

December 31, 2016

Shown below is the quarterly report on the status of the Montgomery County Consolidated Retiree Health Benefits Trust ("CRHBT") for the quarter ending December 31, 2016. This quarterly report is designed to assist you in understanding the current status of the CRHBT.

History

The Consolidated Retiree Health Benefits Trust was established in 2008 as a Section 115 Trust to provide funding for retiree health benefits for retirees and their dependents of Montgomery County and other agencies or political subdivisions who elect to participate.

Participating Agencies and Other Trust Participants

Participating agencies include Montgomery County Government, Revenue Authority, Credit Union, Department of Assessment & Tax, Strathmore Hall Foundation, Housing and Opportunity Commission, Washington Suburban Transit Commission, and Village of Friendship Heights. Beginning in June 2012, funding for retiree health benefits for Montgomery County Public Schools ("MCPS") and Montgomery College were also contributed to the CRHBT.

Board of Trustees

The Board of Trustees consists of 19 members: The Montgomery County Directors of Management and Budget, Finance, and Human Resources; the Council Administrator; 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 third quarter was a loss of 0.21%, 24 basis points (bps) behind the 0.03% gain recorded by the policy benchmark. For the one year ending December 31, 2016, the gain of 7.92% was 127 bps behind the 9.19% gain recorded by the policy benchmark. The one-year gross return places the CRHBT's performance in the second quartile of the universe of comparable funds constructed by the Board's consultant, Wilshire Associates. Our annualized performance of 4.22% for the three-year period and 7.79% for the five-year period each ranked in the second quartile of the universe.

The total market value of trust assets at December 31, 2016 was \$704.3 million. The CRHBT's asset allocation was: Domestic Equities 24.7%, International Equities 18.2%, Global Equities 4.1%, Fixed Income 24.5%, Inflation Linked Bonds 9.5%, Public Real Assets 9.6%, Hedge Funds 2.4%, Private Real Assets 2.1%, Private Equity 3.7%, Private Debt 0.4%, and 0.8% Cash.

Major Initiatives/Changes

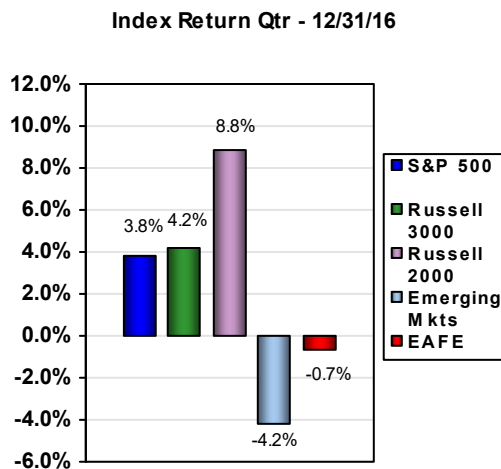
During the quarter, the ERS made a \$10 million commitment to New Energy Capital Infrastructure Credit Fund, a private debt fund.

QUARTERLY REPORT

Capital Markets and Economic Conditions

Economic data reflected that the GDP increased at an annual rate of 1.9% in the fourth quarter of 2016, a decrease from the economy's third quarter expansion of 3.5%. The GDP reading came in below the 2.2% consensus estimate of economists. For the year 2016, GDP expanded 1.6%, the lowest level since 2011. Net exports slumped in Q4, subtracting 1.7 percentage points from GDP, the most since Q2 2010; this was a sharp reversal of the strong positive impact exports had on Q3 GDP. Also contributing to the slowing GDP growth was a deceleration in Personal Consumption Expenditure and a downturn in federal government spending. While consumer spending slowed relative to the preceding quarter, it increased 2.5% in Q4, in line with projections. The economy was also aided from business outlays on equipment, which rose 3.1%, the first gain in five quarters. Inventories continued to expand on the uptick in Q3 and added one percentage point to GDP growth, the most since early 2015. After a decline in the previous quarter, the housing recovery continued throughout Q4, with residential construction increasing at a 10.2% annualized rate, adding 37bps to growth. The economy added 445,000 jobs during the fourth quarter, a decrease from Q3's 716,000 gain. The unemployment rate ended 2016 at 4.7%, edging down slightly in the fourth quarter after showing little change earlier in the year. Inflation continued to show slight signs of positive pressure as CPI posted a 2.1% year over year growth rate, the largest 12-month increase since the period ending June 2014. Core CPI, which excludes food and energy, remained constant at 2.2%. For the 2016 calendar year as a whole, private investment decreased for the first time since 2009, consumer spending slowed, as well as public spending and investment. In contrast, exports increased slightly and imports slowed.

