

QUARTERLY REPORT

March 31, 2022

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, 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 4.53%, 44 basis points (bps) behind of the 4.09% loss recorded by the policy benchmark. For the one year ending March 31, 2022, the gain of 10.19% was 75 bps behind the 10.94% gain recorded by the policy benchmark. The one-year gross return places the CRHBT's performance in the top quartile of the universe of comparable funds constructed by the Board's consultant, NEPC. Our three-year performance of 12.42% and five-year performance of 10.89% places the CRHBT in the top quartile of the universe for both time periods.

The total market value of trust assets on March 31, 2022, was \$1,649.8 million. The CRHBT's asset allocation was: Domestic Equities 16.2%, International Equities 14.9%, Global Equities 3.8%, Fixed Income 21.2%, Inflation Linked Bonds 13.3%, Public Real Assets 6.2%, Private Real Assets 3.7%, Private Equity 11.5%, Private Debt 1.4%, Opportunistic 4.1%, and 3.7% Cash.

Major Initiatives

During the quarter, the CRHBT committed \$2.5 million to Greenbacker Development Opportunities Fund I, a private renewable energy infrastructure fund and \$3.1 million in Canadian dollars to Woodbourne Canada Partners V, LP, a private real estate fund. Trinity Street Asset Management, an international equities manager, was hired within the public equity portfolio during the quarter.

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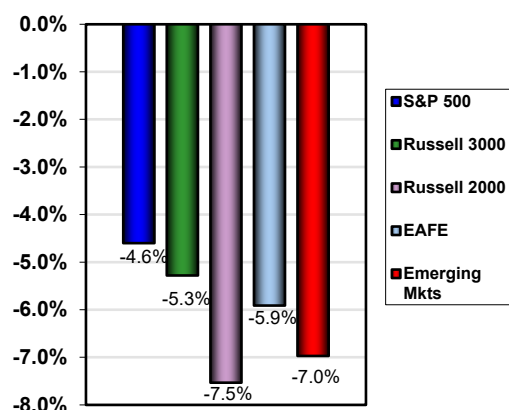
Capital Markets and Economic Conditions

First quarter GDP for 2022 declined 1.4%, well below the 1% gain estimate from the Dow Jones economist survey. The fall in GDP growth was driven by several different factors including rising COVID infections at the beginning of the year, surging inflation, the Russian invasion of Ukraine, a deceleration in private inventory investment, a significant pullback in defense spending, and an increasing trade deficit. This was partially offset by consumer spending, which grew 2.7% during the quarter. By the end of Q1 2022, the unemployment rate was 3.6%, with the economy adding 431,000 jobs in March because of an increase in hiring in leisure and hospitality, professional and business services, retail trade, and manufacturing.

The consumer price index (CPI) rose 8.5% from a year ago, slightly above the Dow Jones estimate. The annual change was the fastest annual gain since December 1981. Food prices rose 8.8% for the year, while used vehicle prices dropped 3.8% in March, though they are still up 35.3% from a year ago. Core CPI, which excludes volatile food and energy costs, rose 6.5%. The housing picture remained resilient as new housing starts finished the quarter at 1.79 million. Home prices remained above average, with the median existing-home sales price ending the quarter at \$428,700, almost \$50,000 higher than a year ago.

Public Equity Markets: Equities were down with the S&P 500 Index dropping 4.6% for the quarter. Russia's invasion of Ukraine, concerns over inflation pressures, and calls for more aggressive Fed tightening were some of the factors that weighed on the markets. Large cap value stocks led the returns followed by small cap value stocks. Nine of the eleven sectors of the S&P 500 Index posted negative returns while the energy sector rallied 39.03%. Our combined domestic equity performance was a loss of 5.59%, underperforming the 5.28% loss of the Russell 3000 Index.

