DECEMBER 31, 2014

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, 2014. 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 Staff 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 net of fee return for the fourth quarter was a gain of 1.96%, 14 basis points (bps) ahead of the 1.82% gain recorded by the policy benchmark. For the one year ending December 31, 2014, the return of 6.91% was slightly behind the 7.01% return recorded by the policy benchmark. Our annualized net of fee performance for the three-year period was a gain of 11.07% and 8.90% for the five-year period ending December 31, 2014.

The total market value of trust assets at December 31, 2014 was $458.2 million. The CRHBT's asset allocation was: Domestic Equities 28.9%, International Equities 18.0%, Global Equities 4.0%, Fixed Income 20.6%, Inflation Linked Bonds 9.8%, Commodities 3.9%, REITS 9.6%, Hedge Funds 3.5%, Private Real Assets 0.6%, Private Equity 0.8%, and 0.1% Cash.

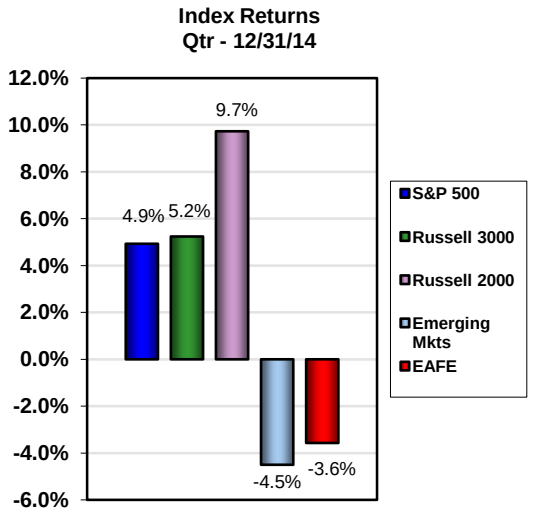
Capital Markets and Economic Conditions

Economic data released during the fourth quarter showed that the economy continued to expand at a healthy pace supported by increased consumer spending on services. The Bureau of Labor Statistics increased its estimate of third quarter gross domestic product (GDP) to 5.0%, the fastest pace of growth in the economy since the third quarter of 2003. The employment situation continues to improve as U.S. nonfarm payroll job growth averaged 261,000 per month and the unemployment rate declined slightly to 5.8%. The NFIB Small Business Optimism Index increased to its highest level since February 2007, signaling improvements in small business hiring plans – an important consideration as small businesses account for the majority of private sector employment. November headline retail sales exceeded consensus expectations and rose 5.1% year-over-year led by strong motor vehicle sales. Household spending is benefiting from cheaper gas, a more optimistic economic outlook, and a faster pace of hiring. The ISM Manufacturing Index indicated that manufacturing growth accelerated as the index averaged 58.9 over the fourth quarter compared to 57.6 in the third quarter. The broad based strength in the manufacturing sector suggests that deteriorating foreign demand and a stronger dollar are currently having a limited impact on the manufacturing sector. The Case-Shiller Home Price Index increased 0.8% in October, confirming that home prices are still increasing but at a slower pace. Headline CPI year-over-year for the quarter averaged 0.8%, below the Federal Reserve's 2.0% target due to a notable decline in energy prices.

Major Initiatives/Changes

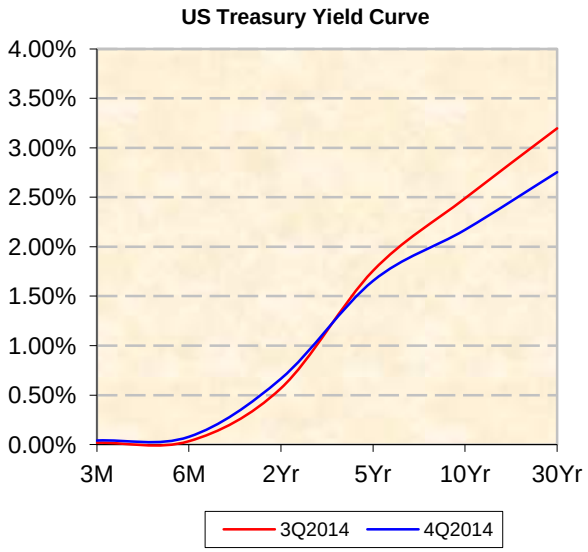
During the quarter, the Board approved a $3,000,000 commitment to a private debt manager and a $6,000,000 commitment to a private equity manager. Staff continues to review opportunities within the private real assets, private equity, TIPS and REITs allocations. One trustee from Montgomery College resigned from the Board in November.

