September 30, 2017

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, 2017. 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 quarter was a gain of 3.25%, 18 basis points (bps) ahead of the 3.07% gain recorded by the policy benchmark. For the one year ending September 30, 2017, the gain of 11.47% was 175 bps ahead of the 9.72% 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 6.35% for the three-year period and 7.57% for the five-year period each ranked at the median of the universe.

The total market value of trust assets at September 30, 2017 was $884.8 million. The CRHBT's asset allocation was: Domestic Equities 23.1%, International Equities 19.5%, Global Equities 4.2%, Fixed Income 25.2%, Inflation Linked Bonds 11.3%, Public Real Assets 8.4%, Private Real Assets 2.4%, Private Equity 4.6%, Private Debt 0.4%, and 0.9% Cash.

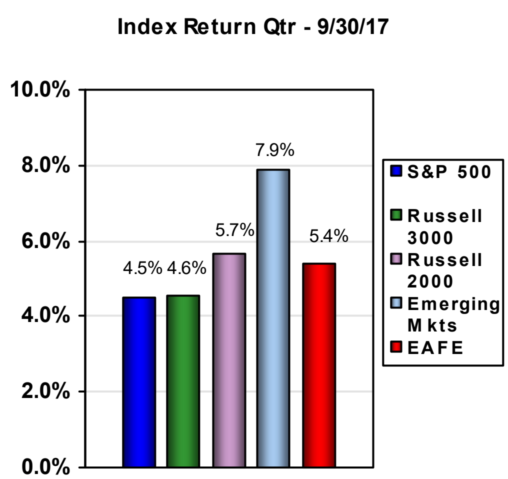
Major Initiatives/Changes

During the quarter, the following commitments were made: $2 million to Kimmeridge Energy Fund IV, a private real asset fund, and $3 million to Tailwater Energy Fund III, a private real asset fund.

Capital Markets and Economic Conditions

Economic data reflected that the GDP increased at an annualized 3.0% rate in the third quarter of 2017, beating expectations of 2.5%, despite the disruptions caused by hurricanes Harvey and Irma and only slightly below the 3.1% reported in the previous quarter (which was the strongest growth rate since 2015). Positive contributions from personal consumption expenditures, private inventory investment, non-residential fixed investment, exports, and federal government spending, were offset by negative contributions from residential fixed investment and state and local government spending. Personal consumption expenditure contributed 1.62% to growth and spending rose 8.3% for durable goods. Fixed investment added 0.25% to growth and investment rose by 8.6%. Meanwhile, exports went up at a slower 2.3% rate (versus 3.5% in Q2) and imports shrank 0.8%, the sharpest decline in three years. The U.S. unemployment rate unexpectedly fell to 4.2% in September and below market consensus of 4.4%. It was the lowest jobless rate since 2001, as the number of unemployed persons declined by 331,000 to 6.8 million. U.S. consumer prices increased 2.2% year-on-year in September 2017, missing market expectations of 2.3%; this was the highest inflation rate since April, as hurricane related production disruptions at oil refineries in the Gulf Coast area boosted energy prices.

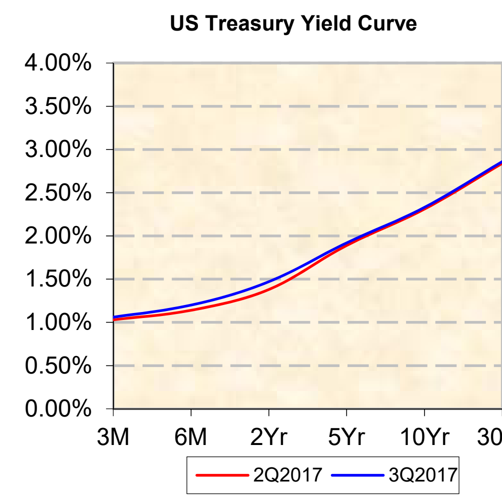
Public Equity Markets: U.S. equities continued their strong performance in Q3, advancing to all-time highs as the market continued to be supported by positive economic reports and strong corporate earnings. The market continued to exhibit limited levels of volatility as the global growth picture steadily improved. The weakening U.S. dollar created a supportive backdrop for the Technology sector, which is heavily exposed to international markets, and the commodity related sectors of Energy and Materials. The more defensive sectors of Utilities, Consumer Staples, and Real Estate underperformed. During the quarter, small cap outperformed large cap and growth outperformed value. Our combined domestic equity performance was a gain of 4.77%, outperforming the 4.57% gain of the Russell 3000 Index. Active management produced positive attribution in the large cap space but negative in the small cap space.



