

QUARTERLY REPORT

September 30, 2019

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, 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, 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 1.89%, 65 basis points (bps) behind the 2.54% gain recorded by the policy benchmark. For the one year ending September 30, 2019, the gain of 8.26% was 45 bps behind the 8.71% 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 9.37% ranks in the top decile as well. Our five-year performance of 7.14% ranked in the top quartile and our 10-year return of 8.31% ranks in the second quartile.

The total market value of trust assets at September 30, 2019 was \$1,096.6 million. The CRHBT’s asset allocation was: Domestic Equities 16.1%, International Equities 15.6%, Global Equities 3.8%, Fixed Income 24.3%, Inflation Linked Bonds 12.7%, Public Real Assets 8.1%, Private Real Assets 3.9%, Private Equity 9.0%, Private Debt 1.4%, Opportunistic 3.7%, and 1.4% Cash.

Major Initiatives/Changes

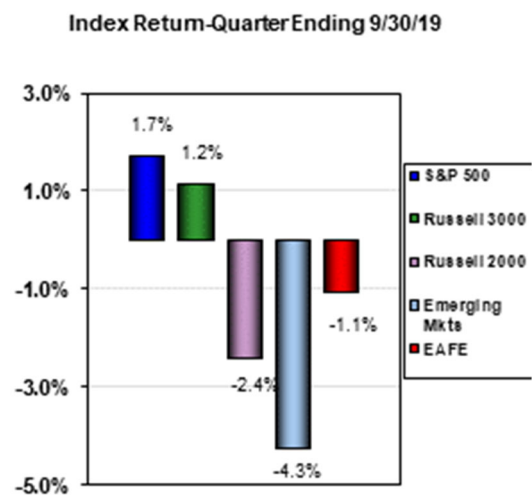
During the quarter, the following commitments were made: \$1 million to Ridgewood Water & Strategic Infrastructure Fund, a private real asset fund, \$1 million to Kimmeridge Energy Exploration Fund V, a private real asset fund, \$2.3 million to Sunstone Partners II, a private equity fund, and \$3 million to DW Healthcare Partners V, a private equity fund.

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Capital Markets and Economic Conditions

Economic data reflected that GDP increased at an annualized rate of 1.9% in the third quarter of 2019, outpacing market expectations of 1.6%. While GDP outperformed estimates, the third quarter reading marks a slight decrease from Q2's 2.0% growth rate. The better-than-expected growth rate was primarily due to strong consumer and government expenditures, which grew at 2.9% and 2.0%, respectively. Business spending was particularly weak during the quarter with a 1.5% drop, which was an improvement relative to Q2's 6.3% decrease. The trade balance picture was also negative as imports outpaced exports. The economy added 514,000 jobs during the quarter, an increase from Q2's 456,000 gain. The U.S. unemployment rate decreased from 3.7% to 3.5%, which represents the lowest jobless level in the last 50 years. Inflation increased from 1.6% to 1.7% during the quarter but is below the market consensus level of 1.8% and significantly lower than the 2.5% level experienced one year ago. The housing market improved in the third quarter due to lower mortgage rates as new housing starts, building permits, and existing home sales all experienced uplifts. However, each of these metrics is below their levels from one year ago.

Public Equity Markets: Domestic equity were mixed during the quarter with the S&P 500 Index gaining 1.7% and the small-cap Russell 2000 Index falling 2.4%. Overall, strong economic reports, especially unemployment, which hit 3.7% and is the lowest level in nearly 50 years, were welcomed by the investors despite the uncertainty related to trade talks with China. There was a sharp reversal of growth and value across the capital spectrum in the final month of the quarter. Within the large cap space, growth stocks



slightly outperformed value stocks while value outperformed growth in smaller cap stocks. The S&P 500 was led by the utilities, real estate, and consumer staples sectors, which all posted strong returns. Our combined domestic equity performance was a loss of 0.5%, underperforming the 1.2% gain of the Russell 3000 Index. The underperformance was due to the overweight to small cap.

