June 30, 2021

Shown below is the quarterly report on the status of the Montgomery County Consolidated Retiree Health Benefits Trust ("CRHBT") for the quarter ending June 30, 2021. 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 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 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 gain of 7.68%, 210 basis points (bps) ahead of the 5.58% gain recorded by the policy benchmark. For the one year ending June 30, 2021, the gain of 26.67% was 706 bps ahead of the 19.61% gain 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 12.21% and five-year performance of 8.88% places the CRHBT in the top and second quartile, respectively, of the universe.

The total market value of trust assets on June 30, 2021 was $1,612.5 million. The CRHBT's asset allocation was: Domestic Equities 16.3%, International Equities 17.0%, Global Equities 4.1%, Fixed Income 22.6%, Inflation Linked Bonds 12.1%, Public Real Assets 6.1%, Private Real Assets 3.3%, Private Equity 10.2%, Private Debt 1.3%, Opportunistic 4.0%, and 3.0% Cash.

Major Initiatives/Changes

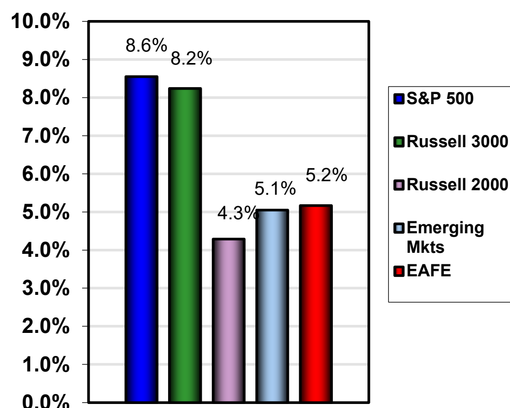
During the quarter, the CRHBT committed $1.75 million to Banner Ridge IV, L.P., a private debt manager. Polunin, an emerging markets manager, and Acadian, an emerging markets small cap manager, were hired within the public equity portfolio during the quarter.

Capital Markets and Economic Conditions

Second quarter GDP for 2021 grew at 6.5% rate, which was well below the 8.4% estimate from the Dow Jones economist survey. While the growth rate disappointed expectations it did point to an economy that continues to recover from the large economic contraction seen during the depths of the pandemic. The sectors that disappointed were a decline in private inventory and residential investment, rising imports, and a decline in the rate of government spending. Consumer spending, which represents 69% of the economy, continues to recover well, with nearly 12% growth during the quarter. The unemployment picture continues to improve as nonfarm payrolls increased 850,000 in June versus an estimate of 706,000. However, the unemployment rate increased from 5.6% to 5.9%, primarily due to an increase in the number of people seeking employment. While the unemployment rate is still well above the 3.5% level immediately before the pandemic, the rate has fallen precipitously from the 14.8% level in April of 2020.

The consumer price index (CPI) rose 5.4% from a year ago, well above expectations, and the largest monthly gain since August of 2008. Core CPI, which excludes the impact of food and energy, recorded an increase of 4.5%, which represents the largest increase in 30 years. Inflation has been rising due to many factors, most notably pandemic-induced supply chain bottlenecks and year-over-year comparisons that included the impact of global economic shutdowns. Used car and truck prices have increased by 45%, which is an unprecedented rise. Gasoline prices have also risen at a significantly high rate of 45% over the last one year. Food prices continue to climb higher but the increase in prices is more muted with a 2.4% increase over the last year. Housing was mixed for the quarter as new housing starts dropped slightly while median home values continue to climb significantly.

Public Equity Markets: Equities advanced on continued monetary and fiscal stimulus along with increased vaccination rates that led to economic reopening efforts across the U.S. Growth stocks within larger capitalization outperformed while value outperformed within smaller capitalization stocks. All of the S&P 500 sectors, except utilities, advanced during the quarter with real estate, IT, and energy leading the returns. Our combined domestic equity performance was a gain of 7.91%, underperforming the 8.24% gain of the Russell 3000 Index.



International developed markets also advanced but continued to trail their domestic counterparts. Denmark and Austria were the strongest performing developed international markets during the quarter while New Zealand continued to be a bottom performer. Accelerating vaccine efforts, the economies reopening, and stimulus programs, also provided a tailwind to international markets. In Europe, investors were encouraged by the recovery in global export demand and trade flows. For instance, the German economy, that is sensitive to global exports and is dependent on the recovery of the automotive sector, showed positive signs during the quarter. Meanwhile, the majority of the emerging markets posted positive returns. Brazil and Poland were the top performing markets while Chile was a bottom performer. Our combined international equity performance was a gain of 5.68%, outperforming the 5.60% return recorded by the benchmark. Our global equity allocation recorded a gain of 8.09%, outperforming the 7.39% gain of the MSCI ACWI Index.

