

QUARTERLY REPORT

September 30, 2022

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, 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 5.52%, 31 basis points (bps) ahead of the 5.83% loss recorded by the policy benchmark. For the one year ending September 30, 2022, the loss of 14.33% was 10 bps behind the 14.23% loss recorded by the policy benchmark. The one-year gross return places the CRHBT's performance in the third quartile of the universe of comparable funds constructed by the Board's consultant, NEPC. Our three-year performance of 4.51% and five-year performance of 6.02% places the CRHBT below and above median, respectively, of the universe.

The total market value of trust assets on September 30, 2022, was \$1,456.0 million. The CRHBT's asset allocation was: Domestic Equities 13.9%, International Equities 13.7%, Global Equities 4.3%, Fixed Income 19.9%, Inflation Linked Bonds/Gold 15.3%, Public Real Assets 5.7%, Private Real Assets 4.7%, Private Equity 13.4%, Private Debt 1.6%, Opportunistic 4.7%, and 2.9% Cash.

Major Initiatives

During the quarter, the ERS committed \$7 million to Ridgewood Water & Strategic Infrastructure Fund II, a private natural resources fund, and \$6 million to Sunstone Partners III, a private equity fund.

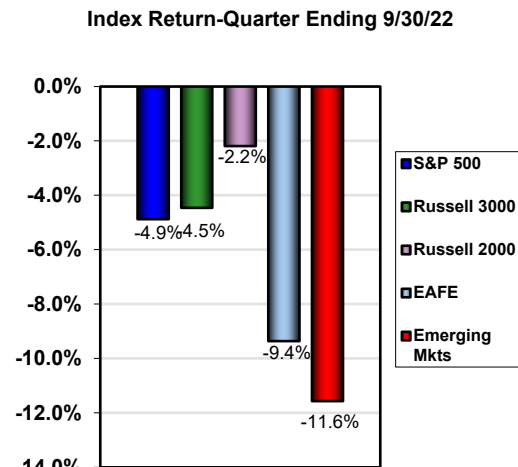
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Capital Markets and Economic Conditions

Third quarter GDP for 2022 increased at an annual rate of 2.6% according to the advance estimate released by the Bureau of Economic Analysis, ahead of the 2.3% increase that was originally estimated. The growth came in large part due to a narrowing trade deficit which was expected and considered to be a one-off occurrence. Gains also came from upward revisions to consumer spending, nonresidential fixed investment and government spending. However, declines in residential fixed investment and private inventories offset those gains. Additionally, the report reflected an ongoing shift to services spending over goods, with spending on services increasing 2.8% while goods spending dropped 1.2%. By the end of Q3 2022, the unemployment rate has remained mostly steady, edging down to 3.5% from 3.6% in Q2, with the economy adding 263,000 jobs in September because of an increase in hiring in leisure and hospitality and healthcare.

The consumer price index (CPI) rose 8.2% from a year ago, slightly above the 8.1% Dow Jones estimate. The annual change was lower than the peak of 9.1% seen in June but still hovering near the highest levels since the early 1980s. Food prices rose 0.8% in September, the same as August, and was up 11.2% from a year ago. Closely watched shelter costs, which make up about one-third of CPI, rose 0.7% in September and are up 6.6% from a year ago. Transportation services also showed a big bump, increasing 1.9% on the month and 14.6% on an annual basis. These September increases were somewhat offset by a 2.1% decline in energy prices that included a 4.9% drop in gasoline in the month. Core CPI, which excludes volatile food and energy costs, rose 6.6% also higher than the 6.4% estimate. The housing picture has continued its trend down with sales of previously owned homes falling 1.5% in September from August, to a seasonally adjusted annual rate of 4.71 million units. That decline marks the eighth straight month of sales declines. Sales were lower by 23.8% year over year. Despite the slowdown in sales, inventory continues to drop. There were 1.25 million homes for sales at the end of September, down 0.8% compared with September 2021. Home prices in September were up 8.4% from a year ago, while still up, the year-over-year increase is much lower than it was in Q1 or Q2, which saw prices up 15.4% and 14.2% respectively. The median single-family existing home price in the third quarter was \$384,800, falling from the peak seen in June of \$413,500.