International developed markets trailed their domestic counterparts on concerns around the global fallout from the ongoing trade war between the U.S. and China. Gains from defensive sectors such as utilities and consumer staples offset losses from cyclical sectors such as energy and materials. Europe held up better than the Pacific ex Japan region with Belgium, Netherlands, Portugal, and Switzerland posting the only positive returns. In Asia, Japan advanced while the remainder of the markets, especially Honk Kong, which is impacted by the protests, declined strongly. Emerging market equities struggled during the quarter with all four of the largest markets, China, India, Brazil, and Russia, posting losses. Turkey and Egypt were the best performing markets while Argentina experienced a severe decline of 46.8%. Emerging markets were also impacted by the strength of the U.S. dollar during the quarter. Our combined international equity performance was a loss of 2.0%, underperforming the 1.7% loss recorded by the benchmark. Our global equity allocation recorded a loss of 0.8%, underperforming the flat performance of the MSCI ACWI Index.

Private Equity: During the third quarter a total of 260 PE funds reached a final close, securing \$163 billion in commitments, surpassing the \$138 billion raised the prior quarter. However, the number of funds closed has declined significantly versus the previous quarter, marking a five-year low. The concentration of capital among a small number of large funds continued to trend. In addition, capital is being raised much more quickly with 34% of the funds that closed YTD were on the road for less than a year. With more investors committing to experienced fund managers, the larger funds are becoming oversubscribed, allowing the more established GPs to complete their fundraising speedily. North America continued to dominate with 1,652 funds on the road followed by 1,165 funds focused on Asia seeking a total of \$159B. The ten largest funds are seeking an aggregate \$113B, which constitutes 15% of the total capital targeted.

Buyout deals have rebounded in Q3 2019 in terms of value: 1,157 transactions valued at \$86B were made globally, which was primarily driven by an increase in activity in North America. In contrast, Asia-based deals experienced a 48% fall in value from \$11B to \$5.8B. There were 408 exits during the quarter, marking the fifth consecutive quarterly decrease in exits. The proportions of IPO, follow-on, and restructuring exits

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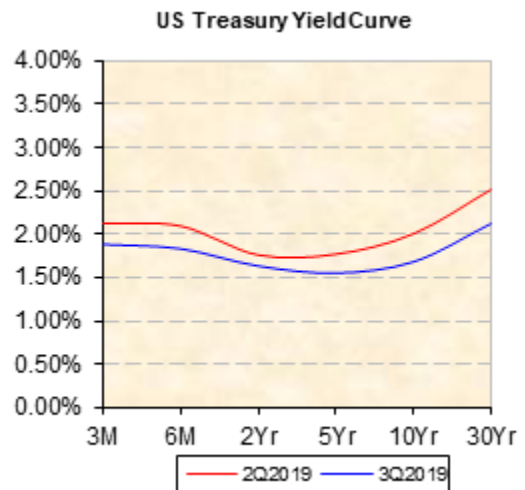
have both followed a downward trend over the last few years, while sale-to-GP exits have increased from 28% to 40% in the last five years.

Venture capital deal activity has been in a decline since Q2 2018. Q3 saw a total of 3,269 deals worth \$52B, compared to the 4,288 deals for \$70B in the same quarter in 2018. The number of venture capital deals announced declined across most regions, especially in North America, down 16% last quarter. Greater China deals declined from 2,886 to 1,764 versus Q3 last year. Activity across all venture capital exits has been on a downward trend over the past five years. The total value of exits also decreased from \$73B to \$26B versus Q2 2018, reflecting the exit challenge for venture capital managers in the current environment.

During the quarter, our private equity managers called a combined \$5.7 million and paid distributions of \$4.6 million. Our current allocation to private equity is 9.0%, with a market value of \$98.6 million. From its 2013 inception through June 30, 2019, the total private equity program has generated a net internal rate of return of 24.9% versus a 14.8% return for the dollar-weighted public market equivalent (the Russell 3000 Index plus 300 bps).

