

MEMPHIS LIGHT, GAS AND WATER DIVISION
OTHER POST EMPLOYMENT BENEFITS TRUST

Financial Statements
December 31, 2019 and 2018

**MEMPHIS LIGHT, GAS AND WATER DIVISION
OTHER POST EMPLOYMENT BENEFITS TRUST**

Financial Statements

For the Years ended December 31, 2019 and 2018

Table of Contents

Introductory Section:

Letter of Transmittal

OPEB Trust Investment Committee Members

Professional Consultants

Financial Section:

Independent Auditor's Report..... 1-3

Management's Discussion and Analysis 4-11

Financial Statements:

Statements of Fiduciary Net Position12

Statements of Changes in Fiduciary Net Position.....13

Notes to the Financial Statements..... 14-37

Required Supplementary Information:

Schedule of Changes in Net OPEB Liability38

Schedule of Employer Contributions.....39

Schedule of Investment Returns40

Notes to the Required Schedules41

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards* 42-43

Schedule of Prior Year Findings and Questioned Costs.....44



MEMPHIS LIGHT, GAS AND WATER DIVISION

Letter of Transmittal

MEMPHIS LIGHT, GAS AND WATER DIVISION OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST

To the Board of Commissioners and OPEB Trust Investment Committee:

We are pleased to submit the Annual Report of Memphis Light, Gas and Water Division ("MLGW") Other Post Employment Benefits Trust (the "OPEB Trust") for the year ended December 31, 2019. This report has been prepared in conformity with generally accepted accounting principles in the United States of America ("GAAP").

Responsibility for the accuracy and presentation of the information provided is the full responsibility of the management of MLGW. Disclosures necessary to assist the reader in understanding of the financial statements have been included.

MLGW OPEB Trust's financial statements have been audited by Banks, Finley, White & Co., CPAs, licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of MLGW OPEB Trust for the year ended December 31, 2019, are free from material misstatement. The independent audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements; evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management; and evaluating the overall financial statement presentation.

The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that MLGW OPEB Trust's financial statements for the year ended December 31, 2019, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of the report.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis ("MD&A"). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. MLGW OPEB Trust's MD&A can be found immediately following the report of the independent auditors.

Profile of the "Trust" – MLGW and the Board of Commissioners of MLGW (the "Trustee") established the OPEB Trust, effective January 1, 2007. The Trust holds assets that are available to be used to assist MLGW in providing medical and life insurance benefits for retired

employees of MLGW and their dependents who meet the eligibility requirements. In accordance with the OPEB Trust agreement, the OPEB Trust is permitted to pay or reimburse MLGW for benefits paid under the MLGW medical benefits plan. The contribution requirements of plan members and MLGW are established and may be amended by the MLGW Board of Commissioners. Contribution rates for retired plan members and beneficiaries currently receiving benefits are periodically reset and are currently at 25% of costs for medical and drug benefits and 40% for life insurance and AD&D.

The Board of Commissioners of Memphis Light, Gas and Water Division serves as the "Trustee" and establishes the policies of the MLGW OPEB Trust. The Trustee shall fulfill the duties of the fiduciary responsible for MLGW OPEB Trust's administration and shall have overall control of the administration of the Plan, with all powers and discretion necessary to enable it to properly carry out its duties. The Trustee delegated the responsibility and authority to administer the assets of the OPEB Trust to the OPEB Trust Investment Committee.

The OPEB Trust Investment Committee is comprised of one member of the Board of Commissioners of the Division (who serves as Chairman), the President and CEO of the Division, the Sr.Vice President, CFO & CAO and Secretary-Treasurer of the Division, two Employee Members, one Retiree Member, and one Citizen Member.

Funded Status - As of December 31, 2019, the plan was 70.75% funded. The Total OPEB Liability for benefits was \$712,904,713 and the Plan Fiduciary Net Position was \$504,346,618, resulting in a Net OPEB Liability ("NOL") of \$208,558,095. The covered employee payroll was \$170,945,709 and the ratio of the NOL to the covered employee payroll was 122.0%.

Acknowledgements - The preparation of this report was made possible by the overall dedication of MLGW's Finance Division. We would like to express our appreciation to the members of the Finance Division who contributed to the preparation of this report. Special thanks must also be given to Banks, Finley, White & Co., CPAs for their efficient and timely completion of this year's audit.