Developed international and emerging equity markets maintained their momentum relative to U.S. markets as the trade-weighted U.S. Dollar Index dropped by 2.9% during Q3. European equities outperformed Asian equities. Germany, the largest European equity market, posted strong gains for the quarter as Angela Merkel easily won a fourth term as German chancellor. While the economic backdrop in Japan continues to steadily improve, the market underperformed due to political concerns within Prime Minister Abe's administration. Much like their domestic counterparts, the top performing international sectors were Energy, Materials, and Technology while the more defensive sectors of Health Care, Consumer Staples, Telecom, and Utilities lagged. Emerging markets continued to rally in the quarter led by Brazil and Russia. Brazil performed well following cuts in interest rates and a privatization plan for government held assets. Russia produced strong returns as the price of oil jumped by 10%. Our combined international equity performance was a gain of 5.49%, underperforming the 6.22% gain recorded by the benchmark index. Our global equity allocation returned 4.00%, underperforming the 5.18% gain of the MSCI ACWI benchmark.

Private Equity: Buyout fund raising fell to $66 billion from a record $95 billion in Q2 2017. With a record fundraising quarter in Q2, it was not surprising that momentum did not continue into Q3 as fundraising activity has been historically lower in the third quarter of the year, with many managers choosing to close their funds in the final quarter. Despite the slowdown, 2017 is still on track to see the fundraising level surpass 2016 to set a new post-global financial crisis record. Aggregate capital raised has increased to $338 billion during Q1-Q3 2017 – it may reach the all-time annual record of $415 billion set in 2007. Q3 saw 953 buyout deals announced or completed globally, which represents 9% decrease versus the previous quarter. This decline could be attributable to increased asset pricing which makes it difficult for GPs to source attractive investment opportunities. Exit activity fell for a fifth consecutive quarter, with 381 buyout exits in Q3 – this represented the lowest number of exits since Q3 2012. Venture capital fundraising also declined to $11.2 billion versus $18 billion in Q2. The 2,369 venture capital financings announced globally in Q3 marked a 6% decline from the previous quarter. Despite fewer transactions, the aggregate value ($49B) of VC deals in Q3 was the highest since 2010, 59% higher than in Q3 2016. The number of VC deals in North America fell for the 9th consecutive quarter. Meanwhile, private equity dry powder reached a record $942 billion as of September 2017. During the quarter, our private equity managers called a combined $4.8 million and paid distributions of $2.9 million. Our current allocation to private equity is 4.6%, with a market value of $40.2 million. From its 2013 inception through June 30, 2017, the private equity program has generated a net internal rate of return of 17.1% versus a 14.7% return for the dollar-weighted public market equivalent (the Russell 3000 Index plus 300 bps).

Fixed Income: The yield curve flattened slightly during the quarter, driven primary by a rise in yields on the short end of the curve. Yields on the curve's long-end were relatively unchanged, as expectations related to global growth and inflation remained stable. On the whole, bond spreads were driven lower during the period, leading to corporate bonds outperforming Treasurities. The yield on the 30-year bond increased by 2 bps during the quarter, and ended the period at 2.86%. The spread between 2-year and 10-year Treasuries, the main gauge of the yield curve, narrowed by 7 bps to 86 bps. For the quarter, the 2-year Treasury yield ended at 1.47%, up by 9 bps from the prior period, while the 10-year Treasury yield rose by 2 bps to 2.33%. For the quarter, the Merrill Lynch High Yield II Constrained Index rose by 2.04%, the Barclays Aggregate was up 0.85%, and the Barclays Long Govt/Credit Index recorded a gain of 1.53%. The fixed income performance for the quarter was a gain of 1.75%, in-line with the custom benchmark. Our global inflation-linked bond portfolio, combined with a portable alpha overlay, recorded a gain of 0.45% for the quarter, outperforming the custom benchmark's gain of 0.18%.

