September 30, 2023

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, 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.

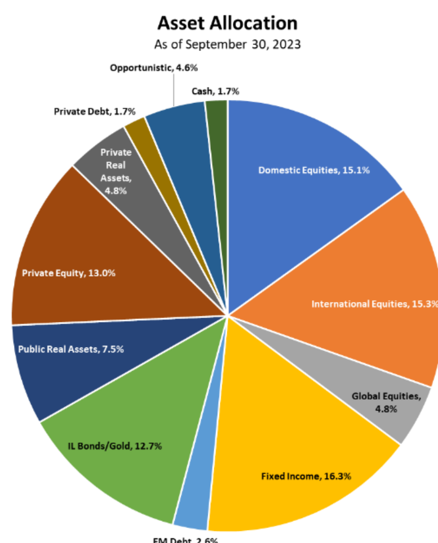
Board of Trustees

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 was down -3.02% for the quarter, successfully protecting Fund assets by 1.47% relative to the policy benchmark, which was down 4.49%. The CRHBT was up 7.42% for the twelve-month period ending September 30, 2023, outpacing the policy benchmark by 1.56%, which was up 5.86%. 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 3.92% return over the last three-year period and 5.81% for the five-year period (ending September 30, 2023)—the Fund was in the fourth and second quartile vs. the peer universe for the three- and five-year periods, respectively.

The following chart displays the asset allocation for the CRHBT on September 30, 2023.



Major Initiatives

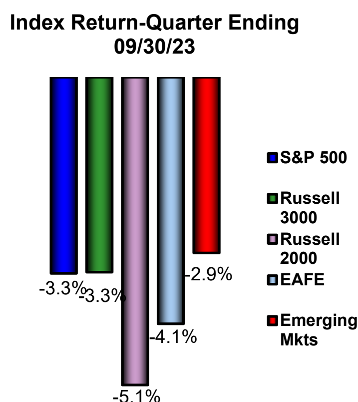
During the quarter, the CRHBT committed $2.5 million to 3 Boomerang Capital Fund I, a private equity fund, $2.5 million to Graycliff Partners Fund V, a private equity fund, $5.5 million to Novacap Digital Infrastructure Fund I, a private real asset fund, $5.5 million to Raith Real Estate Fund III, a private real asset fund, $2.25 million to Post Road Special Opportunity Fund III, a private debt fund, and €2.1 million to MML Partnership Capital VIII, a private debt fund.

Capital Markets and Economic Conditions

Third quarter GDP for 2023 increased at an annual rate of 4.9% according to the advance estimate released by the Bureau of Economic Analysis, higher than the 2.1% in the previous period and above the market expectations of 4.3%. The estimate reflects increases in consumer spending, private inventory investment, exports, state and local government spending, federal government spending, and residential fixed investment that were partly offset by a decrease in nonresidential fixed investment; imports (which are a subtraction to GDP) increased. Compared to the previous quarter's growth rate of 2.1%, the acceleration in the third quarter reflected accelerations in consumer spending, private inventory investment, and federal government spending and upturns in exports and residential fixed investment, which were partially offset by a downturn in nonresidential fixed investment and a deceleration in state and local government spending; imports turned up. By the end of Q3 2023 the unemployment rate increased to 3.8%, above the 3.6% level seen at the end of Q2. In September the economy added 336,000 jobs with gains occurring in leisure and hospitality, government, health care, professional, scientific, technical services, and social assistance.

The consumer price index (CPI) rose 3.7% from a year ago, slightly above the 3.6% consensus estimate. The largest changes year-over-year were price decreases for utility gas services and fuel, which were down 19.9% and 5.1% respectively. This was partially offset by rising prices for food, which increased 3.7%. Core CPI, which excludes volatile food and energy prices, rose 4.1% from a year ago, largely driven by the increased pricing in non-energy services, such as transportation and shelter. Housing starts finished the quarter at a seasonally adjusted annualized rate of 1.35 million for September, down 8.0% from the same period last year. The median existing home sale price at the end of the third quarter was $397,400, down 4.4% from the near all-time highs observed at the end of the previous quarter.

Public Equity Markets: U.S. equities started the quarter optimistically with investors expecting a soft landing. However, the markets turned around when the prospect of a sustained period of higher rates weighed on investor sentiment. The IT sector was one of the weakest areas, along with the less influential sectors of real estate and utilities. Most of the “Magnificent Seven” stocks, namely Apple, Microsoft, Alphabet, Amazon, Tesla, Nvidia and Meta declined for the quarter. Meanwhile, energy stocks were relatively resilient as oil prices advanced on supply concerns. Small cap equities underperformed their larger cap counterparts, with value outperforming within small cap stocks. Our combined domestic equity portfolio posted a loss of 3.5%, trailing the 3.3% decline of the Russell 3000 Index.