Public Equity Markets: U.S. equities declined with the S&P 500 Index posting a 4.9% loss for the quarter. Concerns about slowing growth, inflation, and the Fed's actions to raise the federal funds rate weighed on the markets. Telecommunication and real estate were among the weakest sectors of the S&P Index while the consumer discretionary and energy sectors proved the most resilient. Both large and small cap growth stocks outperformed their value counterparts. Our combined domestic equity performance was a loss of 4.5%, in line with the performance of the Russell 3000 Index.



International developed markets trailed their U.S. counterparts, declining 9.36% for the quarter. Norway and Hong Kong were the worst performing markets. In Europe, monetary policy tightening and the ongoing energy crisis, in part due to restricted Russian gas supplies, weighed on stocks. The Japanese stock market followed global equity markets and ended the quarter on a down beat. Asia ex Japan equities were weaker on investor concerns over rising inflation, higher interest rates, and fears over a global slowdown, similar factors that have impacted the U.S. markets.

Emerging markets underperformed international developed markets, weighed down by slowing global growth, heightened inflationary pressures, and rising interest rates.

Eastern European countries were amongst the largest detractors during the quarter as the war in Ukraine escalated and led to an energy crisis in Europe, which in turn has contributed to accelerating inflation. In China, markets traded lower in response to a slump in the property market and the negative impact that Covid-related lockdowns have had on domestic demand. Taiwan and Korea suffered due to the deterioration in the outlook for global trade. Turkey was the best performing market during the period, with investors encouraged by the central bank cutting interest rates and strong economic growth. Our combined international equity performance was a loss of 9.7%, outperforming the 9.8% decline recorded by the

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benchmark. Our global equity allocation recorded a loss of 5.7%, outperforming the 6.8% loss of the MSCI ACWI Index.

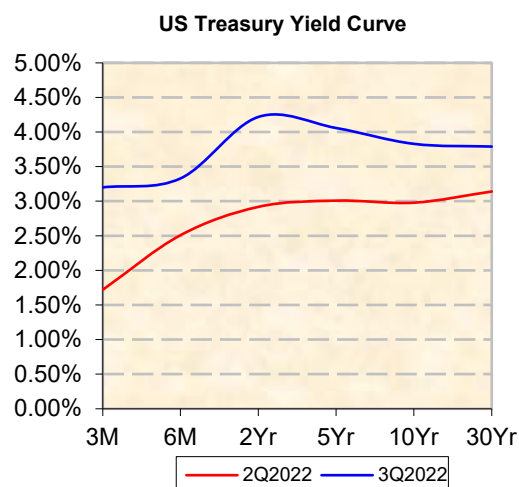
Private Equity: During the first quarter, a total of 383 funds reached their final close, securing \$164 billion in commitments, which represented a significant slowdown in fundraising compared to the prior quarter. Relative to Q2, the number of funds raised in Q3 decreased 27% and the aggregate capital raised decreased 22%. When compared to the same quarter in 2021, the number of funds raised was down 46%, however, roughly the same amount of capital was raised. North America continued to dominate the fundraising landscape, representing 66% of the aggregate capital raised and 67% of the total number of funds raised. U.S. buyout deal activity was down notably during the quarter as the number of completed deals decreased 9% to 947, the aggregate deal volume fell 68% to \$27 billion, and the average deal size dropped 55% to \$418 million. Buyout multiples in the U.S. began to creep lower during the quarter, coming in at 11.4x Enterprise Value-to-EBITDA. The technology sector continues to be the most robust representing 26% of aggregate U.S. buyout deal value. Buyout exit activity in the third quarter included 162 exits, a 27% drop from the prior quarter, aggregate exit values plummeted 87% to \$14 billion, and the average exit size fell 76% to \$577 million. The global private equity sector has \$2.5 trillion in dry powder, another record high, as transactional activity slowed during the quarter.