Opportunistic: Hedge funds, as measured by the HFRI Fund of Funds Composite Index, finished up 1.1% in the third quarter. On a sub-strategy basis, the HFRI Event-Driven Index rose 0.3%, the HFRI Relative Value Index gained 0.6%, the HFRI Equity Hedge Index advanced 1.5%, and the HFRI Macro Index was up 6.3%. During the third quarter, the System's Diversifying hedge fund portfolio returned a gain of 0.8% outperforming the 0.3% loss for the HFRI Fund of Funds Conservative Index. The System's Directional hedge fund portfolio returned a loss of 0.6%, outperforming the 1.7% loss posted by the HFRI Fund of Funds Strategic Index.

Fixed Income: The yield curve shifted downwards in a parallel fashion during the quarter, as all yields across the curve moved lower. A falling yield curve is indicative of investors anticipating slower global growth, which could be triggered by major geopolitical events such as the possibility of a "hard Brexit" and ongoing trade war escalations between the U.S. and China. The yield on the 30-year bond decreased by 40 bps during the quarter and ended the period at 2.1%. The spread between 2-year and 10-year Treasuries, the main gauge of the yield curve, tightened by 20 bps to 5 bps, as yields across the intermediate part of the curve remained flat. For the quarter, the 2-year Treasury yield ended at 1.6%, down 12 bps from the prior period, while the 10-year Treasury yield fell by 32 bps to 1.7%. The high yield portfolio's performance for the quarter was a gain of 0.3%, underperforming the Merrill Lynch High Yield II Constrained Index by 88 bps. The long duration portfolio's return for the quarter was a gain of 6.2%, underperforming the Barclays Long Govt/Credit Index by 40 bps. Our global inflation-linked bond portfolio, combined with a portable alpha overlay, recorded a gain of 6.1%, outperforming the custom benchmark's gain of 5.4%.



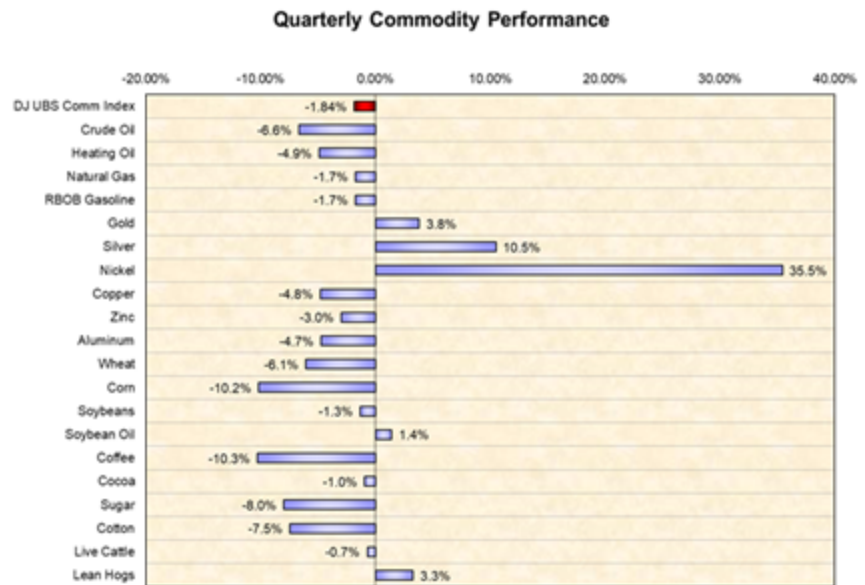
Private Debt: Private debt fundraising continued its slow pace in calendar year 2019. During the third quarter, 24 funds closed on \$22 billion in capital, which represented the lowest amount of quarterly capital raised since Q1 2018. Direct lending funds, typically the most active sector in private debt, made up 90% of all capital raised in Q3 2019. Outside of direct lending, only mezzanine and special situation funds have raised aggregate capital in excess of \$1 billion YTD 2019. Geographically, European focused funds accounted for \$14 billion of the Q3 2019 capital raised. During the quarter, our private debt managers called a combined \$1.2 million and paid distributions of \$1.3 million. Our current allocation to private debt is 1.4%, with a market value of \$15.5 million. From 2015 through June 30, 2019, the private debt program generated a net internal rate of return of 6.0% versus an 8.7% return for the dollar-weighted public market equivalent benchmark (ICE BofA 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 1.4% in the third quarter 2019, down slightly from 1.5% last quarter. The total