Index Return-Quarter Ending 3/31/22



International developed markets followed their U.S. counterparts declining on the ongoing war in Ukraine. Eurozone shares fell sharply in the quarter as the region has close economic ties with Ukraine and Russia, especially related to reliance on Russian oil and gas. The markets of Ireland and Austria posted the largest losses while Norway and Australia advanced. Austria has a local banking sector that has substantial Russian operations. Conversely, Norway with no or low exposure to Russia, performed better. Australia benefited from the Russia/Ukraine conflict through extractive companies related to energy and metals. The Japanese market fell over the quarter, although in local currency terms returns were not far from flat as the yen weakened materially over the quarter (Japan conducts comparatively little trade with Russia). Emerging markets

were firmly down during the quarter, driven primarily by Russia's invasion of Ukraine. Egypt was the weakest performing market, due in part to a 14% currency devaluation relative to the US Dollar. China was also down by a wide margin due to an increase in Covid-19 cases, new lockdowns, and regulatory concerns. Commodity exporting countries such as Brazil, Kuwait, Qatar, the UAE, Saudi Arabia, and South Africa, all posted considerable gains. Russia was removed from the MSCI EM Index on March 9th. Our combined international equity performance was a loss of 10.28%, underperforming the 5.60% loss recorded by the benchmark. Our global equity allocation recorded a loss of 10.21%, underperforming the 5.36% loss of the MSCI ACWI Index.

Private Equity: During the first quarter, a total of 384 funds reached their final close, securing \$174 billion in commitments, down from the near record fundraising high from the same quarter during 2021. Relative to Q4, the number of funds raised in Q1 decreased 39%, however, total capital raised only decreased 13%, representing a notable rise in average fund size. Q1 is typically one of the slowest quarters on the fundraising front. North America continued to dominate the fundraising landscape, representing 72% of the aggregate capital raised and 63% of the total number of funds raised. U.S. buyout deal activity was mixed during the quarter as the number of completed deals decreased 15% to 1,199, the aggregate deal volume increased 19% to \$132 billion, and the average deal size increased 22% to \$764 million, with all metrics being the inverse from the prior quarter. Buyout multiples in the U.S. continue to trend upwards, with median entry multiples in the first quarter climbing to 11.7x Enterprise Value-to-EBITDA. The technology sector

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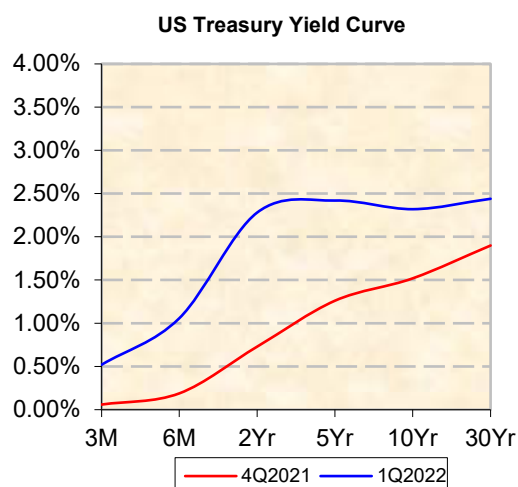
continues to be the most robust representing 26% of aggregate U.S. buyout deal value. Buyout exit activity in the first quarter included 245 exits, a 44% drop from the prior quarter's record high, aggregate exit values decreasing 68% to \$53 billion quarter-over-quarter, and the average exit size dropping 13% to \$1,052 million. The global private equity sector has \$2.3 trillion in dry powder, a record high, which could serve to support transactional activity.

Similar to private equity, U.S. venture fundraising activity was down in Q1 as the number of funds raised decreased 43% to 143. However, aggregate capital raised increased 40% to \$42 billion, and the average fund size raised jumped 128% to \$297 million. U.S. venture deal making decreased for the quarter with the number of consummated deals down 14% to 1,931, aggregate deal value down 26% to \$69 billion, and average deal size up 4% to \$59 million.

During the quarter, our private equity managers called a combined \$3.2 million and paid distributions of \$3.6 million. Our current allocation to private equity is 11.5%, with a market value of \$190.0 million. From its 2013 inception through September 30, 2021, the total private equity program has generated a net internal rate of return of 31.7% versus a 16.3% 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 0.3% based on the Composite Index. On a sub-strategy basis, the Event-Driven Index lost 1.2%, the Relative Value Index gained 0.5%, the Macro Index rose 7.7%, and the Equity Hedge Index declined by 3.9%. The System's diversifying hedge funds recorded a gain of 4.8% versus a gain of 0.4% for the Conservative Index. The diversifying portfolio outperformance is primarily attributable to strong fund selection within the multi-strategy sector. The System's directional hedge funds recorded a loss of 0.8% compared to the negative 5.5% return for the Strategic Index. The directional outperformance is primarily attributable to positive fund selection within the equities-fundamental and residential mortgages sectors.

