QUARTERLY REPORT

March 31, 2023

Shown below is the quarterly report on the status of the Montgomery County Consolidated Retiree Health Benefits Trust ("CRHBT") for the quarter ending March 31, 2023. 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 Assessments and Taxation, Strathmore Hall Foundation, Housing Opportunities 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.

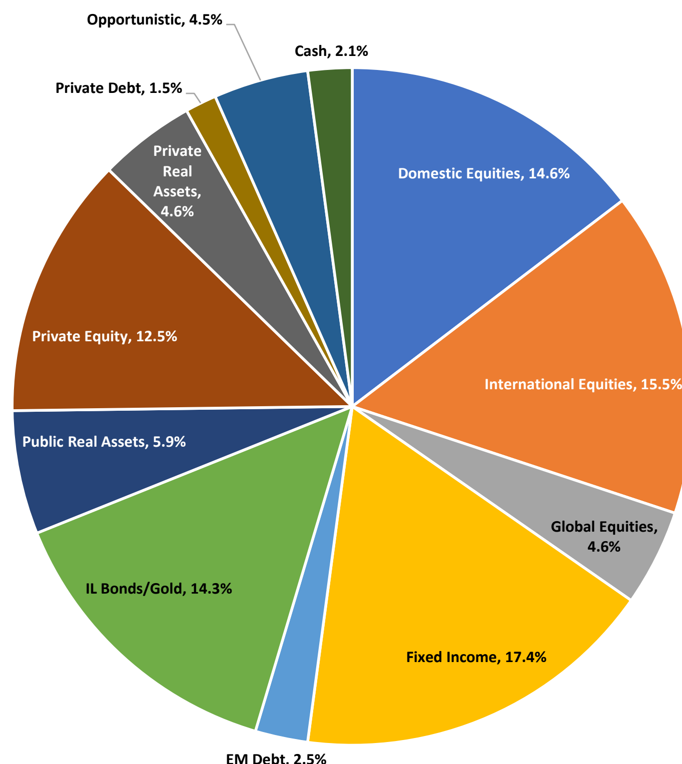
Board of Trustees

The Board of Trustees consists of 19 members: The Montgomery County Directors of Management and Budget, Finance, and Labor Relations; 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 CRHBT gained 4.63% for the quarter – which exceeded the policy benchmark by 0.04%. The CRHBT was down 7.21% for the twelve-month period ending March 31, 2023, successfully protecting the Fund by 0.42% vs. the policy benchmark, which was down 7.63%. The one-year gross return places the CRHBT's performance in the fourth quartile of comparable funds constructed by the Board's consultant, NEPC. The Fund had an annualized 10.31% return over the last three-year period and 6.98% for the five-year period (ending March 31, 2023) – The Fund was in the third and second quartile vs. the peer universe, respectively.

The chart below displays the asset allocation for the CRHBT on March 31, 2023.



Major Initiatives

During the quarter, the CRHBT committed $2 million to Riverside Value Fund I, a private equity fund, and $1.7 million to GCG Investors VI, a private debt fund.

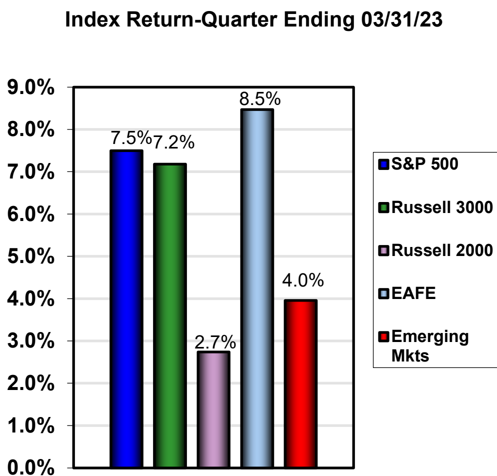
Capital Markets and Economic Conditions

First quarter GDP for 2023 increased at an annual rate of 1.3% according to the second estimate released by the Bureau of Economic Analysis, this is slightly higher than the original advance estimate of 1.1% and market consensus. The updated estimate reflects increases in consumer spending, exports, federal government spending, state and local government spending, and nonresidential fixed investments that were partially offset by decreases in private inventory investment and residential fixed investment; imports (which are a subtraction to GDP) also increased. Despite the upward revision, GDP growth remains the weakest since Q2 2022. Compared to the previous quarter's growth rate of 2.6%, the deceleration in the first quarter primarily reflected a downturn in private inventory investment and a slowdown in nonresidential fixed investment. These movements were partly offset by an acceleration in consumer spending, an upturn in exports, and a smaller decrease in residential fixed investment. By the end of Q1 2023, the unemployment rate remained steady, ending at 3.5%, the same level seen at the end of Q3 and Q4 of 2022. In March the economy added 236,000 jobs as employment continued to trend up in leisure and hospitality, government, professional and business services, and health care.