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return consisted of a 1.1% income component and 0.3% capital appreciation. Occupancy levels remain at all-time highs at 94.3%. Cap rates decreased to 4.3% which is near all-time lows. The industrial sector continued to be the stellar performer with a 3.2% return in the third quarter. The other major property sectors lagged with office, apartments and retail returning 1.5%, 1.2% and 0.2% respectively. In the U.S. oil and gas sector, third quarter deal value declined to \$37.5 billion. Three mega deals (+\$5 billion) worth 415.8 billion represented 42% of the total quarterly deal value. The upstream segment drove investment activity representing 58% of total volume. During the quarter, our private real assets managers called a combined \$3.9 million and paid distributions of \$1.0million. Our current allocation to private real assets is 3.9%, with a market value of \$42.7 million. From 2013 inception through June 30, 2019, the total private real assets program (including fund-of-funds) has generated a net internal rate of return of 9.4% versus a 7.0% gain for the long-term benchmark CPI plus 500 bps.

Public Real Assets: The Bloomberg Commodity Index decreased 1.8% for the quarter as gains in the precious metals sector were offset by losses in energy and agriculture. Crude oil prices declined as ongoing trade disputes and an inverted yield curve in the U.S. raised fears of economic recession. Prices in precious metals rallied due to further interest rate cuts by the Federal Reserve and safe haven buying. While industrial metals declined generally due to trade concerns, Nickel rallied strongly as Indonesia announced their intention to ban nickel ore exports. Agriculture prices were lower for the quarter due to trade concerns and improved U.S. crop estimates. Livestock prices rallied China exempted them from additional tariffs.



Global listed real estate securities as measured by the FTSE EPRA/NAREIT Developed Index advanced by 4.6%, led by weakness in the U.S. and defensive sectors. Asian real estate delivered the weakest returns due to ongoing turmoil in Hong Kong and weaker regional currencies against the U.S. dollar. U.S. real estate outperformed as interest rates declined. Defensive sectors with long duration cash flow streams and limited economic sensitivity outperformed. Data centers were the strongest performers as they also benefitted from M&A speculation. Within the U.K. listed real estate markets student housing, industrial, and office sectors outperformed due to limited supply. On the Continent, industrial and more defensive Swiss and Belgian real estate companies outperformed. Countries with large retail exposure such as Netherlands, Italy and France were among the weakest.

Listed infrastructure increased by 2.5% for the quarter as measured by the Dow Jones Brookfield Global Infrastructure Index. The gains were led by defensive segments of the market such as the utilities and communications sectors. These two sectors benefitted from declining yields and their cash flow stability and high predictability of earnings growth irrespective of macro-economic concerns. More economically sensitive sectors, such as energy infrastructure and transportation suffered due to a combination of profit-taking, top-down macro concerns, and company-specific developments.

For the quarter, the public real asset portfolio advanced 0.9%, underperforming the custom benchmark by 29 bps due to underperformance by our commodity and MLP managers.