Public Equity Markets: U.S. equities posted strong performance during the quarter as the employment and economic growth pictures continued to indicate a healthy domestic economy. The first five weeks of the quarter experienced a slight drop in the equity markets, but the markets rallied significantly following the U.S. elections, as investors cheered the prospects for lower taxes and increased infrastructure spending. The higher yielding sectors of Real Estate, Utilities, Consumer Staples, and Telecom continued their downward trend that began in July as interest rates extended their climb. Health Care lagged due to



uncertainty about future Fed policy. Financials were the top performing sector in the S&P 500, returning over 21% for the quarter due to a steepening yield curve and the potential for the rollback of the Dodd-Frank legislation. Growth lagged value, while small cap stocks significantly outperformed their large cap counterparts as they are less exposed to the rising dollar and increasing concerns over protectionist trade policy. Our combined domestic equity performance was a gain of 4.17%, underperforming the 4.21% gain recorded by the Russell 3000 benchmark.

Despite outperforming U.S. equities in local currency terms, International Developed markets finished slightly down for the quarter due to the surging U.S. Dollar. While European markets finished roughly flat for the quarter, Asian equities underperformed, particularly South Korea, Singapore, and Hong Kong. The economically sensitive sectors of the MSCI EAFE performed the strongest, with the Energy and

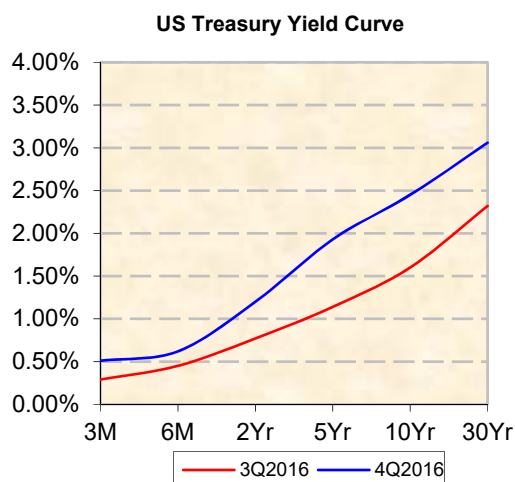
Financials sectors returning 11% and 10% respectively. Much like their U.S. counterparts, the yielding sectors were the worst performers in international markets, with Consumer Staples recording a 10% loss and Health Care 8%, Utilities 7%, and Telecom 7% losses. The nearly 8% spread between the local and USD MSCI EAFE Index returns was the largest quarterly difference since 2010, highlighting the strength of the dollar post-election. Emerging Market equities started the quarter well but sold off sharply following the U.S. election, finishing Q4 down 4.16%. Uncertainty over U.S. trade policy and a strong U.S. Dollar drove Emerging Market losses, which still managed to finish up 11% in 2016. The commodity exporting nations of Russia and Brazil continued to rally, returning 19% and 2% respectively. Alternatively, China and India experienced sharp selloffs, recording losses of 7% and 8%, respectively. Our combined international equity performance was a loss of 1.92% for the quarter, underperforming the 1.41% loss recorded by the benchmark index. Our global equity manager recorded a loss of 1.63%, underperforming the 1.19% gain of the MSCI ACWI benchmark, primarily due to the manager's overweight to Asia and underweight to the United States.