The consumer price index (CPI) rose 5.0% from a year ago, slightly under the 5.1% Dow Jones estimate and the smallest 12-month increase since the end of May 2021. The largest changes year-over-year were price increases for transportation services up 13.9%, electricity up 10.2%, shelter up 8.2%, and food up 8.5%. This was partially offset by falling prices for gasoline and used cars and trucks, which were down 17.4% and 11.2%, respectively. Core CPI, which excludes volatile food and energy costs rose 5.6%, largely driven by the increased pricing in shelter. The housing picture continues to remain muted with housing starts finishing the quarter at a seasonally adjusted annualized rate of 1.42 million, down 17.2% from the

same period last year. The median single-family existing home price in the first quarter was $379,500, down $41,400 from the peak seen last June.

Public Equity Markets: The majority of U.S. equity indexes rallied with the S&P 500 Index posting a 7.5% gain for the quarter. The quarter started with optimism after economic data indicated that inflation continued to cool, leading to expectations that the Fed's rate hiking cycle could end soon. However, the remainder of the quarter saw significant volatility, driven by the failure of multiple U.S. banks. IT and communication services were the best performing sectors of the S&P Index while the energy, healthcare, financials, and utilities posted negative returns. Both large and small cap growth stocks outperformed their value counterparts which were impacted by the heavier exposure to the failed banks and other banks perceived to be at risk. Our combined domestic equity performance was a gain of 6.4%, trailing the 7.2% performance of the Russell 3000 Index.



International developed markets outperformed their U.S. counterparts, rallying 8.5% for the quarter. The majority of the developed markets posted positive returns with Ireland and Netherlands leading during the quarter. In Europe, equities gained despite volatility in the banking sector, especially after the troubled lender Credit Suisse was acquired by UBS. Japanese stocks rose in the quarter with the yen's weakness supporting cyclical stocks. All Asia ex Japan markets, except Hong Kong, ended the quarter in positive territory. Hong Kong markets declined on profit taking after the strong rally in late 2022 when the Chinese economy reopened.

Emerging markets underperformed international developed markets and U.S. large caps, but outperformed U.S. small caps. China reopening and expectations for easier U.S. monetary policy helped markets in January, but recessionary concerns, a reescalation in U.S.-China tensions, and concerns about U.S. and European banks resulted in negative returns for February. Markets rebounded in March following the Fed's response and positive economic results out of China. At a regional level, Asia ex Japan outperformed, led by Taiwan and South Korea, while China also finished ahead of the index. India struggled as investor sentiment turned bearish following disappointing economic data and the scandal related to Adani Group, one of India's largest conglomerates. Emerging Europe, Middle East, and Africa all lagged, while Latin America performed in line with the index. Our combined international equity performance was a gain of 6.8%, outperforming the 6.6% gain recorded by the benchmark. Our global equity allocation recorded a gain of 7.6%, outperforming the 7.3% gain of the MSCI ACWI Index.

Private Equity: During the first quarter, a total of 411 funds reached their final close, securing $187 billion in commitments. Relative to Q4, the number of funds raised decreased by 37%, and there was an even greater slowdown relative to the same quarter a year prior, with the number of funds raised decreasing 50%. The aggregate capital raised in Q1 decreased 8% relative to the prior quarter and decreased 18% compared to the same period last year. North America continued to dominate the fundraising landscape, representing 67% of the aggregate capital raised and 64% of the total number of funds raised. U.S. buyout deal activity was slightly down for the quarter as the aggregate deal volume declined 8% to $75 billion and the average deal size fell 10% to $979 million. However, deal activity was significantly lower than during the same period of the previous year with a 49% drop in deal volume and a 27% drop in the number of transactions. Buyout multiples in the U.S. remained elevated and increased slightly relative to the prior quarter, coming in at 11.9x Enterprise Value-to-EBITDA. The technology sector continues to be the most robust representing 32% of aggregate U.S. buyout deal value. Buyout exit activity in the first quarter remained muted. While the number of exits rebounded to 144, a 69% increase from the prior quarter, the aggregate exit values plummeted 83% to $9 billion, and the average exit size fell 80% to $493 million. The global private equity sector has $2.5 trillion in dry powder and continues to hover around record highs.