Respectfully submitted,



Jarl "J.T." Young
President and CEO



Dana Jeanes
SVP, CFO & CAO (Secretary-Treasurer)

**MEMPHIS LIGHT, GAS AND WATER DIVISION
OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST**
Memphis, Tennessee

OPEB Trust Investment Committee Members



Carlee McCullough
Chairwoman



J. T. Young
Vice Chairman



Dana Jeanes
Secretary-Treasurer



Nicholas Newman
Employee Member
Term Expires: 12/31/2021



Nedra Bailey
Employee Member
Term Expires: 12/31/2022



Patricia Howard
Retired Member
Term Expires: 12/31/2020



Pamela Z. Clary
Citizen Member
Term Expires: 6/30/2020

The Memphis Light, Gas and Water Division OPEB Trust (“OPEB Trust”) was established for the exclusive benefit of MLGW’s retired employees and their dependents (who meet the eligibility requirements) to fund the postemployment benefits provided through the health and welfare benefit plan. Amounts contributed to the OPEB Trust by MLGW are held in trust and are irrevocable and are for the sole and exclusive purpose of funding health and welfare benefits of the eligible participants, and the cost of operating and administering the OPEB Trust. The OPEB Trust is administered by the MLGW OPEB Trust Investment Committee.

PROFESSIONAL CONSULTANTS

The MLGW OPEB Trust contracts with several independent consultants to provide services that are vital to the professional and successful operation of the plan.

INVESTMENT CONSULTANT

CBIZ Investment Advisory Services, LLC

Robert A. Longfield, Jr., CFA
Executive Vice President and Senior Consultant

Curtis Williams
Senior Consultant

CUSTODIAN

Northern Trust Corporation

Victor Paniagua
Account Manager-Trust

Anabel Arguello
Senior Vice President and Relationship Manager

ACTUARY CONSULTANT

Segal Consulting

Leon F. (Rocky) Joyner, Jr., FCA, ASA, EA, MAAA
Vice President and Consulting Actuary

Samuel Boustani, ASA, MAAA
Consulting Actuary

LEGAL CONSULTANT

Evans & Petree, PC

Frank N. Stockdale Carney
Shareholder

Elizabeth Friary
Associate

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners and Management
Memphis Light, Gas and Water Division
Other Post Employment Benefits Trust
Memphis, Tennessee

Report on the Financial Statements

We have audited the accompanying statements of plan fiduciary net position of the Memphis Light, Gas and Water Division Other Post Employment Benefits Trust (the "OPEB Trust"), a fiduciary fund of the City of Memphis, Tennessee, as of December 31, 2019 and 2018, and the related statements of changes in plan fiduciary net position for the years then ended, which collectively comprise the OPEB Trust's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net position of the OPEB Trust as of December 31, 2019 and 2018, and the respective changes in fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Emphasis of Matter

As discussed in Note 1, the accompanying statements are those of Memphis Light, Gas and Water Division Other Post Employments Benefits Trust Fund. The statements do not purport to present the financial position of the Light, Gas and Water Division of the City of Memphis or the City of Memphis as of December 31, 2019, and the respective changes in their financial position or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis; schedule of changes in net OPEB liability, schedule of employer contributions, and schedule of investment returns on pages 4 through 11 and 38 through 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 3, 2020, on our consideration of the OPEB Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the OPEB Trust's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the OPEB Trust's internal control over financial reporting and compliance.

Banks, Smith, White & Co

Memphis, Tennessee

June 3, 2020

OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended December 31, 2019 and 2018



The following management discussion and analysis for the Memphis Light, Gas and Water Division (“MLGW”) Other Post Employment Benefits Trust (“OPEB Trust”), formerly Trust for Retiree Medical and Life Insurance Benefits (the “Trust”), provides a narrative overview and analysis of the OPEB Trust financial activities and funding conditions for the years ended December 31, 2019 and December 31, 2018. Please read it in conjunction with the OPEB Trust’s financial statements, notes, and required supplementary information, which follow this section.

The MLGW OPEB Trust was established for the purpose of providing for the funding and payment of healthcare benefits for retired and disabled employees of MLGW and their dependents and beneficiaries.

FINANCIAL HIGHLIGHTS

- Total OPEB Trust fiduciary net position at December 31, 2019 was \$504.3 million, an increase of \$78.6 million, or 18.5%, over total fiduciary net position at December 31, 2018.
- Cash and cash equivalents decreased \$9.7 million from \$23.3 million at December 31, 2018 to \$13.6 million at December 31, 2019.
- Investments at fair value were \$491.2 million at December 31, 2019, an increase of \$85.5 million, or 21.1%, over investments of \$405.7 million at December 31, 2018.
- The OPEB Trust experienced gains of \$78.6 million and \$6.0 million in 2019 and 2018, respectively.
- Total additions to OPEB Trust fiduciary net position were \$110.5 million during 2019, an increase of \$75.8 million compared to 2018.
- Net investment activities income increased by \$90.8 million, or 635.1%, primarily as a result of the \$92.3 million increase in net appreciation in the fair value of investments. For 2019, net appreciation in fair value of investments totaled \$70.3 million compared with net depreciation in the fair value of investments of \$22.0 million for 2018.
- Total deductions from OPEB Trust fiduciary net position were \$31.9 million during 2019, an increase of \$3.2 million compared to 2018.

OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended December 31, 2019 and 2018



OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements of the OPEB Trust are the Statements of Fiduciary Net Position, the Statements of Changes in Fiduciary Net Position, and the Notes to the Financial Statements. This report also contains required supplementary information in addition to the basic financial statements. Statements are shown for the most recent and previous years for comparison and analysis of changes in individual line items. The statements are presented using the accrual basis of accounting.

The Statements of Fiduciary Net Position are a measure of the OPEB Trust's assets and liabilities at the close of the year. Total assets less liabilities equal net position held in the OPEB Trust for the future payment of benefits.

The Statements of Changes in Fiduciary Net Position present how the OPEB Trust's net position changed during the year as a result of contributions, investment income (loss), operating expenses, and insurance premiums paid.

The OPEB Trust shall be used exclusively to provide benefits for OPEB Trust participants and their beneficiaries, and for the cost of operating and administering the OPEB Trust. MLGW may make payments to provide benefits for retired employees or their beneficiaries as they become due under the terms of the OPEB Trust.

The Notes to the Financial Statements are a fundamental part of the financial statements and provide important information to support the amounts in the financial statements. The Notes describe accounting policies, funded status, actuarial methods and significant assumptions used to value MLGW's OPEB obligation.

The Required Supplementary Information consists of a Schedule of Changes in Net OPEB Liability, a Schedule of Employer Contributions, a Schedule of Investment Returns, and Notes to the Required Schedules.

See next page

OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended December 31, 2019 and 2018



ANALYSIS OF OPEB TRUST FIDUCIARY NET POSITION

Condensed financial information comparing MLGW's OPEB Trust fiduciary net position for the past three years is presented below:

Table 1 Condensed OPEB Trust Fiduciary Net Position December 31					
	<u>2019</u>	<u>2018</u>	<u>FY19 - FY18 Percentage Change</u>	<u>2017</u>	<u>FY18 - FY17 Percentage Change</u>
Assets					
Cash and cash equivalents	\$ 13,596,720	\$ 23,315,970	-41.7%	\$ 22,158,989	5.2%
Investments, at fair value*	491,154,912	405,680,559	21.1%	397,988,618	1.9%
Receivables	948,765	1,271,246	-25.4%	1,200,390	5.9%
Collateral held for securities on loan	11,448,942	667,853	1614.3%	3,250,532	-79.5%
Total assets	517,149,339	430,935,628	20.0%	424,598,529	1.5%
Liabilities					
Employer	661,572	597,649	10.7%	671,516	-11.0%
Liability for securities purchased and accrued expenses	692,207	3,921,634	-82.3%	950,480	312.6%
Collateral subject to return to borrowers	11,448,942	667,853	1614.3%	3,250,532	-79.5%
Total liabilities	12,802,721	5,187,136	146.8%	4,872,528	6.5%
Net position restricted for OPEB	<u>\$ 504,346,618</u>	<u>\$ 425,748,492</u>	18.5%	<u>\$ 419,726,001</u>	1.4%
*Investments include a private equity firm, GPB Holdings II, LP, valued at \$8.0 million and \$8.8 million at 2019 and 2018, respectively. As of this report date, the fair market value (FMV) statements from the general partner have not been provided for the years ended December 31, 2019 and 2018. The 2019 investment value is based on the June 30, 2019 FMV statement, which represents the most recent FMV statement provided by the general partner. The 2018 investment value is based on the initial capital contribution less capital distributions at year-end.					

Assets

2019 Compared to 2018

At December 31, 2019, total assets were \$517.1 million, an increase of \$86.2 million, or 20.0%, over 2018. The increase in total assets is primarily due to investment earnings, collateral held for securities, and funds from contributions.



ANALYSIS OF OPEB TRUST FIDUCIARY NET POSITION (Continued)

Assets (continued)

The OPEB Trust's assets consist primarily of investments in domestic and international equities, domestic and international fixed income, domestic and international special strategies, real estate, life settlement funds, and short-term investments. For 2019, investments at fair value totaled \$491.2 million, an increase of \$85.5 million, or 21.1% over 2018. The increase in total investments is complemented by a \$10.8 million increase in collateral held for securities on loan under the Division's securities lending program compared to 2018.