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Outlook

During the third quarter of 2019, the U.S. Federal Reserve (“Fed”) made two consecutive 25 basis point interest rate cuts and the federal funds rate ended the quarter with a target rate range of 1.75%-2.00%. While the Fed still maintains a generally positive outlook on the U.S. economy due to robust employment and consumption conditions, the Federal Open Market Committee (“FOMC”) cited concerns over slowing global growth, international trade tensions, and persistently low inflation as justification for the rate cuts. Several of the policymakers expressed concerns that the markets are anticipating more rate cuts than the Fed intends to deliver, expecting further reductions in 2019 and 2020. GDP is forecasted to grow at a 2.2% pace in 2019 followed by 2.0% in 2020. The Fed expects the unemployment rate to rise to 3.7% and headline inflation to grow at 1.5% in 2019.

The European Central Bank (“ECB”) decreased its deposit rates to a record low -0.5% in the third quarter and indicated that these levels would stay the same or lower until the inflation outlook improves towards its target. The ECB also approved a bond repurchase program of \$20 billion euros a month, starting in November 2019. These accommodative measures were put in place to halt falling inflation expectations and prop eurozone growth, which has been impacted by a slowdown in global trade. The ECB cut its growth forecast for the euro zone from 1.2% to 1.1% for 2019 and from 1.4% to 1.2% in 2020. The ECB lowered its inflation expectations from 1.3% to 1.2% for 2019 and from 1.4% to 1.0% for 2020. The Bank of Japan (“BOJ”) left its short-term target interest rate unchanged at -0.1% and continues to target a 0% rate for its 10-year bond yields. The BOJ stated that it would maintain its accommodative asset purchase program. The BOJ noted concerns around a slowdown in the global economy and that monetary policy would need to be revisited after Japan’s consumption tax increases from 8% to 10% at the end of the quarter.

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 September 30, 2019 are shown below:

	<u>1 Year</u>				
	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	7.87	12.36	0.42	0.54	0.64
CRHBT Benchmark	8.71	12.40	0.48	0.62	0.70

	<u>3 Year</u>				
	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	8.93	7.13	0.98	1.26	1.25
CRHBT Benchmark	8.37	7.10	0.90	1.17	1.18

	<u>5 Year</u>				
	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	6.72	6.83	0.80	0.99	0.98
CRHBT Benchmark	6.55	6.70	0.78	0.98	0.98

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Participating Agency Allocation

Agency	7/1/2019		7/1/2019 - 9/30/2019			9/30/2019	
	Balance \$	Balance %	Contributions	Expenses	Investment Gain/Loss	Balance \$	Balance %
Montgomery County Govt	\$521,796,156	48.77%	\$5,888,170	(\$659,915)	\$15,048,377	\$542,072,788	48.99%
MontCo Revenue Authority	\$3,323,011	0.31%	\$135,000	(\$4,243)	\$96,471	\$3,550,239	0.32%
Strathmore Hall Foundation	\$1,540,416	0.14%	\$162,000	(\$2,007)	\$45,369	\$1,745,777	0.16%
SkyPoint Federal Credit Union	\$1,318,787	0.12%	\$103,000	(\$1,704)	\$38,608	\$1,458,691	0.13%
Dept of Assessments & Tax	\$14,235	0.00%	\$0	(\$18)	\$409	\$14,627	0.00%
District Court of Maryland	\$0	0.00%	\$0	\$0	\$0	\$0	0.00%
HOC	\$18,354,574	1.72%	\$805,000	(\$23,458)	\$533,240	\$19,669,356	1.78%
WSTC	\$125,873	0.01%	\$8,000	(\$162)	\$3,673	\$137,384	0.01%
Village of Friendship Heights	\$422,021	0.04%	\$8,000	(\$535)	\$12,192	\$441,678	0.04%
Montg. Cty. Public Schools	\$465,072,873	43.46%	\$0	(\$563,743)	\$13,378,450	\$477,887,580	43.18%
Montgomery College	\$58,031,585	5.42%	\$0	(\$70,344)	\$1,669,357	\$59,630,598	5.39%
Total	\$1,069,999,531	100.00%	\$7,109,170	(\$1,326,128)	\$30,826,146	\$1,106,608,719	100.00%