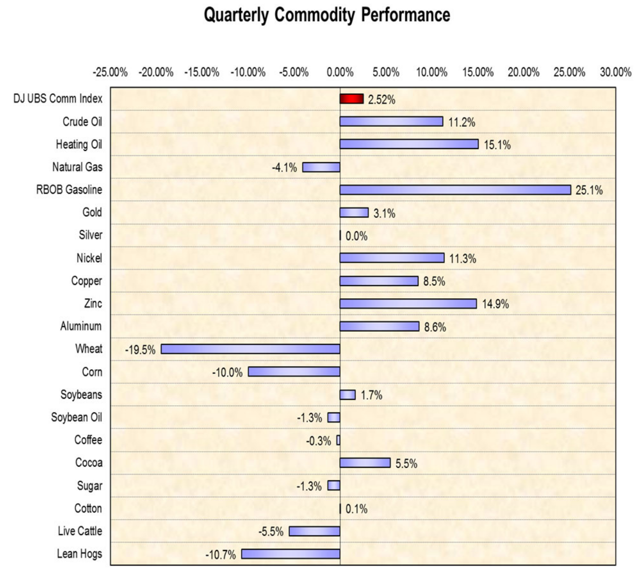


Private Debt: Private debt fundraising in the third quarter saw 24 funds reach a final close, securing a total of $23 billion in capital commitments from investors. While this was a slight reduction in the pacing of the number of funds that closed compared to the same period in 2016, the average size of the funds raised nearly doubled ($958 million vs. $400 million). Direct lending funds made up the largest percentage of funds closed, 44%, during the quarter. Geographically, of the 24 funds that closed, 12 were North American based, seven were European focused, and 5 targeted Asia. During the quarter, our private debt managers called a combined $1.2 million and paid distributions of $43 thousand. Our current allocation to private debt is 0.43%, with a market value of $3.8 million. Due to the young age of the portfolio, performance data is not relevant.

Private Real Assets: U.S. real estate returns have continued to remain stable. The NCREIF Property Index (NPI), a measure of private commercial real estate properties in the U.S., gained 1.7% in the third quarter 2017, down from 1.8% from the previous quarter. The 1.7% total return consisted of a 1.1% income component and 0.6% appreciation. The Industrial sector continues to lead performance by property type with total returns of 3.3% in the third quarter. Hotels experienced the second strongest quarterly return by property sector, at 2.3% after reversing a six-quarter depreciation trend. Apartments, Office and Retail returned 1.7%, 1.4% and 1.2% respectively on decelerating capital appreciation. Within the U.S. upstream oil and gas sector, there was a significant drop in total upstream M&A spending due to a lack of transactions in the Permian Basin during the quarter. This quarter's biggest deals involved the STACK formation in Oklahoma and the Williston Basin in North Dakota. During the quarter, our private real assets managers called a combined $1.8 million and paid distributions of $0.8 million. Our current allocation to private real assets is 2.4%, with a market value of $21.5 million. Due to the young age of the portfolio, performance data is not relevant.

Public Real Assets: The Bloomberg Commodity Index gained 2.5% due to strength in the energy and industrial metal sectors. Energy prices rallied on increased demand forecasts and declining inventories.

Crude oil priced gained 11% as the International Energy Agency revised its demand estimates upwards concurrently with declines in US crude oil inventories. Industrial metals appreciated on increasing demand stemming from global growth in manufacturing and declining inventories. Zinc led the sector advance as inventories declined to multi-year lows. Grain prices fell, led by wheat which moved lower on sizeable harvest projections. The USDA raised global wheat production forecasts, notably from Russia. Precious metals advanced on increasing geopolitical tensions surrounding the Korean peninsula. Livestock declined due to ample supplies and inexpensive feed costs.



Global listed real estate securities as measured by the FTSE EPRA/NAREIT Developed Index advanced 1.6%, led by strong performance in Hong Kong and most of Europe. Hong Kong real estate continues to do well as new real estate developments are experiencing strong demand at high prices. This strong demand is benefiting developers who have a large inventory of farm land to convert into new projects. Improving European economic conditions, increasing household spending and net immigration are translating into rising office and residential rents and lower vacancies. U.S. REITs were flat as gains in Industrial, Data Centers and Self-Storage were offset by losses in Health Care, Regional Malls, Office and Apartments. Healthcare real estate companies underperformed due to concerns over rising interest rates and vacancies whereas Office and Apartments were negatively impacted by additional supply. Real estate returns in Japan were negative, hurt by geopolitical risks with North Korea.