QUARTERLY REPORT

Private Equity: Buyout fund activity in the U.S. slowed for the second consecutive quarter and remained slow relative to 2013-2015 levels. After a slow start to the year, buyout fundraising has continued to accelerate during 2016 and ended the year up 12% from the trailing three-year average of \$109 billion. Purchase price multiples ended 2016 at 9.7x after peaking at more than 10x EBITDA during the first quarter of 2016. Leverage multiples also declined after a steady climb from 2009-2014. U.S. venture capital activity has slowed relative to the peaks in 2015, both in terms of deals completed and dollars invested. However, U.S. venture fundraising reached \$41 billion in 2016, which exceeded the 2014 post-crisis peak. During the quarter, our private equity managers called a combined \$2.8 million and paid distributions of \$1.6 million. Our current allocation to private equity is 3.71%, with a market value of \$26.1 million. From its 2013 inception through September 30, 2016, the private equity program has generated a net internal rate of return of 13.0% versus a 5.40% return for the dollar-weighted public market equivalent (the Russell 3000 Index plus 300 bps).

Hedge Funds: Hedge funds, as measured by the HFRI Fund Weighted Composite Index, gained 0.92% in the fourth quarter. The hedge fund portfolio returned 14.16% in the fourth quarter, outperforming the HFRI Macro Index benchmark which declined by 0.39%

Fixed Income: U.S. Treasury yields increased across the curve during the quarter as promises of lighter regulation, lower taxes, and increased economic growth under the new Trump administration caused investors to move out of fixed income and into more risky assets. Though yields were up across the curve for the quarter, overall, the yield curve flattened during the calendar year, highlighting the volatile nature of U.S. Treasury yields in 2016. The yield on the 30-year bond increased by 74 bps during the quarter, and ended the period at 3.06%. The yield curve steepened in Q4 (shown in the chart to the right) as the spread between 2-year and 10-year Treasuries, the main gauge of the yield curve, widened by 42 bps to 125 bps. For the quarter, the 2-year Treasury yield ended at 1.20%, up by 43 bps from the prior period, while the 10-year Treasury yield moved up by 85 bps to 2.45%. For the quarter, the Merrill Lynch High Yield II Constrained Index rose by 1.88%, the Barclays Aggregate was down 2.98%, and the Barclays Long Govt/Credit Index recorded a loss of 7.84% as credit spreads materially widened. The fixed income performance for the quarter was a loss of 3.17%, outperforming the custom benchmark's loss of 3.34%. The Treasury Inflation-linked bonds (TIPS) recorded a loss of 2.35% for the quarter, slightly above the 2.41% loss reported by the benchmark.



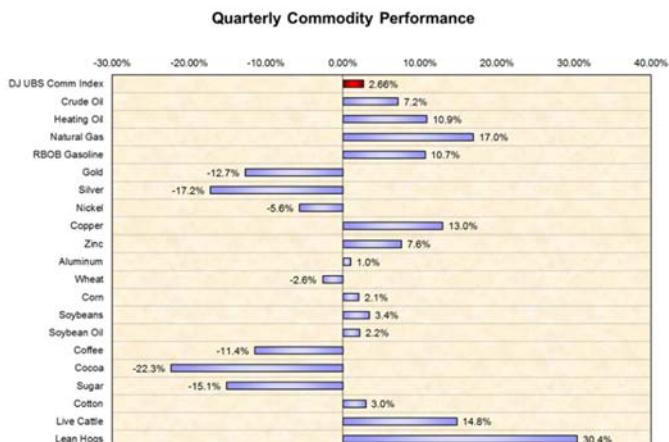
Private Debt: U.S. Mezzanine fundraising saw a spike in Q4 activity across four large credit funds that made up the approximate \$15.6 billion of new capital raised. Mezzanine yields grew by approximately 50 bps during the quarter – now falling between 10.50% - 13.50% for middle market firms with less than \$50 million of EBITDA. While direct lending and mezzanine strategies closed on the most capital during 2016 in the private debt space, distressed funds closed on significantly more capital per fund than either of the aforementioned strategies. The Q4 default rate and absolute dollar amount of defaults fell from the previous quarter, leaving distressed investment opportunities still somewhat scarce. During the quarter, our private debt managers called a combined \$1.2 million and paid distributions of \$33,000. Our current allocation to private debt is 0.35%, with a market value of \$2.5 million. Due to the young age of the portfolio, performance data is not relevant.

