QUARTERLY REPORT

OFFICES OF THE COUNTY EXECUTIVE

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County Executive

Richard Madaleno
Chief Administrative Officer

February 6, 2026

Members of the Montgomery County Council

I am pleased to present to you the Quarterly Report of the Montgomery County Employees' Retirement System ("ERS") for the quarter ended September 30, 2025. This quarterly report is designed to assist you in understanding the current status of the ERS. This report was prepared pursuant to the provisions of the Montgomery County Code.

History

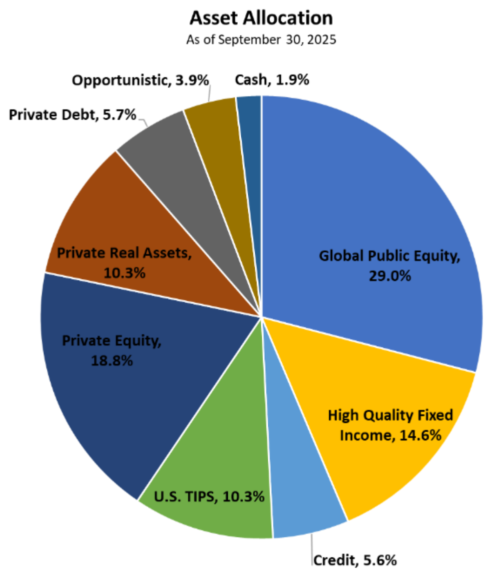
The Employees' Retirement System was established in 1965 as a cost-sharing multiple-employer defined benefit pension plan providing benefits to the employees of Montgomery County and other agencies or political subdivisions who elect to participate. The System is closed to employees hired on or after October 1, 1994, except public safety bargaining unit employees and employees who elect to participate in the Guaranteed Retirement Income Plan ("GRIP"). There were approximately 7,290 ERS and GRIP active members and 6,923 retirees participating in the ERS as of September 30, 2025.

Performance Results

The ERS gained 3.15% for the quarter, lagging the performance of the policy benchmark by 0.72%. The ERS was up 7.91% for the twelve-month period ending September 30, 2025, trailing the policy benchmark by 1.23%, which was up 9.13%. The one-year gross return places the ERS' performance in the fourth quartile of comparable pension funds constructed by the Board's consultant, NEPC. The Fund had an annualized 10.29% return over the last three-year period and 8.27% for the five-year period (ending September 30, 2025) – the Fund was in the fourth quartile versus the peer universe for both periods. **Over the longer term, the Fund has delivered second-quartile annualized returns of 8.77% over the last ten-year period.**

We estimate that the funded status of the ERS was 94.2% based on a market value of assets and 94.9% on an actuarial (smoothed) value of assets as of September 30, 2025. The actual funded status will be affected by the ERS's membership experience, as well as demographic and economic changes, and may be higher or lower when calculated by the actuary during the next valuation.

The following chart shows the asset allocation for the ERS as of September 30, 2025.



Major Initiatives

During the quarter, the ERS closed one international private equity fund, one private debt fund, and two private real asset funds.

Capital Markets and Economic Conditions

The U.S. economy grew during the third quarter of 2025, with consumers and businesses helping offset tariff volatility. According to initial estimates, real gross domestic product (GDP) rose at a 4.3% annualized pace in the July-through-September period, following a 3.8% rise during the second quarter of the year. Consumer spending and business investment, which rose by 3.5% and 2.8%, respectively, contributed to the increase.

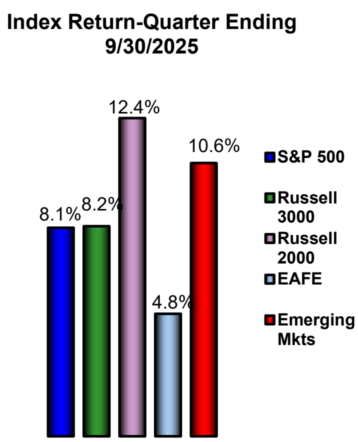
Net international trade made another significant contribution to GDP growth in Q3, adding 1.6 percent. This was largely explained by imports falling a further 4.7% in Q3, as businesses had stockpiled in Q1 ahead of Trump's April 2nd tariffs announcement.