Private Equity: During the second quarter, a total of 673 private equity funds reached their final close, securing $288.0 billion in commitments, well above the $224.9 billion raised in the first quarter. The amount of capital raised by global private equity funds represents a quarterly record and indicates that both general and limited partners view the economic slowdown driven by the COVID-19 pandemic to largely be a thing of the past. Relative to Q1, the number of funds raised increased 6%, the aggregate capital raised increased 28%, and the average fund size increased 22%. North America continued to dominate the fundraising landscape, representing 66% of the funds raised and 53% of the capital raised. U.S. buyout deal activity was mixed during the quarter as the number of deals consummated decreased by 1% to 803, aggregate deal value increased by 83% to $99.0 billion, and the average deal value increased by 60% to $1.4 billion.

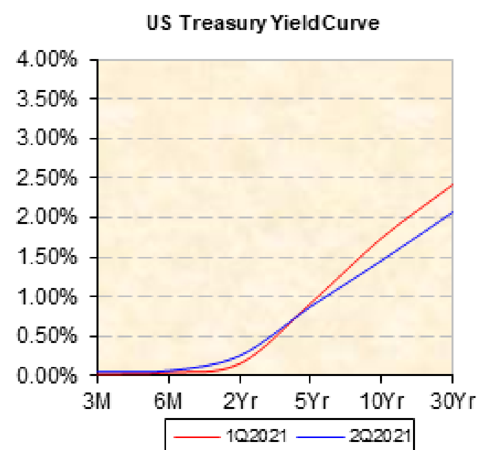
Buyout multiples continue to expand in the U.S., averaging 13.0x Enterprise Value-to-EBITDA during the first quarter. The primary driver of the expansion was the continued recovery of the debt markets, which were willing to fund up to 7.0x of EBITDA on the median U.S. buyout deal. Buyout activity was balanced by sector in terms of number of deals with technology, consumer, healthcare, and business services being roughly equal. However, in terms of aggregate deal value, the healthcare sector dominated, representing 43% of deal value in Q2. This surge was felt across all sectors of healthcare but most notably in the healthcare provider space. Buyout exit activity continued at a rapid pace as the number of exits increased 18% to 379, aggregate exit value increased 51% to $151 billion, and the average exit size increased 27% to $1.3 billion. Both the number of exits and aggregate exit value represented quarterly records in the buyout space.

Relative to Q1, venture fundraising activity was mixed as the number of funds raised increased by 25% to an all-time record of 277 funds, aggregate funds raised was flat at $33.0 billion, and the average fund size decreased by 21% to $124 million. Despite the average venture deal size increasing 19%, both the number of deals and the aggregate deal value decreased in Q2, with 17% and 1% drops, respectively. Venture exit activity was also mixed as the number of exits dropped by 19%, while the aggregate exit value and average exit size both saw roughly 20% increases.

During the quarter, our private equity managers called a combined $6.9 million and paid distributions of $14.8 million. Our current allocation to private equity is 10.2%, with a market value of $669.5 million. From its 2013 inception through March 31, 2021, the total private equity program has generated a net internal rate of return of 29.2% versus an 19.1% return for the dollar-weighted public market equivalent (the Russell 3000 Index plus 300 bps).

Hedge Funds: For the quarter, industry wide hedge funds advanced 4.1% based on the Composite Index. On a sub-strategy basis, the Event-Driven Index advanced 4.0%, the Relative Value Index gained 2.8%, the Macro Index gained 4.0%, and the Equity Hedge Index gained 4.8%. The Trust's diversifying hedge funds recorded a gain of 1.64% versus a gain of 1.83% for the Conservative Index. The diversifying portfolio underperformance is primarily attributable due to an overweight to multi-strategy managers with a corresponding underweight to event driven and equity hedge strategies. The Trust's directional hedge funds recorded a gain of 3.72% compared to the 4.28% return for the Strategic Index. The directional underperformance is primarily attributable to the System's underweight to event driven and equity hedge strategies.