Public Equity Markets: U.S. stocks advanced on stronger than expected economic reports during the quarter. Smaller capitalization stocks (as represented by the Russell 2000 Index) outperformed their larger counterparts. Seven of the ten sectors of the S&P 500 Index were up with Utilities reporting the strongest return and Energy the worst. The domestic equity performance was a gain of 6.06%, outperforming the 5.24% performance of the Russell 3000 benchmark. The domestic equity allocation consists of one passive and six active managers.



International markets declined during the quarter impacted by concerns about global economic growth. The IMF cut their global growth forecast while the ECB reduced forecasts for growth in the European region; in response some major central banks eased monetary policy. Emerging markets detracted further on disappointing manufacturing data in China and worries about elections in Brazil and Greece. During the quarter, developed markets, as measured by the MSCI EAFE Index, declined 3.57% with the markets of Norway, Portugal, and Italy recording the largest losses. Emerging Markets declined 4.5% with Russia, Greece, and Columbia detracting the most. The international equity performance was a loss of 2.74% for the quarter, outperforming the 3.79% loss recorded by the custom benchmark. The international equity allocation, as of September 30th, consisted of two active developed international managers and one active emerging markets manager.

Global equities recorded a loss 3.68%, underperforming the 0.41% return of the MSCI ACWI benchmark, due to the manager's underweight to U.S. markets.



Fixed Income: Short and intermediate term U.S. Treasury yields rose modestly in the fourth quarter after the Federal Reserve officially ended its QE3 bond buying program. Longer dated Treasury yields continued falling in response to economic pressures from slowing global growth and lower than projected inflation across the developed markets. The yield on the 30 year bond fell 29 bps during the quarter, and ended the year at 2.75%. Geopolitical risks and divergent monetary policies of central banks across the globe continue to be a prevailing economic theme heading into the New Year. In the United States, the expectations are for the Fed to make their first rate hike in 2015, while persistently weak economies in Europe and Japan are forcing policy makers to accelerate stimulative efforts to combat lingering deflationary pressures. The yield curve flattened (shown in the chart to the right) as the spread between 2-year and 10-year Treasuries, the main gauge of the yield curve, narrowed by 41 bps to 151 bps. For the quarter, the 2-year Treasury yield ended at 0.66%, up 9 bps, while the 10-year Treasury yield declined by 32 bps to 2.17%. For the quarter, the Merrill High Yield Index declined 1.06%, the Barclays Aggregate returned 1.79%, and the Barclays Long Govt/Credit Index used the declining long-term yields as a tailwind to return 5.60%. The fixed income performance for the quarter was 3.08, outperforming the custom benchmark's 2.91% return. The fixed income allocation consists of an active high yield manager and a passive long duration manager. The Treasury Inflation-linked bonds (TIPS) declined 0.10% for the quarter, slightly below the 0.03% loss reported by the benchmark. The TIPS portfolio is passively managed by one manager.

