$1,572,361	0.12%
Dept of Assessments & Tax	\$15,077	0.00%	\$0	(\$18)	\$703	\$15,762	0.00%
District Court of Maryland	\$0	0.00%	\$0	\$0	\$0	\$0	0.00%
HOC	\$20,277,242	1.65%	\$0	(\$23,645)	\$946,057	\$21,199,654	1.65%
WSTC	\$141,640	0.01%	\$0	(\$165)	\$6,608	\$148,083	0.01%
Village of Friendship Heights	\$455,288	0.04%	\$0	(\$531)	\$21,242	\$475,999	0.04%
Montg. Cty. Public Schools	\$544,025,303	44.18%	\$0	(\$614,622)	\$25,382,125	\$568,792,806	44.18%
Montgomery College	\$66,868,925	5.43%	\$0	(\$75,546)	\$3,119,846	\$69,913,225	5.43%
Total	\$1,231,446,594	100.00%	\$0	(\$1,413,774)	\$57,454,528	\$1,287,487,349	100.00%