Fixed Income: The yield curve flattened dramatically as longer dated maturity bond yields moved lower. The yield on the 10- and 30-year bonds declined by 29 and 35 bps during the quarter, respectively. The spread between 2-year and 10-year Treasuries, the main gauge of the yield curve, flattened by 38 bps to 120 bps, as yields on the 10-year maturities declined while yields on the 2-year maturities rose on anticipation that the Federal Reserve could begin raising short-term interest rates earlier than expected. For the quarter, the 10-year Treasury yield was 1.45% whereas the 30-year Treasury yield was 2.06%. The high yield portfolio's performance for the quarter was a gain of 2.95%, outperforming the Merrill Lynch High Yield II Constrained Index by 18 bps. The long duration portfolio's return for the quarter was a gain of 6.59%, outperforming the custom long duration benchmark by 15 bps. The emerging market debt portfolio gained 4.64%, outperforming the JPM EMBI Global Diversified benchmark by 58 bps. Our global inflation-linked bond portfolio, combined with a portable alpha overlay, recorded a gain of 7.5% net of fees, outperforming the custom benchmark by 170 bps. The overlay was responsible for most of the excess returns, driven by the strong performance of the strategy's alphas in equities, inflation-linked bonds, and emerging markets FX.



Private Debt: Private debt fundraising increased as 55 funds raised $48.2 billion during Q2 versus 49 funds that raised $39.8 billion in Q1 2021. The global fundraising increase was partially attributed to growth in Europe where ten funds raised $22.7 billion in the second quarter. North America led fundraising with 36 funds and $23.8 billion aggregate capital raised with an average fund size of $767M. Direct lending strategies secured the bulk of the capital as it is usually considered the safest category in private debt. 22 direct lending funds reached a final close, raising an aggregate $25.7 billion during the quarter. At the end of the quarter, there were 693 funds in the market, targeting an aggregate $289.3 billion, which has been driven by the continued fundraising success of direct lending vehicles that represent a majority of both the number of funds in market and capital targeted, at 53% and 56%, respectively. Dry powder in September 2021 was $365.1 billion, similar to the December 2020 level, with a large percentage of that allocated to direct lending.

During the quarter, our private debt managers called a combined $0.8 million and paid distributions of $1.8 million. Our current allocation to private debt is 1.3%, with a market value of $20.7 million. From 2013 through March 31, 2021, the private debt program generated a net internal rate of return of 9.5% versus a 10.1% 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 Q2 2021, private real estate fundraising continued to face significant headwinds with only 59 funds reaching a final close, raising $19 billion of aggregate capital. The number of fund and dollar amount figures represented the lowest quarterly fundraising period over the last five years (both numbers are nearly a 50% decrease relative to the five-year quarterly average). In particular, the office sector continues to struggle from a capital raising perspective as the emergence of new COVID variants are putting additional pressure on occupancy rates. Within the natural resource sector, the number of funds closed declined for a second consecutive quarter with only 25 funds reaching a final close, representing a 34% decline from Q2 2021. However, the amount of capital raised posted a more modest decline quarter-over-quarter, and more than doubled to $27 billion from a $13 billion level in Q2 2020. The lower ratio of number of funds closed to aggregate capital commitments suggests that manager consolidation in this sector is continuing to take hold. Our current allocation to private real assets is 3.3% with a market value of $52.7 million. During the quarter, our private real asset managers called a combined $0.7 million and paid distributions of $1.0 million. From 2013 inception through March 31, 2021, the total private real assets program (including fund-of-funds) has generated a net internal rate of return of 4.7% versus a 5.3% 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 strong gain of 9.17% in Q2, outperforming global equities and significantly outperforming bonds. REITs also benefitted from a 30bps decrease in treasury bond yields during the quarter, which was a reversal from the last two quarters. Real estate also benefitted from renewed inflation concerns as investors generally view property owners as having the ability to pass on inflation to tenants. North America was, once again, the top performing region in the index given the quicker pace in vaccination and continued re-opening momentum. Europe's performance nearly matched North America as vaccine uptake grew significantly across the continent and most countries had low COVID-19 infection levels, which allowed commercial activity to recover. Asia was the worst performing region as the emergence of the Delta variant and the re-imposition of lockdown for many countries (e.g., Australia) weighed on performance. While the prior two quarters clearly favored "re-opening trade" sectors such as hotels, malls, and shopping centers, the second quarter was more mixed with self-storage, residential, and malls performing well while healthcare and hotels lagged.

Listed infrastructure securities increased by 6.88% for the quarter as measured by the Dow Jones Brookfield Global Infrastructure Index, underperforming broader global equities. This current period represents the longest and most severe stretch of underperformance for listed infrastructure relative to equities since before the Global Financial Crisis. Sector dispersion continues to be high as energy and communications rallied while utilities and transportation lagged. Unlike prior quarters, cyclicality was not the driving factor of sector dispersion as a cyclical sector like transportation lagged while energy thrived and a more defensive sector like communications posted strong gains while utilities underperformed. Communications, particularly cell phone tower operators, rallied in Q2 as market sentiment around leasing and customer churn issues shifted positively. Utilities were mixed with European companies performing well while U.S. utilities posted losses, despite the ladder's more favorable fundamental performance.