Master Limited Partners (MLPs), as measured by the Alerian MLP Total Return Index, declined 3.1% due to concerns that continued capital spending will lead to an oversupply of energy infrastructure assets and negatively impact investor sentiment.

For the quarter, the public real asset portfolio increased 2.06%, outperforming the custom benchmark by 72 bps due to outperformance by our active commodity and MLP managers.

Outlook

The Federal Reserve kept the federal funds rate unchanged at 1.0% at their September meeting. While the central bank kept rates constant, they also announced that it will begin unwinding its balance sheet starting in October. Each month, the Fed will unload $10 billion of debt, including $6 billion in treasury securities and $4 billion in agency debt. This marks a milestone for the Fed as they have transitioned from buying a significant amount of assets during and following the global financial crisis, to tapering the level of purchases, to finally selling off a portion of the assets in an effort to shrink the balance sheet. The Fed's 2017 growth expectations increased as they expect real GDP to grow 2.4% compared to its previous outlook of 2.2%. Inflation expectations have decreased as the Fed is now projecting core inflation of 1.5% versus their prior projection of 1.7%. The 10-year breakeven inflation rate increased roughly 10bps to 1.84%.

In September, the Bank of England (BOE) kept its benchmark rate unchanged at 0.25% but hinted that a rate hike could come as early as November, which pushed the British Pound to a one-year high versus the U.S. Dollar. The market currently views the chances of a September rate hike to be 50% with the November inflation report likely to influence the rate hike decision. Several members of the BOE will be pushing for a November hike given that GDP is increasing and unemployment has fallen to a 40-year low. The European Central Bank (ECB) left its benchmark interest rate unchanged at 0% during their September meeting, which was expected by market participants. ECB President, Mario Draghi, hinted that interest rates are unlikely to be increased until 2019. The markets are now turning their sights to the October meeting, where the ECB will hold preliminary discussions on how to wind down its bond purchasing program. The Bank of Japan (BOJ) kept its benchmark rate unchanged at -0.1%. BOJ Governor, Haruhiko Kuroda, signaled that the solid economic recovery should gradually accelerate inflation towards its 2% target without any further stimulus.

The domestic economy is likely to continue to grow at a moderate pace in the 2.0-2.5% range over the next year.

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 September 30, 2017 are shown below:

	1 Year				
	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	11.03	4.14	2.40	2.88	2.66
CRHBT Benchmark	9.71	3.27	2.63	3.21	2.97

	3 Year				
	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	5.94	5.85	0.91	1.06	1.02
CRHBT Benchmark	5.79	5.46	0.95	1.08	1.06

	5 Year				
	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	7.21	5.80	1.16	1.38	1.24
CRHBT Benchmark	7.04	5.56	1.19	1.41	1.27

Participating Agency Allocation

	7/1/2017		7/1/2017 - 9/30/2017			9/30/2017	
Agency	Balance $	Balance %	Contributions	Expenses	Investment Gain/Loss	Balance $	Balance %
Montgomery County Govt	$419,994,938	48.88%	$1,404,270	($427,497)	$12,439,007	$433,410,718	48.94%
MontCo Revenue Authority	$2,551,900	0.30%	$38,450	($2,608)	$76,177	$2,663,920	0.30%
Strathmore Hall Foundation	$1,187,502	0.14%	$15,700	($1,213)	$35,405	$1,237,394	0.14%
Credit Union	$1,066,598	0.12%	$7,850	($1,087)	$31,675	$1,105,036	0.12%
Dept of Assessments & Tax	$12,158	0.00%	$0	($12)	$359	$12,505	0.00%
District Court of Maryland	$0	0.00%	$0	$0	$0	$0	0.00%
HOC	$13,651,677	1.59%	$267,350	($13,970)	$408,750	$14,313,807	1.62%
WSTC	$95,609	0.01%	$0	($97)	$2,825	$98,337	0.01%
Village of Friendship Heights	$322,632	0.04%	$6,730	($330)	$9,668	$338,700	0.04%
Montg. Cty. Public Schools	$371,279,280	43.21%	$0	($353,662)	$10,971,805	$381,897,423	43.13%
Montgomery College	$49,033,159	5.71%	$0	($46,706)	$1,448,996	$50,435,448	5.70%
Total	**$859,195,453**	**100.00%**	**$1,740,350**	**($847,182)**	**$25,424,668**	**$885,513,289**	**100.00%**