Similar to private equity, U.S. venture fundraising activity was down in Q3 as the number of funds raised decreased 14% to 161, aggregate capital raised decreased 24% to \$32 billion, and the average fund size shrank 10% to \$232 million. U.S. venture deal making also decreased for the quarter with the number of consummated deals down 27% to 1,456, aggregate deal value down 36% to \$37 billion, and average deal size down 14% to \$31 million.

During the quarter, our private equity managers called a combined \$10.9 million and paid distributions of \$9.7 million. Our current allocation to private equity is 13.4%, with a market value of \$194.6 million. From its 2013 inception through June 30, 2022, the total private equity program has generated a net internal rate of return of 28.4% versus a 15.5% 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 0.6% based on the HFRI Composite Index. On a sub-strategy basis, the Event-Driven Index lost 1.1%, the Relative Value Index advanced 0.3%, the Macro Index rose 2.2%, and the Equity Hedge Index declined by 2.3%. The System's diversifying hedge funds recorded a gain of 2.6% versus a gain of 0.2% for the Conservative Index. The diversifying portfolio outperformance is primarily attributable to strong fund selection within the quantitative, macro rates, and multi-strategy sectors. The System's directional hedge funds recorded a gain of 0.5% compared to the negative 1.9% return for the Strategic Index. The directional outperformance is primarily attributable to positive fund selection within the residential mortgages sector.

Fixed Income: The yield curve shifted upwards noticeably for the quarter across maturities as the Fed hiked rates while the economy and employment remained strong. For example, the yield on the 2-year bill maturities moved up 130 bps, while the 10- and 30-year bond maturities advanced 85 and 65 bps respectively. Given the steeper rise in short-term yields, the spread between 2-year and 10-year Treasuries, the main gauge of the yield curve, inverted and ended the quarter at -39 bps, 45 bps tighter than the previous quarter levels. By the end of the quarter, the 10-year Treasury yield was 3.83% whereas the 30-year Treasury yield was 3.79%. The high yield portfolio's performance for the quarter was a loss of 0.5%, outperforming the Merrill Lynch High Yield II Constrained Index by 0.2%. The long duration portfolio's return for the quarter was a loss of 9.2%, outperforming the custom long duration benchmark by 0.1%. The emerging market debt portfolio lost 4.5%, outperforming the JPM EMBI Global Diversified benchmark return by 0.1%. Our global inflation-linked bond portfolio, combined with a portable alpha overlay, recorded a loss of 9.9%, outperforming the custom benchmark by 1.2%. The outperformance was



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driven entirely by the overlay, where the strategy's alphas in nominal long rates, developed market currencies, and long/short cash provided strong returns.

Private Debt: Q3 saw 53 funds raising \$78.5 billion which was the highest level in the last ten years. The average fund size of \$1.5 billion was also an all-time high. North America remained the number one market for private debt with 31 funds raising \$51 billion of capital in Q3. European debt funds managed to raise \$24 billion over the same period while Asian funds raised only \$1.3 billion. Average funds sizes in the U.S. and Europe were \$1.7 billion and \$1.6 billion, respectively. Direct lending funds led fundraising with \$37.4 billion, exceeding the \$36 billion raised in Q3 2021. Mezzanine funds saw a large increase by raising \$29 billion with an average size of \$2.2 billion while special situations funds raised only \$6 billion in Q3. Some of the largest funds closed during the quarter were Oaktree Opportunities XI with \$15.9 billion and GS Mezzanine Partners VIII with \$15 billion. Dry powder as of November 2022 was \$427.4 billion, with \$116.2 billion related to direct lending, which continued to remain the highest amount ever recorded by Prequin.

During the quarter, our private debt managers called a combined \$0.7 million and paid distributions of \$1.6 million. Our current allocation to private debt is 1.6%, with a market value of \$23.4 million. From 2015 through June 30, 2022, the private debt program generated a net internal rate of return of 11.3% versus an 5.4% 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, increasing fears of recession caused oil prices to decline below \$80/barrel. For Q3 2022, natural resource fund raising significantly slowed down as managers raised \$15 billion across 22 fund closures compared to \$51 billion across 25 fund closures for the prior quarter. Within infrastructure, 19 funds raised \$16 billion compared to 15 funds raising over \$50 billion in the prior quarter. In contrast, fundraising in real estate advanced for the quarter, with 82 funds raising \$35.3 billion compared to 86 funds raising \$31.8 billion for the prior quarter. Real estate returns were driven by apartments and industrial properties which gained 1.2% and 1.1% respectively. In aggregate real estate returns slowed as they gained 0.6% for the quarter compared to 3.2% in the prior quarter.