Regional dispersion was wide for the quarter as North America posted an 8.1% gain while Asia experienced a 0.7% loss. Europe performed well, only slightly underperforming North America with a return of 7.5%.

For the quarter, the public real asset portfolio returned 7.68%, underperforming the custom benchmark gain of 8.03% by 35 bps due to the underperformance of our Global Listed Infrastructure manager. Our Global REIT manager outperformed the benchmark during Q2.

Outlook

During the second quarter of 2021, growth in the U.S. economy accelerated further on the back of increased COVID-19 vaccination rates and continued government stimulus. Strong consumer demand led to increased business spending and investment as companies raced to re-open supply changes and ramp up production. However, that dynamic, in conjunction with a still very accommodative monetary policy and expansive fiscal measures is causing the build-up in inflationary pressures which have not been seen for many years. While the Fed believes that these inflationary pressures are transitory in nature, should inflation rise faster and longer than anticipated, how the Feds reacts with potential policy changes and benchmark interest rate increases will be a major driver of financial markets going forward.

Euro zone GDP expanded by approximately 2% over the previous quarter and over 13% from the same quarter one year ago. However, economic conditions and outlooks remained very disparate across the 19-member countries, as many have seen a large wave in new infections associated with the COVID-19 delta variant. While euro zone officials believe that economic growth will continue in future quarters, risks remain that new cases of the delta variant will curb consumer behavior activity and force countries to enact more strict lockdown measures again.

Japan’s economy also showed growth of 1.3% annualized in the second quarter of 2021, which represented a reversal from the first quarter of this calendar year when GDP growth was negative. While consumer consumption and business capital expenditure finally began to drive meaningful growth, the Japanese economy is still lagging other developed nations as the country has struggled to contain the COVID economic fallout. Japan’s outlook remains relatively mixed, as the forces of strong consumer demand collide with the government’s new state of emergency measures put in place to control keep citizens at home longer to control the spread of the virus.

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

Risk Profile

The risk/return statistics for the CRHBT for the 1, 3 and 5-year periods ending June 30, 2021 are shown below:

1 Year					
	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	26.24	8.35	3.14	24.31	3.14
CRHBT Benchmark	19.59	8.20	2.38	9.18	2.29

3 Year					
	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	12.72	10.09	1.14	1.30	1.26
CRHBT Benchmark	11.19	10.09	0.99	1.19	1.11

5 Year					
	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	11.77	8.30	1.28	1.37	1.42
CRHBT Benchmark	10.21	8.52	1.07	1.18	1.20

Participating Agency Allocation

	4/1/2021		4/1/2021 - 6/30/2021			6/30/2021	
Agency	Balance $	Balance %	Contributions	Expenses	Investment Gain/Loss	Balance $	Balance %
Montgomery County Govt	$690,599,034	47.75%	$31,621,649	($801,801)	$61,898,907	$783,317,790	47.81%
MontCo Revenue Authority	$4,239,225	0.29%	$49,000	($4,913)	$379,312	$4,662,623	0.28%
Strathmore Hall Foundation	$2,085,021	0.14%	$14,000	($2,416)	$186,561	$2,283,165	0.14%
SkyPoint Federal Credit Union	$1,741,997	0.12%	$22,000	($2,019)	$155,868	$1,917,846	0.12%
Dept of Assessments & Tax	$37,463	0.00%	$0	($43)	$3,352	$40,772	0.00%
District Court of Maryland	$0	0.00%	$0	$0	$0	$0	0.00%
HOC	$23,486,800	1.62%	$279,000	($27,220)	$2,101,520	$25,840,100	1.58%
WSTC	$164,059	0.01%	$2,000	($190)	$14,679	$180,548	0.01%
Village of Friendship Heights	$530,353	0.04%	$2,000	($615)	$47,454	$579,192	0.04%
Montg. Cty. Public Schools	$644,245,236	44.54%	$28,105,919	($693,261)	$58,012,523	$729,670,417	44.53%
Montgomery College	$79,301,147	5.48%	$3,682,000	($85,371)	$7,143,749	$90,041,525	5.50%
Total	**$1,446,430,335**	**100.00%**	**$63,777,569**	**($1,617,849)**	**$129,943,924**	**$1,638,533,979**	**100.00%**