2018 Compared to 2017

At December 31, 2018, total assets were \$430.9 million, an increase of \$6.3 million, or 1.5%, over 2017. The increase in total assets is primarily due to the inflow of funds from contributions and investment earnings, offset in part by a decrease in collateral held for securities on loan.

The OPEB Trust's assets consist primarily of investments in domestic and international equities, domestic and international fixed income, domestic and international special strategies, real estate, hedge funds, and short-term investments. For 2018, investments at fair value totaled \$405.7 million, an increase of \$7.7 million, or 1.9% over 2017. The increase in total investments is partially offset by a \$2.6 million decrease in collateral held for securities on loan under the Division's securities lending program.

Liabilities

2019 Compared to 2018

At December 31, 2019, total liabilities were \$12.8 million, an increase of \$7.6 million, or 146.8% from \$5.2 million at 2018. The increase is primarily derived from the liability for securities purchased and accrued expenses, offset by a decrease in collateral subject to return to borrowers under the OPEB Trust's securities lending program.

2018 Compared to 2017

At December 31, 2018, total liabilities were \$5.2 million, an increase of \$0.3 million, or 6.5% from \$4.9 million at 2017. The increase is primarily derived from the liability for securities purchased and accrued expenses, offset by a decrease in collateral subject to return to borrowers under the OPEB Trust's securities lending program.

OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended December 31, 2019 and 2018



Fiduciary Net Position

2019 Compared to 2018

At December 31, 2019, the OPEB Trust fiduciary net position was \$504.3 million, an increase of \$78.6 million, or 18.5%, over December 31, 2018 net position. The increase in net position is primarily due to contributions and investment earnings of \$110.5 million, offset in part by benefits and administrative expenses of \$31.9 million. The growth in net position is principally related to the net appreciation in fair value of investments across the OPEB Trust's portfolio of asset classes and a decrease in benefits paid, offset by a decrease of employer contributions.

2018 Compared to 2017

At December 31, 2018, the OPEB Trust fiduciary net position was \$425.7 million, an increase of \$6.0 million, or 1.4%, over December 31, 2017 net position. The increase in net position is primarily due to contributions and investment earnings of \$34.7 million, offset in part by benefits and administrative expenses of \$28.7 million. The growth in net position is principally related to the increase of employer contributions, offset by net depreciation in fair value of investments across the OPEB Trust's portfolio of asset classes and benefits paid.

See next page

OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST**MANAGEMENT'S DISCUSSION AND ANALYSIS****Years Ended December 31, 2019 and 2018****ANALYSIS OF CHANGES IN OPEB TRUST FIDUCIARY NET POSITION**

Condensed financial information comparing MLGW's changes in OPEB Trust fiduciary net position for the past three years is presented below:

Table 2 Condensed Changes in Fiduciary Net Position Years Ended December 31, 2019, 2018 and 2017					
	<u>2019</u>	<u>2018</u>	<u>FY19 - FY18 Percentage Change</u>	<u>2017</u>	<u>FY19 - FY18 Percentage Change</u>
Additions					
Contributions	\$ 33,949,385	\$ 48,971,640	-30.7%	\$ 45,183,806	8.4%
Net investment activities income (loss)	76,529,294	(14,301,548)	635.1%	57,649,482	-124.8%
Securities lending activities income	35,113	28,703	22.3%	21,714	32.2%
Total additions	110,513,792	34,698,795	218.5%	102,855,002	-66.3%
Deductions					
Benefit payments	31,145,977	27,876,371	11.7%	28,764,928	-3.1%
Administrative expense	769,689	799,933	-3.8%	692,178	15.6%
Total deductions	31,915,666	28,676,304	11.3%	29,457,106	-2.7%
Net increase	78,598,126	6,022,491	1205.1%	73,397,896	-91.8%
Net position restricted for OPEB					
Beginning of year	425,748,492	419,726,001	1.4%	346,328,105	21.2%
End of year	<u>\$ 504,346,618</u>	<u>\$ 425,748,492</u>	<u>18.5%</u>	<u>\$ 419,726,001</u>	<u>1.4%</u>

Change in Net Position***2019 Compared to 2018***

The change in net position in 2019 of \$78.6 million was 1205.1% more than the prior year's increase of \$6.0 million as a result of an increase in net investment activities income, offset by a decrease in employer contributions. Net investment activities income increased by \$90.8 million, or 635.1%, due to net appreciation in the fair value of investments across the OPEB Trust's portfolio of asset classes. The investment appreciation was primarily affiliated with domestic common stock funds, international equity mutual fund and domestic equity mutual index fund.