During the quarter, our private real asset managers called a combined \$1.1 million and paid distributions of \$3.0 million. Our current allocation to private real assets is 4.7%, with a market value of \$68.1 million. From its 2006 inception through June 30, 2022, the total private real assets program (including fund-of-funds) has generated a net internal rate of return of 10.8% versus a 9.0% 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 11.6% for the quarter, underperforming global equities (-6.8%) and bonds (-6.9%). Asia-Pacific was the best regional performer (-9.4%), bolstered by non-REIT property stocks, which tend to be less sensitive to rising long bond yields. Japanese property developers are positively correlated with higher inflation expectations and benefitted from the depreciation of the yen. Europe was once again the worst performer (-18.8%), hit by multiple headwinds of tighter monetary policy to constrain runaway inflation, while punitively high energy prices and rationing hurt both production and consumption. Currency weakness contributed with an additional ~6% headwind. The UK lagged the continent significantly following the new UK Prime Minister and Chancellor's unorthodox debt-financed fiscally expansionary budget, which sparked a sharp drop in the pound and gilts. The Bank of England was forced to temporarily delay the start of quantitative tightening and implement a new round of bond purchases to stabilize the long end of the gilt market. Austria and France were the outperformers of the continent. The Americas sold off significantly as well (-12.3%). Economic indicators skewing positive and a strong August inflation release signaled a need for a substantively more hawkish Federal Reserve. Data centers were among the weakest sectors on concerns over rising power costs and currency translation losses, which triggered a sell-side downgrade. Hotels were helped by reports of steady demand, while apartments and storage benefited from business updates that signaled companies are likely to exceed third quarter guidance. Single family rental also performed relatively strongly on an index inclusion announcement into the S&P 500, as well as above expectation operating updates.

Listed infrastructure securities posted a loss of 11.1% during the quarter as measured by the Dow Jones Brookfield Global Infrastructure Index, noticeably underperforming global equities (-6.8%) and bonds (-6.9%). The quarter was a challenging one for infrastructure as the resilience in fundamentals was not enough to offset headwinds brought on by rising interest rates, as well as the desire for certain investors to

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de-risk their portfolios entirely by moving to cash. Outside of the gas midstream sector, which was roughly flat for the period, all infrastructure sectors underperformed the global equity markets for the quarter, with those sectors exposed to non-U.S. domiciled companies faring worst given the currency impacts. Overall, for the quarter, gas midstream, electricity transmission & distribution, diversified, airports, water & waste, and gas distribution utilities outperformed the index, while European regulated utilities, ports, toll roads, communications and pipeline companies underperformed.

For the quarter, the public real asset portfolio declined 10.7%, outperforming the custom benchmark's loss of 11.3% by 0.6% primarily due to outperformance by our Global Listed REIT Manager, Principal.

Outlook

Since the start of 2022, asset markets have experienced increased volatility, driven by the highest inflation in decades, a major shift toward central bank tightening, and the Russian invasion of Ukraine. After a rally in July, both shares and bonds turned lower and registered negative returns for Q3-2022. Emerging markets underperformed their developed counterparts and commodities generally declined. Headline inflation in developed markets is expected to peak by the end of the year in response to the turning of the global economic cycle and monetary tightening across most major central banks, but it is likely to remain above central bank targets through the end of 2023 and perhaps into 2024.

The Fed again raised rates twice during the quarter, bringing year-to-date rate hikes to 300 bps with the Fed fund rate now at 3.00% to 3.25%. Rates are rising faster than any other time in recent history and the Fed expects to raise its target rate to around 4.4% by the end of the 2022. As a result, experts are now predicting a U.S. recession in early 2023, although there is no consensus on the severity of the downturn.