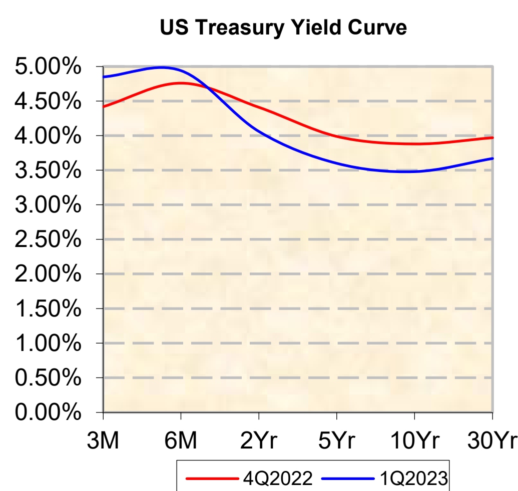
U.S. venture fundraising activity continued to remain depressed in Q1 as the number of funds raised decreased 42% to 140. Although the aggregate deal volume increased 16% to $19 billion relative to Q4, it was down 67% when compared to the same period last year. Given the drop in the number of venture funds

raised, the average fund size during the quarter increased 138% to $155 million. U.S. venture deal making also decreased for the quarter with the number of consummated deals down 20% to 1,253, however, aggregate deal value increased 17% to $40 billion, and the average deal size increased 52% to $41 million.

During the quarter, our private equity managers called a combined $4.7 million and paid distributions of $3.5 million. Our current allocation to private equity is 12.5%, with a market value of $196.6 million. From its 2013 inception through December 31, 2022, the total private equity program has generated a net internal rate of return of 26.2% versus a 15.0% return for the dollar-weighted public market equivalent (the Russell 3000 Index plus 300 bps).

Hedge Funds: For the quarter, industry-wide hedge funds rose by 1.2% based on the HFRI Composite Index. On a sub-strategy basis, the Event-Driven Index gained 1.4%, the Relative Value Index advanced 1.3%, the Macro Index declined 2.4%, and the Equity Hedge Index returned 2.5%. The System's diversifying hedge funds recorded a gain of 0.9% versus a gain of 1.0% for the Conservative Index. The diversifying portfolio underperformance is primarily attributable to weak selection within the global macro sector. The System's directional hedge funds recorded a gain of 0.7% compared to the positive 1.4% return for the Strategic Index. The directional underperformance is primarily attributable to negative fund selection within the credit sector.

Fixed Income: The yield curve further inverted noticeably for the quarter as the Fed hiked short-term rates while longer term interest rates declined on concerns that the economy and employment will weaken soon and will require the Fed to begin cutting interest rates. For example, the yield on the 3-month bill maturities moved up 43 bps, while the 10- and 30-year bond maturities declined 40 and 30 bps respectively. The spread between 2-year and 10-year Treasuries, the main gauge of the yield curve, further inverted and ended the quarter at -58 bps, 5 bps tighter than the previous quarter's levels. By the end of the quarter, the 10-year Treasury yield was 3.48% whereas the 30-year Treasury yield was 3.67%. The high yield portfolio's performance for the quarter was a gain of 3.7%, in-line with the Merrill Lynch High Yield II Constrained Index. The long duration portfolio's return for the quarter was a gain of 6.3%, outperforming the custom long duration benchmark by 0.3%. The emerging market debt portfolio gained 1.9%, in-line with the JPM EMBI Global Diversified benchmark. Our global inflation-linked bond portfolio, combined with a portable alpha overlay, recorded a gain of 5.4%, underperforming the custom benchmark by 1.3%. The underperformance was driven primarily by the overlay, where the strategy's alphas in equities, nominal bonds, sovereign credit, and commodities detracted.



Private Debt: In the first quarter of 2023, private debt funds raised $38.4 billion from 40 funds, which exceeded by $4.4 billion the capital raised during the same period last year. North America focused funds raised $31.8 billion in Q1, compared with $6.2 billion by Europe focused funds. The average capital raised per fund in Q1 was $1,098 million compared to the last five six years' first-quarter average of $709 million. Mezzanine funds raised $21 billion (55% of the private debt capital raised during the quarter), followed by direct lending funds that raised $8.3 billion. Mezzanine saw renewing interest as banks become less keen on more subordinated transactions. Some of the largest funds closed during Q1 were the $15 billion Goldman Sachs Mezzanine Partners VIII and the €2.8 billion Arrow Credit Opportunities II, a European focused distressed debt fund. Dry powder as of June 2023 was $425 billion, which continued to be the highest amount ever recorded by Preqin.