Private Real Assets: U.S. real estate values have moderated as the real estate cycle has matured. The total return for the NCREIF Property Index (NPI), a measure of private commercial real estate properties in the U.S., was 1.7% in the fourth quarter 2016, down from 1.8% last quarter and 2.9% in the fourth quarter of 2015. Industrial maintained its lead for quarterly (3.04%) and yearly (12.31) total returns. Transaction volume for NPI properties totaled \$14.0 billion in the fourth quarter 2016, for a 24% increase in volume over the same quarter a year ago. Cap rate compression continued with the implied valuation cap rate at 4.4%, setting a historical low. Within the upstream oil and gas sectors, deal volume accelerated as OPEC's agreement to curtail production increased confidence. During the quarter, our private real assets managers called a combined \$384 thousand and paid distributions of \$1.4 million. Our current allocation to private

QUARTERLY REPORT

real assets is 2.1%, with a market value of \$14.9 million. Due to the young age of the portfolio, performance data is not relevant.

Public Real Assets: The Bloomberg Commodity Index advanced 2.7%, with three out of the four sectors posting gains. Energy rallied following OPEC's decision to curtail production. Industrial metals advanced as continued Chinese manufacturing growth supported demand and reduced stockpiles. Agriculture advanced led by strong gains in livestock due to robust export sales. Lastly, precious metals pulled back on increased expectations around interest rate hikes, a stronger US dollar, and increased growth prospects.



Global listed real estate securities as measured by the FTSE EPRA/NAREIT Developed Index declined 5.6% for the quarter as all three regions posted negative returns in U.S. dollar terms -- Europe, Asia and North America declined 9.0%, 7.5%, and 3.4% respectively. Within Asia, Hong Kong property company share prices dropped 12% in the fourth quarter after the government surprised the market with a substantial increase in the transaction tax to dampen the pace of price appreciation. While Japanese real estate was up 9% in yen, it declined 4% in U.S. dollar terms due to significant depreciation of the currency. Australia REITs weakened after bond yields increased; however, the underlying real estate markets remains relatively healthy. European markets struggled due to a combination of rising rates, political uncertainty and currency headwinds. U.S. REITs declined on rising interest with high dispersion across property types. More interest rate sensitive strategies and sectors such as Triple Net (where the tenant assumes most of the real estate risk) and Healthcare were down 14% and 10% respectively, while hotel REITs surged 20% on improving demand.

Master Limited Partnerships (MLPs), as measured by the Alerian MLP Total Return Index, advanced 2.0% for the quarter as strong price gains in oil, natural gas and NGL are resulting in U.S. energy producers increasing their production of these commodities. In addition, the market is expecting that President Trump's policy will likely result in increased U.S. energy production.

For the quarter, the public real asset portfolio declined 1.79%, outperforming the 1.81 loss recorded by the custom benchmark.

Outlook

The markets shifted rapidly following Trump's unexpected victory in the U.S. presidential election. Equity markets rallied, bond yields rose and the U.S. dollar strengthened due to President Elect Trump's pro-growth agenda, which included fiscal expansion, tax reforms, and infrastructure spending. Post elections, investor's attention turned to the upcoming Fed meeting in mid-December. Following a 0.25% rate increase, the Fed updated projections for near-term growth, inflation, and the future path of interest rate increases. The Fed signaled three potential rate hikes in 2017 at their December 2016 meeting.

The outlook for the industrials and materials sectors improved following the election on the prospects for lower corporate taxes and regulatory burdens, which would likely encourage capital spending and result in higher net income. OPEC's commitment to reduce supply led to an energy sector rally during the fourth quarter. In North America, impressive gains in productivity set the stage for a return to production growth in the second half of 2017 but could challenge OPEC's discipline to adhere to its voluntary quotas.