The labor market softened modestly during the third quarter of 2025, with job growth slowing and the unemployment rate edging higher. By the end of Q3, the unemployment rate rose to 4.4%, up from 4.2% at the end of the second quarter. The U.S. economy added approximately 187,000 nonfarm payroll jobs during the quarter, slightly below the 191,000 jobs added in Q2 and well below the stronger pace seen earlier in the year. Hiring was uneven across the quarter, with relatively weak gains in July and August followed by a stronger rebound in September. Downward revisions to earlier monthly estimates, particularly in July and August, also weighed on the overall quarterly total, reinforcing signs that labor-market momentum cooled compared with the first half of the year.

According to the Bureau of Labor Statistics, the Consumer Price Index (CPI) inflation rate was 3.0% for all items in the third quarter of 2025. Core inflation, which excludes food and energy, remained near 3.0% in September, broadly in line with market expectations but still elevated relative to the Federal Reserve's target. Inflation pressures during the quarter were driven primarily by persistent shelter and services costs, while goods prices continued to show mixed behavior. Vehicle prices, particularly used vehicles, declined further during the quarter, providing a partial offset to shelter inflation. At the same time, select tariff-sensitive categories such as apparel and certain household goods continued to post moderate price increases, though the impact was more narrowly concentrated than in the second quarter.

In the third quarter of 2025, overall U.S. housing starts showed mixed results: multifamily construction cooled significantly after earlier gains, with starts declining as the delivery pipeline began to shrink. In contrast, custom home building continued to expand, and townhouse construction maintained its momentum, sustaining a record-high market share of approximately 18% of single-family starts. Single-family housing starts remained sluggish, posting a decline compared to the same period in 2024 as builders continued to navigate higher costs and buyer caution. The median existing home sale price ended the quarter at $426,800, representing a 1.7% year-over-year increase, an acceleration from the previous quarter, reflecting resilient demand and inventory that, while gradually easing, remains historically tight.

Public Equity Markets: U.S. equities, as measured by the Russell 3000, rose 8.2%, due to resilient earnings, easing trade tensions, and growing expectations of monetary policy support. The Fed's September rate cut, amid modest tariff passthrough and sticky inflation, reinforced investor confidence. Strong tech earnings and finalized trade deals with the EU, Japan, and South Korea helped stabilize sentiment. AI optimism and upward GDP revisions further supported gains, despite intra-quarter volatility and concerns over a potential government shutdown. Mid- and small-cap companies outperformed their large-cap peers. Our combined domestic equity portfolio posted a gain of 8.5%, outperforming the 8.2% return of the Russell 3000 Index.



Developed international markets continued their rebound, with the MSCI EAFE Index up 4.8% during the quarter. European markets rose 3.9%, supported by optimism around the US-EU trade deal and AI-driven enthusiasm that lifted tech stocks. UK equities increased 7.8%, buoyed by resilient growth and easing trade tensions. However, consumer confidence softened amid rising inflation and fiscal concerns. Japanese equities rallied 10.4%, bolstered by optimism around the US-Japan trade deal and expectations of policy normalization from the Bank of Japan. A weaker yen supported the exporters. Australian stocks rose 2.3%, driven by easing trade tensions, strong corporate earnings, and expectations of further rate cuts.

Elsewhere, the MSCI Emerging Markets Index gained 10.6% during Q3, with most constituent countries posting double-digit gains. China was the top-performing country, rising 20.7%, as optimism around a continued US–China trade truce and strength in AI-related stocks lifted sentiment despite lingering economic concerns. Taiwan also delivered strong gains on robust semiconductor demand and investor optimism surrounding AI-related exports. In contrast, India was the only major country to decline in Q3, lagging amid renewed trade friction with the US and sanctions related to its dealings with Russia, which weighed on sentiment. Our combined international equity performance was up 4.4%, underperforming the benchmark's 6.9% return. Our global equity allocation posted a 10.5% gain, outperforming the 7.6% return of the MSCI ACWI Index.