Fixed Income: The yield curve flattened noticeably for the quarter as short interest rates moved up significantly in anticipation of aggressive Fed rate hikes while the long end moved up less. For example, the yield on the 2-year bill maturities moved up 155 bps, whereas the yields on the 10- and 30-year bond maturities advanced 80 and 54 bps during the quarter, respectively. The spread between 2-year and 10-year Treasuries, the main gauge of the yield curve, ended the quarter at 4 bps, 75 bps tighter than the previous quarter. By the end of the quarter, the 10-year Treasury yield was 2.32% whereas the 30-year Treasury yield was 2.44%. The high yield portfolio's performance for the quarter was a loss of 4.51%, in line with the Merrill Lynch High Yield II Constrained Index. The long duration portfolio's return for the quarter was a loss of 10.57%, outperforming the custom long duration benchmark by 16 bps. The emerging market debt portfolio lost 9.28%, outperforming the JPM EMBI Global Diversified benchmark return by 74 bps. Our global inflation-linked bond portfolio, combined with a portable alpha overlay, recorded a loss of 1.20% gross of fees, outperforming the custom benchmark by 583 bps. The outperformance was driven primarily by the overlay, where the strategy's alphas in nominal short rates, nominal bonds, and commodities provided strong returns.



Private Debt: Fundraising in Q1 2022 was moderately slower compared to the same period last year with the number of funds closed being the lowest in the past ten years. Overall, 22 funds raised close to \$33 billion over Q1 2022 compared to \$44 billion raised by 59 funds in Q1 2021. The average fund size for the quarter was \$1.5 billion compared to the \$1.1 billion in Q1 2021. North America remained the number one market for private debt with 13 funds raising \$22.8 billion of capital, followed by European private debt funds which raised \$9.1 billion over the first quarter 2022. During the recent market environment with rising rates, raging inflation, and increased geopolitical risks, investors turned to safer investment strategies such as direct lending. 12 direct lending funds raised \$20 billion over the course of Q1. The largest private debt fund closed in the quarter was ICG Senior Debt Partners IV, a Europe-focused direct lending fund. Currently, 731 private debt funds are targeting \$317 billion, which is a new record for capital targeted. 379 direct

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lending funds are looking to raise 52% of the total targeted capital followed by 111 special situation funds looking to raise \$60 billion. Dry powder at the end of Q1 was \$406.9 billion, the highest amount ever recorded by Preqin.

During the quarter, our private debt managers called a combined \$2.4 million and paid distributions of \$0.8 million. Our current allocation to private debt is 1.4%, with a market value of \$23.6 million. From 2015 through September 30, 2021, the private debt program generated a net internal rate of return of 10.6% versus a 10.2% 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, the commodity sector experienced impressive returns as inflation pressures accelerated, resulting in the Bloomberg Commodity Index advancing 25.5%. Gains were led by the energy subcomponent which advanced 47.9% as energy prices surged in response to sanctions imposed on Russian exports that tightened supply. Natural resource fundraising was led by energy funds as they accounted for \$57.8 billion of the total \$59.0 billion raised for the quarter. Compared to a year ago, energy fundraising increased by 90%. This was driven by large funds as the average fund size was \$2.3 billion compared to \$821 million one-year prior. Infrastructure fundraising continued to grow at an aggressive pace raising \$72.3 billion in the quarter, compared to \$23.8 billion in Q1 2021. Like energy funds, the average fund size increased noticeably from \$766 million to \$3.3 billion. In contrast, fundraising in real estate declined as funds raised \$34.9 billion in aggregate for the quarter compared to \$41.4 billion for the quarter one year ago. Despite the decline in fundraising, real estate experienced strong returns for the quarter. Core real estate advanced 5.3% for the quarter with 1.0% from income and 4.3% from capital appreciation. Industrial continues to generate strong performance advancing 11.0% and followed by apartments which returned 5.3%. Capitalization rates dropped from 3.8% to 3.7% for the quarter despite rising interest rates.