December consumer confidence reading increased 4.3 percent and was the highest level since September 2001, which could remain strong with tax cut and fiscal stimulus expectations. Unemployment remained low and job growth continued to be robust. Boosted by incentives, auto sales reached record highs while housing showed a gradual but steady improvement. However, some cautionary signs remain. Interest rates are still near record lows but the prospect of higher rates could ultimately dampen the recovery in housing

QUARTERLY REPORT

and autos. In addition, the potential for a border tax increased concerns among importers, particularly apparel companies and retailer.

Aside the U.S. elections, the global markets were able to overcome a number of additional concerns such as the Brexit vote, the Italian referendum, etc. A recent survey to measure attitudes towards the E.U. indicate that Euroscepticism has receded throughout Europe after Brexit. Even in Italy, long one of the most Eurosceptic member countries, support of the E.U. edged up. The Brexit vote and the uncertainty it unleashed, including political infighting as well as the dismal performance of the British pound, has apparently reminded Europeans of the benefits of the union. In France, while the presidential elections in 2017 create considerable uncertainty, pronouncements from leading candidates suggest a new government has the potential for a positive surprise, including the possibility of reforms that could raise confidence in the French Economy. In Japan, the recent weakness in the yen provides support for corporate earnings. Meanwhile, the Chinese economy continues to be a major concern in the Asia region. However, the Bank of China's support for a weaker Chinese currency should have a positive effect on the export-oriented economy.

Sources: Bloomberg, Northern Trust, MSCI, S&P, T. Rowe Price, FRM, Wilshire Associates, Bridgewater, JP Morgan, BlackRock, Eagle, Gryphon, PE Hub, Private Equity Analyst, Pitchbook, Real Capital Analytics, RE Alert, Schroder, Oil & Gas Investor, U.S. Bureau of Labor Statistics, U.S. Bureau of Economic Analysis, PwC Deals, NCREIF.

Risk Profile

The risk/return statistics for the CRHBT for the 1, 3 and 5 year periods ending December 31, 2016 are shown below:

	1 Year				
	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	7.50	3.65	1.86	2.61	2.05
CRHBT Benchmark	9.20	3.12	2.72	3.33	2.95

	3 Year				
	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	3.82	6.09	0.57	0.69	0.63
CRHBT Benchmark	4.28	5.92	0.65	0.78	0.72

	5 Year				
	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	7.48	6.90	1.03	1.35	1.08
CRHBT Benchmark	7.58	6.79	1.08	1.43	1.12

Participating Agency Allocation

Agency	9/30/2016		9/30/2016 - 12/31/2016			12/31/2016	
	Balance \$	Balance %	Contributions	Expenses	Investment Gain/Loss	Balance \$	Balance %
Montgomery County Govt	\$333,282,562	47.27%	\$1,310,163	(\$459,594)	(\$738,943)	\$333,394,188	47.33%
MontCo Revenue Authority	\$2,236,528	0.32%	\$44,325	(\$3,101)	(\$4,429)	\$2,273,323	0.32%
Strathmore Hall Foundation	\$1,029,965	0.15%	\$24,350	(\$1,430)	(\$1,981)	\$1,050,904	0.15%
Credit Union	\$931,312	0.13%	\$19,725	(\$1,292)	(\$1,825)	\$947,920	0.13%
Dept of Assessments & Tax	\$11,267	0.00%	\$0	(\$16)	(\$26)	\$11,226	0.00%
District Court of Maryland	\$0	0.00%	\$0	\$0	\$0	\$0	0.00%
HOC	\$11,832,882	1.68%	\$282,600	(\$16,428)	(\$22,716)	\$12,076,338	1.71%
WSTC	\$82,377	0.01%	\$2,150	(\$114)	(\$155)	\$84,257	0.01%
Village of Friendship Heights	\$281,468	0.04%	\$6,050	(\$390)	(\$550)	\$286,577	0.04%
Montg. Cty. Public Schools	\$311,221,425	44.14%	\$0	(\$315,268)	(\$707,353)	\$310,198,804	44.04%
Montgomery College	\$44,168,110	6.26%	\$0	(\$44,742)	(\$100,387)	\$44,022,981	6.25%
Total	\$705,077,897	100.00%	\$1,689,363	(\$842,375)	(\$1,578,365)	\$704,346,519	100.00%