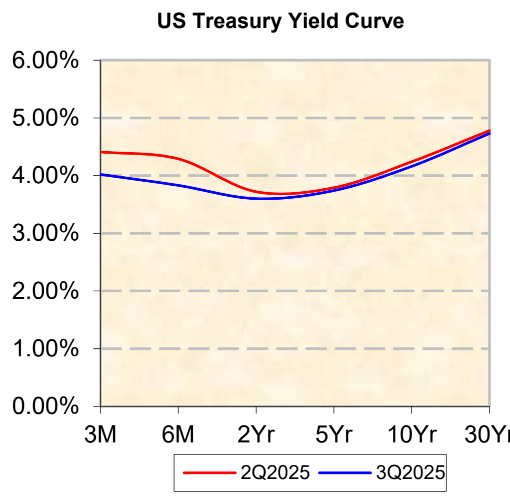
Private Equity: During the third quarter, a total of 573 funds reached their final close, securing $210 billion in commitments. Compared to the prior quarter, the amount of aggregate capital raised remained relatively constant; however, the number of funds raised declined 13%. On a global basis, North America accounted for 65% of the number of funds raised and 68% of the aggregate capital raised. U.S. buyout deal activity increased relative to the prior quarter, with aggregate deal volume up 116% to $155 billion, although this was due to a 125% jump in average deal size, as 1,086 deals were completed, roughly the same number as in Q2. Information technology was the most robust sector during the quarter, representing approximately 64% of U.S. buyout deal value. Buyout exit activity was mixed relative to the prior quarter, as the number of exits increased 2% to 207, while the aggregate exit value decreased 27% to $51 billion.

U.S. venture fundraising activity in Q3 was up slightly compared to the prior quarter. The number of funds raised increased 10% to 221, the aggregate capital rose 2% to $17 billion, while the average fund size declined 8% to $82 million. U.S. venture dealmaking activity was also mixed during the quarter. The number of U.S. venture deals fell 6% to 1,489, while aggregate deal volume increased 19% to $81 billion, and the average deal size rose 32% to $72 million.

During the quarter, our private equity managers called a combined $24.9 million and paid distributions of $9.6 million. Our current allocation to private equity is 18.6%, with a market value of $974.6 million. From its 2003 inception through June 30, 2025, the total U.S. private equity program (including fund-of-funds) has generated a net internal rate of return of 13.3% versus a 13.9% return for the dollar-weighted public market equivalent (the Russell 3000 Index plus 300 bps). The direct U.S. private equity program, which began in 2009, has generated a 20.6% return versus 17.3% for the benchmark. The international private equity program, which began in 2025, does not yet have meaningful performance data.

Hedge Funds: For the quarter, industry-wide hedge funds rose by 4.2% based on the HFRI Composite Index. On a sub-strategy basis, the Event-Driven Index gained 4.1%, the Relative Value Index advanced 2.4%, the Equity Hedge Index rose 5.9%, and the Macro Index increased by 4.3%. The System's diversifying hedge funds recorded a gain of 1.0% versus a gain of 2.9% for the Conservative Index. The diversifying portfolio underperformance is primarily attributable to an overweight and manager selection in the credit sector.

Fixed Income: Yields shifted down at the short end of the curve. The strongest shift occurred in maturities of 2 years or less. The yield on the six-month T-Bill and the 2-year note decreased by 46 and 12 basis points, respectively. Beyond 2 years, the decline in the yield curve was insignificant, about five to eight basis points. The high-yield portfolio's performance for the quarter was a gain of 2.8%, outperforming the Merrill Lynch High Yield II Constrained Index's 2.4% return. The emerging market debt portfolio advanced 5.7%, outperforming the 4.8% gain of the JPM EMBI Global Diversified benchmark. The long-duration portfolio's 2.5% return, the intermediate government portfolio's 1.3% return versus the BBG U.S. Intermediate Government benchmark, the intermediate corporate portfolio's 2.0% return versus the BBG U.S. Intermediate Credit benchmark, and the TIPS portfolio's 2.1% return versus the BBG U.S. TIPS benchmark, all were in line with their benchmark returns.



Private Debt: 42 private debt funds raised $29.9 billion in the third quarter of 2025, with ten of them raising more than $1 billion of capital. Overall, fundraising was the second smallest quarterly total since the third quarter of 2020. North America attracted the most capital, with 27 funds raising $22.6 billion, followed by eight European funds that raised $5.6 billion. In terms of strategies, 19 direct lending funds raised $17.0 billion in the third quarter, with an average size of $1.1 billion. This was followed by six distressed funds and eight mezzanine funds, which raised $8.2 billion and $1.5 billion, respectively. Dry powder was about $483 billion at the end of the quarter.