Our current allocation to private real assets is 3.7% with a market value of \$61.6 million. During the quarter, our private real asset managers called a combined \$3.8 million and paid distributions of \$4.0 million. From 2013 inception through September 30, 2021, the total private real assets program (including fund-of-funds) has generated a net internal rate of return of 8.2% versus a 7.5% 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 loss of 4.0% for the quarter, modestly outperforming both global equities and bonds. Asia was the best regional performer (-1.0%) given the larger exposure to value stocks within the region. Japanese property developers advanced on domestic inflation expectations. Office, retail and hospitality stocks in Singapore and Australia also performed well on broader re-opening momentum. Europe was the worst performer (-7.2%), hurt by the outbreak of conflict in the Ukraine and currency headwinds. Consumer and business confidence was undermined as punitive sanctions hampered exports of critical energy and agricultural commodities. The more defensive industrial and residential sectors were weakest over the quarter on rising base rates and credit spreads. Student housing stocks were the strongest, benefitting from the removal of COVID-19 restrictions. The Americas were also pressured (-4.1%), although economic conditions remained favorable and continued to feature robust labor markets and strength in retail sales. Value and cyclical sectors were the top performers, with the strongest returns coming from health care, lodging, and office on optimism for re-opening momentum and after lagging the prior quarter.

Listed infrastructure securities posted gains of 3.2% during the quarter as measured by the Dow Jones Brookfield Global Infrastructure Index, noticeably outperforming global equities, and bonds. Performance was led by energy infrastructure due to ongoing crude and natural gas supply deficits and a tight upstream market. Infrastructure sector dispersion continues to be wide with the top performing sector, Gas midstream, outpacing the worst performing sector, communications by over 38%. Energy infrastructure was bolstered by the favorable commodity price environment and the view that North American upstream producers will need to accelerate drilling plans, driving the need for additional midstream investment and higher capacity utilization of existing assets. Utilities also performed well as investors rotated into defensive sectors. Transportation was more mixed as airports and ports outperformed whereas toll roads underperformed on geopolitical concerns. The communication sector noticeably underperformed on valuation concerns and investor rotation out of the technology sector.

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For the quarter, the public real asset portfolio declined by 2.29%, underperforming the custom benchmark's loss of 0.42% by 187 bps due to underperformance by our Global Listed Infrastructure Global REIT managers.

Outlook

As a result of a surge in inflation and further improvement in the labor market during the quarter, the Federal Reserve (Fed) announced a 25 bps rate increase in March and indicated more aggressive policy to follow. Experts are now forecasting seven rate hikes in 2022, followed by four to five increases in 2023. While COVID-19 appears under control in the developed world for the time being, the Russia-Ukraine conflict is likely to exacerbate pricing pressures tied to continued supply-chain disruptions. This in turn, should dampen consumer confidence with higher prices weighing on household purchasing power and stock prices continuing to drop as investors move to safe-haven assets. Combined, the International Monetary Fund (IMF) expects these effects to result in a 0.3% decrease in their forecast for 2022 U.S. GDP growth, from 4.0% at the beginning of the year to 3.7% today.

While closer to the Russia-Ukraine conflict than the U.S., and hence more exposed to the conflict's potential economic repercussions, Europe is coming out of the pandemic in a position of strength. European Union (EU) household balance sheets are at record highs, labor markets are strong, the unemployment rate is near its natural rate, consumer confidence is high, and governments have yet to spend large parts of their recovery packages. Furthermore, the European Central Bank's (ECB) monetary policy remains very loose. Even though it is reducing its net assets purchases to €20 billion in June, these actions are unlikely to materially increase long-term rates given the size of the ECB's balance sheet and the ongoing reinvestments. Today, the biggest risk to EU GDP growth would be a decrease in Russian energy supplies to the region. Russia provides about one-quarter of the EU's energy supplies and any meaningful cut would be hard to substitute. Experts estimate that a 10% cut in energy supplies could shave 0.7% off the EU's GDP growth projections.