After a strong first half of the year, and a positive third quarter driven by an increase in tourism, the path forward for Europe appears less robust. A dramatic deterioration in the terms of trade driven by an increase in imported commodities – energy, industrial goods, and food – have pushed inflation to record highs and confidence to record lows. Gas storage levels in the European Union have been raised to almost 90% of capacity, but this may not be sufficient if additional non-Russian supplies from outside the European Union fail to materialize as expected, or if the demand for gas is higher due to a cold winter. Shortages could push up global energy prices, hit confidence and financial conditions, and require a temporary rationing of gas use by businesses. Taken together, these shocks could push many European countries into a recession in 2023.

The Bank of Japan's determination to maintain its highly accommodative monetary policy amid the shift to higher rates elsewhere has led to a sharp depreciation of the yen year to date. On Sept. 22, 2022, the government intervened in the currency market to support the yen for the first time since 1998. However, exchange rate concerns are unlikely to change monetary policy. With headline CPI inflation expected to fall below 2.0% in 2023, monetary tightening in the country is not on the horizon.

There is wide divergence in the inflation picture across emerging markets. Inflation remains low and stable in China. Mexico and Brazil are experiencing above trend inflation, but having already tightened significantly, it is expected that those inflationary pressures will subside near-term. Hyperinflation in Turkey and Argentina is expected to continue into 2023, albeit somewhat lower than in 2022.

In its October 2022 report, the IMF maintained its 3.2% global growth forecast for 2022 but downgraded the outlook for 2023 from 2.9% to 2.7%. Throughout the world, the IMF is expecting consumer prices to increase by 8.8% this year, up from 4.7% in 2021.

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 September 30, 2022 are shown below:

	<u>1 Year</u>				
	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	-14.98	11.47	N/A	N/A	-1.31
CRHBT Benchmark	-14.22	12.43	N/A	N/A	-1.14

	<u>3 Year</u>				
	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	3.99	11.76	0.34	0.47	0.34
CRHBT Benchmark	3.17	12.11	0.27	0.37	0.26

	<u>5 Year</u>				
	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	5.54	10.05	0.47	0.66	0.55
CRHBT Benchmark	4.96	10.42	0.41	0.57	0.48

Participating Agency Allocation

Agency	<u>7/1/2022</u>		<u>7/1/2022 - 9/30/2022</u>			<u>9/30/2022</u>	
	Balance \$	Balance %	Contributions	Expenses	Investment Gain/Loss	Balance \$	Balance %
Montgomery County Govt	\$716,861,635	46.40%	\$0	(\$1,114,083)	(\$40,621,910)	\$675,125,642	46.40%
MontCo Revenue Authority	\$4,283,557	0.28%	\$0	(\$6,657)	(\$242,733)	\$4,034,166	0.28%
Strathmore Hall Foundation	\$2,090,142	0.14%	\$0	(\$3,248)	(\$118,441)	\$1,968,453	0.14%
SkyPoint Federal Credit Union	\$1,763,788	0.11%	\$0	(\$2,741)	(\$99,947)	\$1,661,100	0.11%
Dept of Assessments & Tax	\$52,946	0.00%	\$0	(\$82)	(\$3,000)	\$49,864	0.00%
District Court of Maryland	\$0	0.00%	\$0	\$0	\$0	\$0	0.00%
HOC	\$23,752,264	1.54%	\$0	(\$36,914)	(\$1,345,953)	\$22,369,397	1.54%
WSTC	\$166,257	0.01%	\$0	(\$258)	(\$9,421)	\$156,577	0.01%
Village of Friendship Heights	\$531,547	0.03%	\$0	(\$826)	(\$30,121)	\$500,600	0.03%
Montg. Cty. Public Schools	\$708,142,999	45.84%	\$0	(\$1,091,628)	(\$40,128,346)	\$666,923,025	45.84%
Montgomery College	\$87,337,145	5.65%	\$0	(\$134,633)	(\$4,949,135)	\$82,253,377	5.65%
Total	\$1,544,982,280	100.00%	\$0	(\$2,391,071)	(\$87,549,008)	\$1,455,042,201	100.00%