International developed markets underperformed their U.S. counterparts, declining 4.1% for the quarter. In Europe, stocks fell on concerns over the negative effects of interest rate rises on economic growth. The consumer discretionary sector was impacted the most by the possible effect of higher interest rates on consumers’ disposable income. Japanese markets demonstrated resilience during the market correction in the quarter, with large growth stocks declining while smaller cap and value stocks experiencing a surge. Asia ex-Japan equities were down over the quarter, as concerns over the Chinese economy and fears over global economic growth weighed on the markets. Hong Kong, Taiwan, and South Korea led the detractors.

Despite a strong start, emerging markets ended the quarter in negative territory, albeit ahead of their developed market counterparts. Concerns that strength in the US economy will keep interest rates higher for longer had a negative impact on risk appetite. This was combined with ongoing weakness in the Chinese economy and concerns about the country’s property sector. Poland and Chile posted the biggest declines among index markets. Chile was hurt by falling lithium prices while Poland was affected by political uncertainty ahead of the country’s October parliamentary elections. Other notable laggards were Taiwan, Korea, Mexico, and South Africa. Egypt and Turkey were the top performers. The Turkish Central Bank raised rates twice during the quarter, a move investors interpreted, and rewarded, as a shift towards a more orthodox policy approach. Our combined international equity performance was a loss of 2.7%, outperforming the 3.4% decline recorded by the benchmark. Our global equity allocation posted a 2.9% loss, outperforming the 3.4% loss of the MSCI ACWI Index.

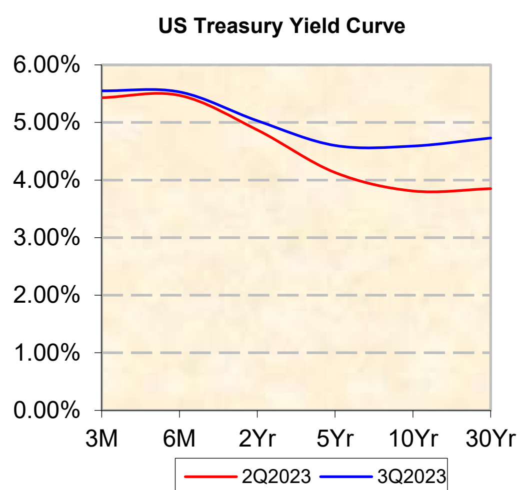
Private Equity: During the second quarter, a total of 436 funds reached their final close, securing $211 billion in commitments. The number of funds raised declined 24% relative to Q2 and 37% when compared to the same quarter a year prior. The aggregate capital raised in Q3 increased 16% relative to the prior quarter and 13% compared to the same period last year. North America dominated the fundraising landscape, though at a smaller proportion relative to recent time periods, representing 57% of both the aggregate capital raised and the total number of funds raised, a drop from 73% and 68% in Q2, respectively. U.S. buyout deal activity increased relative to the prior quarter as the aggregate deal volume jumped 45% and the average deal size rose 39%, however, this was a across fewer deals, as the number of transactions completed dropped 7% to 953. Buyout multiples in the U.S. continued to soften coming in at 10.7x Enterprise Value-to-EBITDA, well below 2022’s median multiple of 11.5x. Business services was the most robust sector during the quarter, representing 29% of aggregate U.S. buyout deal value. Buyout exit activity for the quarter continued to tick up with the number of exits increasing 4% to 197, the aggregate exit values rising 17% to $66 billion, and the average exit size increasing 34% to $1,894 million relative to Q2. The global private equity sector has $2.7 trillion in dry powder and continues to hover around record highs.

U.S. venture fundraising activity continued to retreat in Q3 as the number of funds raised fell 36% to 126, aggregate deal volume decreased 48% to $8 billion, and the average fund size dropped 15% to $81 million, relative to the prior quarter. Compared to the same period last year, the number of funds raised was down 52%, aggregate deal volume was down 77%, and average fund size was down 48%. However, U.S. venture deal making activity was more favorable. While the number of consummated deals was down 18% to 1,293 relative to Q2, aggregate deal value increased 25% to $35 billion, and the average deal size increased 45% to $34 million.