During the quarter, our private debt managers called a combined $1.5 million and paid distributions of $1.4 million. Our current allocation to private debt is 1.6%, with a market value of $23.4 million. From 2015 through December 31, 2022, the private debt program generated a net internal rate of return of 10.4% versus an 5.8% 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, natural resource prices due to weakness in the energy sector while precious metals were given a boost due to the banking crisis. For Q1 2023, infrastructure fundraising stalled relative to prior quarter. Specifically, 16 funds raised $4.5 billion compared to 36 funds raising $38.5 billion in the prior quarter. Real estate prices were down 2.6% for the quarter driven by a 4.0% decline in office values, 2.1% decline in apartments, and a 0.8% decline in industrial properties. The only sectors to advance were hotels and retail, which were up 2.3% and 0.5% respectively. From a fundraising perspective, 100 funds raised $23.2 billion compared to 174 funds raising $57.5 billion for the prior quarter.

During the quarter, our private real asset managers called a combined $3.1 million and paid distributions of $0.7 million. Our current allocation to private real assets is 4.6%, with a market value of $72.2 million. From its 2006 inception through December 31, 2022, the total private real assets program (including fund-of-funds) has generated a net internal rate of return of 10.6% versus an 8.9% 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 gain of 0.8% for the quarter, underperforming global equities by over 6% and bonds by over 2%. The quarter was characterized by significant intra-quarter weakness and volatility largely driven by the SVB crisis and extreme stress in regional banks, a major provider of debt capital to the real estate space. Europe was the worst regional performer (-3.1%) due to being weighted down over the potential fallout from the failure of Credit Suisse. Belgian and Dutch companies were the strongest performers in the region, supported by the defensive self-storage and student housing sectors. APAC was also a laggard (-1.5%). The region was lifted by the defensive Singapore REITs and Australia REITs as the Reserve Bank of Australia's noted it was close to the end of its rate hike cycle. Japan was the weakest in the region due to the Bank of Japan's surprise widening of its target range for the 10-year Japanese bond yield. The Americas outperformed (2.4%) due to early strength around renewed hopes of a soft landing and a fed pivot. Storage had the strongest performance during the quarter driven by merger and acquisition speculation. Industrial owners also rallied on continued evidence of robust pricing power. Meanwhile, office lagged on sluggish fundamentals and fears that the already troubled office lending market would turn even worse with the regional bank stress.

Listed infrastructure securities posted a gain of 2.5% during the quarter as measured by the Dow Jones Brookfield Global Infrastructure Index, this was a smaller gain than global equities (6.9%) but almost in line with bonds (2.9%). Overall, for the quarter, airports, European regulated utilities, diversified assets, and toll roads outperformed the index, while electricity transmission & distribution, ports, communications, pipeline companies, gas distribution utilities and gas midstream underperformed. Transportation (ex-rail) was the strongest performing sector for the quarter by a large margin, with airports posting a 21.3% gain.

For the quarter, the public real asset portfolio gained 3.5%, outperforming the custom benchmark's gain of 1.7% by 1.8% primarily due to outperformance by our Global Listed Infrastructure Manager.

Outlook

Aggressive interest rate hikes in 2022 led to stress in the banking system in Q1 of 2023. Specifically, regional banks Silicon Valley Bank and Signature Bank became insolvent, there was a private-sector bailout for First Republic Bank, and Swiss bank Credit Suisse was taken over by its rival UBS. The Treasury Department, Federal Reserve and FDIC took extraordinary steps by protecting depositors of the failed institutions to ensure the soundness and resiliency of the U.S. banking system. Despite the banking turbulence, equities and bonds rallied strongly during the quarter in anticipation that the Federal Reserve will provide additional liquidity and lower interest rates to circumvent another banking crisis such as in 2008. The OECD has forecasted that global growth will increase 2.6% and 2.9% in 2023 and 2024, respectively, compared to the prior quarter's projection that growth would come in at 2.2% and 2.7% for each year. Declining energy and food prices contributed to the modest improvement in the global growth outlook.

The Fed hiked rates twice during the first quarter, with the federal funds rate ending the year at 4.75-5.00%, an increase of 50 bps for the quarter. Statements by Federal Reserve Chair Jerome Powell made it clear that inflation remains elevated; however, tighter credit conditions for households and businesses will likely weigh on economic activity, hiring, and inflation. The extent of these effects is uncertain and will require the Federal Reserve to closely monitor incoming information to determine the implications for monetary policy in 2023. The Federal Reserve sees U.S. real GDP growing 1.3% in 2023.