During the quarter, our private debt managers called a combined $27.3 million and paid distributions of $13.8 million. Our current allocation to private debt is 5.7%, with a market value of $294.9 million. From 2013 through June 30, 2025, the private debt program generated a net internal rate of return of 11.5%, compared to an 8.9% 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, returns on private real estate advanced, supported by positive cash flows and stable capital appreciation. Real estate prices increased by 1.2%, driven by income returns. All property sectors produced positive returns during the quarter. Office, Industrial, Residential, and Retail advanced by 0.9%, 1.0%, 1.4%, and 1.3%, respectively. Real estate fundraising decelerated, with 278 funds raising $37.4 billion compared to 221 funds raising $49.6 billion in the prior quarter. Infrastructure fundraising significantly decelerated, with 18 funds raising $19.8 billion, compared with 37 funds raising $52.1 billion in the previous quarter.

During the quarter, our private real asset managers called a combined $14.7 million and paid distributions of $17.4 million. Our current allocation to private real assets is 10.3%, with a market value of $536.0 million. From its 2006 inception through June 30, 2025, the total private real assets program (including fund-of-funds) has generated a net internal rate of return of 5.9% versus a 6.0% gain for the long-term benchmark (S&P Real Assets Equity Index +3%).

Additions

The primary sources of additions for the ERS include contributions from members and employers and investment income. The following table displays the source and amount of additions for the quarter ending September 2025 and the fiscal year-to-date.

Employees' Retirement System
Contributions and Investment Income (millions)

	Qtr 9/30/2025	Fiscal YTD
Employer Contributions	$ 25.3	$ 25.3
Member Contributions	11.7	11.7
Net Investment Income (Loss)	157.8	157.8
	$ 194.8	$ 194.8

Deductions

The deductions from the Employees' Retirement System include payments for of retiree and survivor benefits, participant refunds, and administrative expenses.

Employees' Retirement System
Deductions by Type (millions)

	Qtr 9/30/2025	Fiscal YTD
Benefits	$ 83.3	$ 83.3
Refunds	4.3	4.3
Administrative Expenses	0.9	0.9
	$ 88.5	$ 88.5

Sources: BlackRock, Bloomberg, MSCI, NCREIF, Northern Trust, T. Rowe Price, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, Russell, Albourne, JP Morgan, Goldman Sachs, Preqin, Pitchbook, Federal Reserve, Marathon Asset Management, Standard and Poor's.

EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF FIDUCIARY NET POSITION

September 30, 2025

Assets		
Equity in pooled cash and investments	$	1,559,786
Investments:		
Northern Trust		5,197,218,912
Aetna		487,620
Fidelity - Elected Officials Plan		1,309,158
Fidelity - DRSP / DROP		8,440,849
Total investments		5,207,456,539
Contributions receivable		9,196,567
Prepaid expenses / Other assets		20,573
Total assets		5,218,233,465
Liabilities		
Benefits payable and other liabilities		2,191,035
Net position restricted for pensions	**$**	**5,216,042,430**

EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

For the Quarter Ended September 30, 2025

	Quarter	Fiscal YTD
Additions		
Contributions:		
Employer	$ 25,265,693	$ 25,265,693
Member	11,702,082	11,702,082
Total contributions	36,967,775	36,967,775
Investment income (loss)	159,755,574	159,755,574
Less investment expenses	1,900,575	1,900,575
Net investment income (loss)	157,854,999	157,854,999
Total income (loss)	194,822,774	194,822,774
Deductions		
Retiree benefits	63,820,271	63,820,271
Disability benefits	15,915,768	15,915,768
Survivor benefits	3,525,097	3,525,097
Refunds	4,277,883	4,277,883
Administrative expenses	928,817	928,817
Total deductions	88,467,836	88,467,836
Net Income (Loss)	**106,354,938**	**106,354,938**
Net position restricted for pensions		
Beginning of period	**5,109,687,492**	**5,109,687,492**
End of period	**$ 5,216,042,430**	**$ 5,216,042,430**