During the quarter, our private equity managers called a combined $4.8 million and paid distributions of $3.1 million. Our current allocation to private equity is 13.0%, with a market value of $205.4 million. From its 2013 inception through June 30, 2023, the total private equity program has generated a net internal rate of return of 25.0% versus a 16.2% 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 0.4% based on the HFRI Composite Index. On a sub-strategy basis, the Event-Driven Index gained 2.2%, the Relative Value Index advanced 1.7%, the Macro Index increased 1.3%, and the Equity Hedge Index fell by 1.0%. The System's diversifying hedge funds recorded a gain of 2.7% versus a gain of 1.6% for the Conservative Index. The diversifying portfolio outperformance is primarily attributable to strong selection within the quant and global macro sectors. The System's directional hedge funds recorded a gain of 1.1% compared to the negative 0.3% return for the Strategic Index. The directional outperformance is primarily attributable to positive fund selection within the credit sector.

Fixed Income: The yield curve shifted up as both short and long dated Treasury yields moved higher. However, long-term Treasury bonds moved higher than shorter-dated Treasury bills. For example, the yield on the 3-month bill maturities moved up 12 bps to 5.6%, while the 10- and 30-year bond maturities increased by 78 and 88 bps respectively. The spread between 2-year and 10-year Treasuries, the main gauge of the yield curve, flattened and ended the quarter at -44 bps, 62 bps flatter than the previous quarter's level. By the end of the quarter, the 10-year Treasury yield was 4.59% whereas the 30-year Treasury yield was 4.73%. The high yield portfolio's performance for the quarter was a gain of 0.5%, in-line with the Merrill Lynch High Yield II Constrained Index. The long duration portfolio's return for the quarter was a loss of 10.3%, outperforming the custom long duration benchmark by 0.4%. The emerging market debt portfolio lost 1.2%, outperforming the JPM EMBI Global Diversified benchmark by 1.0%. Our global inflation-linked bond portfolio, combined with a portable alpha overlay, recorded a loss of 6.0%, outperforming the custom benchmark by 2.1%. The outperformance was driven primarily by the overlay, where the strategy's alphas in bonds and rates, long/short cash, equities, commodities, and emerging markets currencies contributed to results.



Private Debt: In Q3 of 2023, private debt funds raised $38.8 billion from 36 funds, which was a return to a weaker fundraising environment after a strong previous quarter. Out of the total $38.8 billion fundraising activity in Q3, North America focused funds raised $35.3 billion, while the aggregate capital raised Europe-focused funds totaled $2.2 billion. Direct lending funds led fundraising with $30.8 billion (79% of the private debt capital raised during the quarter), followed by distressed debt funds with $5.1 billion. Some of the largest funds closed during Q3 were the $7.1 billion Blackstone Green Private Credit Fund III. Antares Senior Loan II closed in July after raising $6 billion of assets across all fund related vehicles, including a dedicated co-investment vehicle. In Europe, the CIC Private Debt Fund IV raised €565 million. Dry powder as of September 2023 was $434 billion, which was the second highest amount this year recorded by Preqin.

During the quarter, our private debt managers called a combined $2.1 million and paid distributions of $0.8 million. Our current allocation to private debt is 1.7%, with a market value of $26.8 million. From 2015 through June 30, 2023, the private debt program generated a net internal rate of return of 10.5% versus an 6.6% 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, private real estate prices declined due to interest rate pressures and slowing demand for office space while private real assets increased due to strong inflation linked cash flows. Infrastructure fundraising slowed down as 15 funds raised $5.0 billion compared to 25 funds raising $10.0 billion in the prior quarter. Real estate prices were down 1.4% for the quarter driven by a 3.7% decline in office values, 1.4% decline in apartments, and a 0.3% decline in industrial properties. The only sector to

advance were hotels, which were up 1.9%. Fundraising slowed down as 78 funds raised $27.6 billion compared to 132 funds raising $64.7 billion in the prior quarter.

During the quarter, our private real asset managers called a combined $1.4 million and paid distributions of $2.0 million. Our current allocation to private real assets is 4.8%, with a market value of $77.3 million. From its 2006 inception through June 30, 2023, the total private real assets program (including fund-of-funds) has generated a net internal rate of return of 9.2% 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 loss of 5.8% for the quarter, underperforming bonds (Barclays Global Aggregate, -3.6%) and underperforming global equities (MSCI World, -3.4%). After a promising start to the quarter on hopes of an economic soft landing, global stocks pulled back to end the quarter. Higher long-term bond yields triggered by concerns over rising budget deficits and oil prices were the key drivers. During the quarter, the U.S. was the worst performing region. The United States economic growth continued to hold up relatively better than other regions, however good news on the economic front was interpreted as bad for rate sensitive stocks such as REITs as real rates surged and the yield curve steepened. More cyclical property types fared better than other sectors on the soft-landing optimism early in the quarter. Asia was dragged down by Hong Kong and Australia, with the latter hurt by significant currency headwinds. Similar to the US, higher interest rates and bond yields weighed heavily on rate sensitive sectors. Europe was the best performer in the quarter despite currency headwinds. Weaker than expected economic momentum in the region was interpreted as good for rate sensitive REITs by providing more leeway for central banks to ease monetary policy.