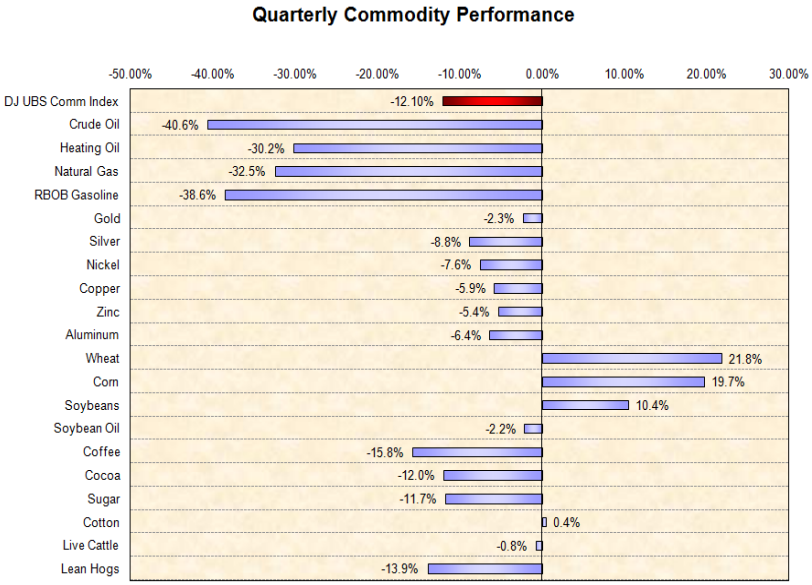
Hedge Funds: Hedge funds, as measured by the HFRI Composite Index, gained 0.71% in the fourth quarter but with material dispersion across and within strategies. Global Macro gains partially offset declines in Event Driven and Relative Value strategies with the HFRI Global Macro Index gaining 3.07% for the quarter as macro oriented funds were able to profit from the oil price decline. Equity Hedge strategies were up 0.40%, profiting from quantitative strategies that were long Chinese equities as the CSI 300 was up 25.8% for the month. Event Driven strategies as measured by the HFRI Event-Driven Index were down 1.43%. Most event managers experienced notable declines in October due to a large announced healthcare merger not taking place. Relative Value strategies declined 0.45% as most markets experienced increased correlations. The HFRI Fund of Funds Index was up 0.79% for the quarter. The hedge fund portfolio was up 0.65%, net of fees, for the quarter, underperforming the 3.07% return of HFRI Macro Index. The allocation consists of one active manager.

Private Real Assets: Commercial real estate transaction values in the U.S. increased by 13% quarter over quarter and these levels remained 5% above Q4'13 volumes. The U.S. real estate market experienced a strong 2014 with transaction values over $420B as compared to approximately $360B in 2013 (17% increase). Within the energy markets, U.S. oil prices continued to decline meaningfully from approximately $90/barrel in early October to below $55/barrel by the end of December. As a result of the changing market dynamics, many upstream oil and gas companies have announced decreased capital expenditure programs due to the lower price environment. To date, the CRHBT has made commitments to 5 private real assets managers totaling $15.5 million. During the quarter, the portfolio saw $1.3 million capital called and no distributions. Due to the young age of the portfolio, performance data is not relevant.

Private Equity: Private equity, at a global level, saw a decrease in fundraising in the fourth quarter compared with the previous quarter. Nevertheless, fundraising for both buyout and venture capital in 2014 marked the second highest level since 2008. Exit markets in the U.S. were robust during 2014, supported by favorable public market conditions which led to the highest level for buyout in the last ten years. Purchase prices, particularly for larger transactions continued to remain at relatively high levels similar to the level seen in 2007. To date, the CRHBT has made commitments to 7 private equity funds

totaling $26 million; the portfolio saw $1.7 million of capital called and no distributions. Due to the young age of the portfolio, performance data is not relevant.

Commodities: The Bloomberg Commodity Index (formerly known as the Dow Jones – UBS Commodity Index) was down for the quarter. All commodities sectors declined during the quarter impacted by expanding surpluses, a surging dollar, and slowing growth in China. The agriculture sector detracted the most led by corn which reached the lowest price level in five years after a U.S. government report showed that domestic inventories exceeded analysts' forecasts. Crude oil prices continued to decline on abundant supply. Gold fell near to lowest level since last January, as a stronger dollar and signs of an improving U.S. economy cut demand for a protection of wealth. Industrial metals, which were already under pressure from concern that Chinese demand was slowing, were further impacted by the dollar's strength. During the quarter, our commodities portfolio declined 12.51%, underperforming the Bloomberg Commodity Index by 41 basis points. The allocation consists of two active managers.



REITs: Global listed real estate securities had a strong 4th quarter. U.S. REITs led performance, helped by the momentum of the economic recovery in the U.S. and due to a flight to quality. Real estate fundamentals in general strengthened and the asset class continued to benefit from investors seeking higher yield. Our global REIT portfolio gained 11.49% during the quarter, outperforming the custom benchmark by 4bps. The allocation consists of a passive global REIT manager and a passive U.S. REIT manager.