In the eurozone, the European Central Bank (ECB) raised interest rates by 75 bps during the quarter resulting in the interest rate on the deposit facility reaching 3.25%. At the last monetary policy meeting, the ECB decelerated the pace of interest rate increases from 50 bps to 25 bps; however, the ECB noted that the inflation outlook continues to be too high for too long. The eurozone grew by 0.1% in Q1 2013 driven by lower energy prices, fiscal policy support, and easing of supply bottlenecks. Household incomes also benefited from the strength of the labor market, with the unemployment rate falling to a new historical low of 6.5%. The ECB noted that they will continue to follow a data-dependent approach to determining future monetary policy given the lag of the prior rate increases on the real economy.

The IMF is predicting the Japanese economy will grow by 1.3% in 2023 before falling to 1.1% in 2024, driven primarily by domestic demand. The new central bank governor at the Bank of Japan (BoJ) did not indicate a pivot away from yield curve control (YCC). However, forecasters expect that the BOJ will exit YCC in the near-term due to a surge in inflation to a 4.1% rate driven by supportive monetary and fiscal policies, as well as a surge in tourism. Ending the YCC policy would have significant ramifications as 4-5% of GDP has flowed outside of Japan in search of higher yields.

The outlook for emerging market economies is strong as their collective growth is projected to outpace developed markets by 2.6% in 2023 and 2.8% in 2024 per IMF estimates. On an absolute level perspective, the IMF forecasts 4.1% GDP growth in both 2023 and 2024. Growth is supported by changing policy in China as their economy is reopening post a zero-Covid policy. While the war in Ukraine and its impact on global macro and prices is now limited, geopolitical fragmentation and risks remain. Specifically, there is heightened risk of a potential conflict as Chinese leader Xi Jinping stressed reunification with Taiwan.

Sources: BlackRock, Bloomberg, Bridgewater, FRM, MSCI, NCREIF, Northern Trust, T. Rowe Price, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, The World Bank, European Central Bank, Bank of Japan, Albourne, MSIM, Principal, JP Morgan, Goldman Sachs, Preqin, Pitchbook, Standard and Poor's.

Risk Profile

The risk/return statistics for the CRHBT for the 1, 3 and 5-year periods ending March 31, 2023 are shown below:

1 Year

	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	-8.00	13.75	N/A	N/A	N/A
CRHBT Benchmark	-7.64	14.86	N/A	N/A	N/A

3 Year

	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	9.70	11.08	0.81	1.30	0.88
CRHBT Benchmark	9.31	11.53	0.75	1.20	0.81

5 Year

	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	6.46	10.48	0.51	0.73	0.62
CRHBT Benchmark	6.31	10.82	0.49	0.70	0.58

Participating Agency Allocation

	1/1/2023		1/1/2023 - 3/31/2023			3/31/2023	
Agency	Balance $	Balance %	Contributions	Expenses	Investment Gain/Loss	Balance $	Balance %
Montgomery County Govt	$700,244,131	46.40%	$0	($756,781)	$32,194,993	$731,682,343	46.39%
MontCo Revenue Authority	$4,184,260	0.28%	$0	($4,522)	$192,379	$4,372,117	0.28%
Strathmore Hall Foundation	$2,041,691	0.14%	$0	($2,207)	$93,870	$2,133,355	0.14%
SkyPoint Federal Credit Union	$1,722,902	0.11%	$0	($1,862)	$79,214	$1,800,253	0.11%
Dept of Assessments & Tax	$51,719	0.00%	$0	($56)	$2,378	$54,041	0.00%
HOC	$23,201,665	1.54%	$0	($25,075)	$1,066,739	$24,243,329	1.54%
WSTC	$162,403	0.01%	$0	($176)	$7,467	$169,694	0.01%
Village of Friendship Heights	$519,225	0.03%	$0	($561)	$23,872	$542,536	0.03%
Montg. Cty. Public Schools	$691,773,652	45.84%	$0	($651,072)	$31,806,328	$722,928,908	45.84%
Montgomery College	$85,318,270	5.65%	$0	($80,298)	$3,922,758	$89,160,730	5.65%
Total	**$1,509,219,918**	**100.00%**	**$0**	**($1,522,609)**	**$69,389,997**	**$1,577,087,306**	**100.00%**