Listed infrastructure securities posted a loss of 8.1% during the quarter as measured by the Dow Jones Brookfield Global Infrastructure Index, this was a larger lose than global equities (MSCI World, -3.4%) and bonds (Barclays Global Aggregate, -3.6%). Overall, for the quarter, gas midstream, diversified, ports, and other utilities outperformed the index, while communications, toll roads, pipeline companies, water & waste, European regulated utilities, gas distribution utilities, and electricity transmission & distribution underperformed. The negative quarterly returns were driven by both macro- and company specific factors. From a top-down perspective, higher sovereign rates had the largest impact on returns (U.S. 10-year rose ~76 bps to 4.57%, German 10-year Bund rose ~45 bps to 2.84%), with the more “defensive” areas of communications and utilities suffering the most. At a company-specific level, outside of the U.S.-based wireless tower operators, declined due to now well-flagged deterioration in leasing activity in the U.S. Additionally, major Canadian pipeline companies, TC Energy and Enbridge Inc., had outsized negative influence on the benchmark returns for the quarter.

For the quarter, the public real asset portfolio lost 5.2%, ahead of the custom benchmark’s loss of 5.4% primarily due to outperformance by our Global Listed Real Estate Manager, Principal.

Outlook

After strong gains for shares in the first half of 2023, global equities posted a negative return in Q3. Government bonds also declined in the quarter, with yields rising. Commodities were a notable outperformer with energy gaining amid oil production cuts from Saudi Arabia and Russia. Looking forward, the OECD expects global growth to end 2023 at 2.9%, then weaken to 2.7% in 2024 before rebounding to 3% in 2025. Whether or not these growth projections materialize will depend on a soft-landing in developed markets as well as continued growth in Asian economies. Absent further large shocks to food and energy prices, projected headline inflation is expected to return to levels consistent with central bank targets in most major economies by the end of 2025. Annual OECD headline inflation is expected to fall gradually to 5.2% and 3.8% in 2024 and 2025 respectively, from 7.0% in 2023.

US equities were weaker in Q3. The Fed decided against raising rates during their September meeting, which led to optimism among investors that the Fed had orchestrated a soft landing for the economy and the policy tightening would soon end. That enthusiasm wavered in August and September, however, as the market began to price in the probability of a “higher for longer” rate cycle. Most experts agree rates will stay around 3%-5% until late 2024, early 2025. Inflation, while ticking up in August, remains on a downward trend. Private consumption and investment growth are expected to moderate as the effects of policy tightening flow through to the economy. Employment growth should also slow in response to weaker

demand and the unemployment rate is expected to begin to approach the Fed's 5% target. Q3 GDP growth was revised from 4.9% to 5.2%, with most experts agreeing that U.S. GDP growth should be approximately 2.4% for the year. The OECD estimates that GDP growth in 2024 will drift below trend to 1.5% before increasing to 1.7% in 2025.

Eurozone shares fell in Q3 amid worries over the negative effects of interest rate rises on economic growth. However, data released at the very end of the period showed eurozone inflation slowed to a two-year low of 4.3% in the year to September, down from 5.2% in August. This could potentially pave the way for the European Central Bank (ECB) to put an end to interest rate rises, even though the ECB has signaled a higher-for-longer view on rates. GDP growth is projected to slow to 0.6% in 2023 before strengthening gradually to 0.9% in 2024 and 1.5% in 2025. Private consumption will be supported by tight labor markets and increasing real incomes as inflation recedes. At the same time, higher costs of financing and uncertainty will weigh on private investment. Wage growth is projected to ease only gradually over the projection period. Employment bottlenecks in services will keep core inflation elevated until mid-2025, despite ongoing reductions in headline inflation.