Outlook

The outlook for the global economy continues to be dominated by divergent monetary policies between central banks of the developed markets. The United States, Europe, and Japan all took very different monetary and fiscal policy paths since the financial crisis of 2008, and those choices have ultimately led to varying levels of economic recovery. While the U.S. has seen equity market resurgence that has exceeded pre-crisis highs, growth in Europe and Japan is waning and deflationary pressures are becoming a real risk of causing economic contraction in both regions of the world.

The U.S. economy is continuing to grow at a moderate pace in an economic environment consisting of near-zero interest rates, low inflation, and falling unemployment. Consumer spending during the fourth quarter grew at the fastest rate in eight years, as a sustained drop in energy prices helped to increase the amount of other domestic goods and services purchased. With global demand beginning to contract, and a global oversupply of oil reserves, it is plausible that a low energy price environment could persist for the foreseeable future. As a result of increased consumer spending, business investment will also likely expand in an effort to build out capacity to meet new demand. The Federal Reserve is expected to begin increasing short term rates by the middle of the year, although persistently low inflation and a strong U.S. dollar could prompt the Fed to keep interest rates unchanged a little longer.

Like the United States, Europe should reap the benefits of low energy costs as net oil importers. It is widely expected that after years of pursuing hardline austerity measures, the European Central Bank will announce a quantitative easing plan similar to the asset purchasing program enacted by the Fed as a way to help stimulate growth. A devaluing Euro should add further stimulatory tailwinds to an economy that is under pressure to create inflation. Similar to its European counterparts, Japan is also facing a

challenging environment of falling core inflation and declining quarterly GDP. The Prime Minister has implemented a more aggressive program of quantitative easing, and has postponed 2015's planned sales tax increase. If Japan is ultimately successful in boosting long-term economic growth, the current government will likely have to take a more aggressive stance in removing restrictive regulations that stymie productivity, innovation, and free trade.

Sources: Bloomberg, Northern Trust, MSCI, S&P, T. Rowe Price, FRM, Wilshire Associates, Bridgewater, JP Morgan, BlackRock, PE Hub, Private Equity Analyst, Pitchbook, Real Capital Analytics, RE Alert, Schroder, Oil & Gas Investor.

Risk Profile

The risk/return statistics for the CRHBT for the 1, 3 and 5 year periods ending December 31, 2014 are shown below:

1 Year	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	6.91	5.88	1.13	1.38	1.18
CRHBT Benchmark	7.01	5.66	1.20	1.49	1.24

3 Year	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	11.07	6.95	1.54	2.07	1.59
CRHBT Benchmark	10.62	6.79	1.51	2.05	1.56

5 Year	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	8.90	10.99	0.78	0.96	0.81
CRHBT Benchmark	8.77	10.91	0.77	0.96	0.80

Participating Agency Allocation

	9/30/2014		9/30/14 - 12/31/2014			12/31/2014	
Agency	Balance $	Balance %	Contributions	Expenses	Investment Gain/Loss	Balance $	Balance %
Montgomery County Govt	$223,389,929	49.81%	$1,093,580	($296,789)	$4,478,421	$228,665,140	49.89%
MontCo Revenue Authority	$1,743,033	0.39%	$42,850	($2,316)	$34,944	$1,818,511	0.40%
Strathmore Hall Foundation	$793,206	0.18%	$0	($1,054)	$15,902	$808,054	0.18%
Credit Union	$714,992	0.16%	$18,650	($950)	$14,334	$747,026	0.16%
Dept of Assessments & Tax	$10,523	0.00%	$0	($14)	$211	$10,720	0.00%
District Court of Maryland	$0	0.00%	$0	$0	$0	$0	0.00%
HOC	$8,697,639	1.94%	$326,775	($11,555)	$174,366	$9,187,225	2.00%
WSTC	$61,500	0.01%	$1,900	($82)	$1,233	$64,551	0.01%
Village of Friendship Heights	$214,238	0.05%	$6,150	($285)	$4,295	$224,398	0.05%
Montg. Cty. Public Schools	$174,922,783	39.00%	$0	($232,397)	$3,506,773	$178,197,159	38.88%
Montgomery College	$37,932,796	8.46%	$0	($50,396)	$760,460	$38,642,859	8.43%
Total	**$448,480,639**	**100.00%**	**$1,489,905**	**($595,838)**	**$8,990,938**	**$458,365,644**	**100.00%**