In Japan, core consumer inflation continues to increase and is now at 1.2%, closer to the Bank of Japan's (BOJ) 2% target. However, the BOJ stated it would continue with its large-scale program of monetary easing in an effort to cap the yield on government bonds at 0.25%. An importer of energy products and food, the BOJ's stance could change quickly if the conflict in Ukraine and the zero-tolerance COVID-19 lockdowns in China result in marked increases in prices and inflation rises above the 2% target.

The Chinese government recently announced an above-expectations 5.5% GDP growth target for 2022. The economy, however, continues to face pressures, and experts believe more stimuli will be required to achieve that growth target. COVID-19 still poses a challenge to the Chinese economy with the government's zero-tolerance approach. This policy resulted in recent lockdowns in Shenzhen and parts of Shanghai, both of which are key to the Chinese economy. The property sector remains weak with low sales volumes and signs of stress in the developer credit market.

The global macroeconomic effects of the Russia-Ukraine conflict seem moderate for now, but risks are skewed to the downside. If prolonged, the conflict could have a negative effect on global trade, energy and commodity prices, investor confidence, and policy responses, particularly in China. In response to this global economic environment, the IMF once again downgraded its global growth forecast for 2022, this time reducing growth expectations by 0.8%, from 4.4% to 3.6%. At the same time, the IMF has also increased its forecasts for inflation to 5.7% in developed countries and 8.7% in emerging markets — 1.8% and 2.8% higher than the organization forecasted in January.

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 March 31, 2022 are shown below:

	<u>1 Year</u>				
	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	9.87	7.45	1.30	2.10	1.32
CRHBT Benchmark	10.93	7.66	1.39	2.57	1.43

	<u>3 Year</u>				
	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	12.04	9.69	1.13	1.77	1.24
CRHBT Benchmark	11.41	9.87	1.06	1.65	1.16

	<u>5 Year</u>				
	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	10.48	8.60	1.07	1.65	1.22
CRHBT Benchmark	9.81	8.86	0.97	1.55	1.11

Participating Agency Allocation

Agency	<u>1/1/2022</u>		<u>1/1/2022 - 3/31/2022</u>			<u>3/31/2022</u>	
	Balance \$	Balance %	Contributions	Expenses	Investment Gain/Loss	Balance \$	Balance %
Montgomery County Govt	\$827,677,068	47.81%	\$0	(\$1,991,058)	(\$36,456,004)	\$789,230,006	47.81%
MontCo Revenue Authority	\$4,935,878	0.29%	\$0	(\$11,874)	(\$217,407)	\$4,706,598	0.29%
Strathmore Hall Foundation	\$2,411,297	0.14%	\$0	(\$5,801)	(\$106,208)	\$2,299,288	0.14%
SkyPoint Federal Credit Union	\$2,025,656	0.12%	\$0	(\$4,873)	(\$89,222)	\$1,931,561	0.12%
Dept of Assessments & Tax	\$61,466	0.00%	\$0	(\$148)	(\$2,707)	\$58,611	0.00%
District Court of Maryland	\$0	0.00%	\$0	\$0	\$0	\$0	0.00%
HOC	\$27,322,408	1.58%	\$0	(\$65,727)	(\$1,203,447)	\$26,053,234	1.58%
WSTC	\$190,697	0.01%	\$0	(\$459)	(\$8,399)	\$181,838	0.01%
Village of Friendship Heights	\$617,033	0.04%	\$0	(\$1,484)	(\$27,178)	\$588,371	0.04%
Montg. Cty. Public Schools	\$770,856,130	44.53%	\$0	(\$1,785,234)	(\$33,953,223)	\$735,117,673	44.53%
Montgomery College	\$95,125,730	5.49%	\$0	(\$220,303)	(\$4,189,919)	\$90,715,508	5.49%
Total	\$1,731,223,363	100.00%	\$0	(\$4,086,959)	(\$76,253,716)	\$1,650,882,687	100.00%