The UK economy continues to track sideways. The economy, which has barely grown since the beginning of 2022, is still around 0.2% smaller than its pre-pandemic peak in 2019. The Bank of England (BoE) has lifted rates to clearly restrictive levels with the base rate at 5.25% and there are signs that the economy is beginning to buckle. Unemployment is rising and job vacancies are falling. House prices are falling for the first time since the 2008 financial crisis. GDP growth is projected to pick up from 0.5% in 2023 to 0.7% in 2024 and 1.2% in 2025. Private expenditure will replace government consumption and investment as the main driver of growth, helped by easing price pressures. Headline inflation will subside from historically high levels but remain above target until 2025. Core inflation will linger at 3.8% in 2024 and 2.6% in 2025 on the back of the tight, albeit easing, labor market. Unemployment will edge up to 4.9% in 2025.

The Japanese equity market demonstrated resilience during the market correction in the quarter, with small cap and value stocks outperforming large cap growth stocks. Real GDP growth is projected at 1.0% in 2024 and 1.2% in 2025, mainly driven by domestic demand. Private consumption will be supported by pent-up demand, stronger wage growth, and a new economic package being unveiled by the Bank of Japan. The package includes measures to moderate the impact of high prices and support medium-term investment in several areas. It also includes cash handouts to low-income households and temporary cuts to income and residential taxes. Government subsidies for green and digital investment and high corporate profits will boost business investment, despite higher uncertainty. Headline inflation is projected to moderate but remain around 2% as wage growth gains momentum in 2024-25.

Despite a strong start, emerging markets ended the quarter in negative territory driven by concerns that strength in the US economy will keep interest rates higher for longer had a negative impact on risk appetite. This was combined with ongoing weakness in the Chinese economy and concerns about the country's property sector. In China, investors expect the government to continue to pursue an accommodative monetary policy, including further rate cuts. However, consumption growth will likely remain subdued due to increased precautionary savings, gloomier prospects for employment creation, and heightened uncertainty. Furthermore, a deeper correction in the real estate market, decreasing exports from falling global demand, and trade sanctions remain significant risks over the short-term horizon. Economic growth is expected to rebound only moderately to 5.2% in 2023 and then slow to 4.7% and 4.2% in 2024 and 2025, respectively. At the same time, consumer price inflation will remain very low, though sustained deflation is unlikely.

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, The Organization for Economic Cooperation and Development, Russell, Albourne, MSIM, Principal, JP Morgan, Goldman Sachs, Preqin, Pitchbook, Federal Reserve, Marathon Asset Management, Schroders, Standard and Poor's.

Risk Profile

The risk/return statistics for the CRHBT for the 1, 3 and 5-year periods ending September 30, 2023 are shown below:

1 Year

	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	7.09	9.11	0.31	0.48	0.78
CRHBT Benchmark	5.85	9.90	0.18	0.27	0.59

3 Year

	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	3.35	10.58	0.20	0.29	0.32
CRHBT Benchmark	2.65	11.08	0.14	0.20	0.24

5 Year

	Total Return	Risk	Sharpe Ratio	Sortino Ratio	Return/Risk
CRHBT - Net of Fees	5.30	10.73	0.37	0.53	0.49
CRHBT Benchmark	4.79	11.07	0.32	0.46	0.43

Participating Agency Allocation

	7/1/2023		7/1/2023 - 9/30/2023			9/30/2023	
Agency	Balance $	Balance %	Contributions	Expenses	Investment Gain/Loss	Balance $	Balance %
Montgomery County Govt	$741,966,634	45.47%	$0	($855,885)	($20,110,095)	$721,000,653	45.47%
MontCo Revenue Authority	$4,433,947	0.27%	$0	($5,115)	($120,177)	$4,308,655	0.27%
Strathmore Hall Foundation	$2,163,503	0.13%	$0	($2,496)	($58,639)	$2,102,369	0.13%
SkyPoint Federal Credit Union	$1,825,758	0.11%	$0	($2,106)	($49,485)	$1,774,167	0.11%
Dept of Assessments & Tax	$54,802	0.00%	$0	($63)	($1,485)	$53,253	0.00%
HOC	$24,586,495	1.51%	$0	($28,361)	($666,387)	$23,891,746	1.51%
WSTC	$172,100	0.01%	$0	($199)	($4,665)	$167,236	0.01%
Village of Friendship Heights	$550,177	0.03%	$0	($635)	($14,912)	$534,631	0.03%
Montg. Cty. Public Schools	$763,837,705	46.81%	$0	($727,145)	($20,706,967)	$742,403,592	46.82%
Montgomery College	$92,160,368	5.65%	$0	($87,733)	($2,498,386)	$89,574,248	5.65%
Total	**$1,631,751,489**	**100.00%**	**$0**	**($1,709,738)**	**($44,231,199)**	**$1,585,810,552**	**100.00%**