2018 Compared to 2017

The change in net position in 2018 of \$6.0 million was 91.8% less than the prior year's increase of \$73.4 million as a result of a decrease in net investment activities income. Net investment activities income decreased by \$72.0 million, or 124.8%, due to net depreciation in the fair value of investments across the OPEB Trust's portfolio of asset classes.

ANALYSIS OF CHANGES IN OPEB TRUST FIDUCIARY NET POSITION (Continued)

Change in Net Position(continued)

The investment depreciation was primarily affiliated with the international equity mutual fund and domestic common stock funds.

Additions

2019 Compared to 2018

Total additions to fiduciary net position increased by \$75.8 million, or 218.5%, compared to 2018, primarily as a result of an increase in net investment activities income of \$90.8 million offset by a decrease in total contributions of \$15.0 million. The decrease in total contributions was primarily due to MLGW's contributions in relation to the actuarially determined contributions ("ADC") which totaled \$31.7 million, a decrease of 34.3%, versus 2018.

2018 Compared to 2017

Total additions to fiduciary net position decreased by \$68.2 million, or 66.3%, compared to 2017, primarily as a result of a decrease in net investment activities income of \$72.0 million and an increase in total contributions of \$3.8 million. The increase in total contributions was primarily due to MLGW's contributions in relation to the ADC which totaled \$48.3 million, an increase of 2.8%, versus 2017.

Deductions

2019 Compared to 2018

Total deductions from fiduciary net position amounted to \$31.9 million for 2019, up from \$28.7 million for 2018. The increase is primarily due to a \$3.2 million increase in prescription drug claims paid. Amounts recognized in relation to OPEB related expenses totaled \$37.9 million and \$34.9 million for 2019 and 2018, respectively.

2018 Compared to 2017

Total deductions from fiduciary net position amounted to \$28.7 million for 2018, down from \$29.5 million for 2017. The decrease is primarily due to a \$0.8 million decrease in medical and prescription drug claims paid. Amounts recognized in relation to OPEB related expenses totaled \$34.9 million and \$35.6 million for 2018 and 2017, respectively.

OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended December 31, 2019 and 2018



ECONOMIC FACTORS

Income for the OPEB Trust is derived primarily from employer contributions and investment income. Employer contributions are based on the recommendation of an actuarial valuation.

REQUESTS FOR INFORMATION

Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Memphis Light, Gas and Water Division
SVP, CFO & CAO (Secretary-Treasurer)
P.O. Box 430
Memphis, TN 38101-0430

OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST

STATEMENTS OF FIDUCIARY NET POSITION

Years Ended December 31, 2019 and 2018



	December 31	
	2019	2018
Assets		
Cash and cash equivalents	\$ 13,596,720	\$ 23,315,970
Investments, at Fair Value:		
Equity Funds:		
Common stock - domestic	105,545,114	99,038,098
Common stock - international	816,656	-
Equity mutual fund - international	34,112,334	55,751,346
Equity collective fund - international	34,000,000	-
Equity mutual index fund - domestic	72,101,578	36,747,047
Equity ETF	32,599,100	24,769,041
Fixed Income Funds:		
Corporate Bond mutual funds - domestic	30,022,422	26,717,417
Convertible Bond mutual funds - domestic	10,782,042	8,528,803
Global Bond fund - international	25,283,829	23,145,953
Special Strategies Funds:		
Private equity funds - domestic*	51,656,236	37,252,324
Private equity funds - international	5,113,821	5,863,997
Private debt fund - domestic	1,828,269	2,588,850
Distressed debt funds - domestic	7,874,757	12,675,815
Distressed debt funds - international	20,157,665	21,682,302
Life Settlement Funds	12,366,640	11,864,413
Real Estate Funds	46,894,449	39,055,153
Total investments	491,154,912	405,680,559
Receivables:		
Employer	661,572	597,649
Interest and dividends	180,590	267,555
Securities sold and accrued income	106,603	406,042
Total receivables	948,765	1,271,246
Collateral held in trust for securities on loan	11,448,942	667,853
Total assets	517,149,339	430,935,628
Liabilities		
Employer	661,572	597,649
Securities purchased and accrued expenses	692,207	3,921,634
Collateral subject to return to borrowers	11,448,942	667,853
Total liabilities	12,802,721	5,187,136
Net position restricted for other post employment benefits	\$ 504,346,618	\$ 425,748,492

The accompanying notes are an integral part of these financial statements.

*Investments include a private equity firm, GPB Holdings II, LP, valued at \$8.0 million and \$8.8 million at 2019 and 2018, respectively. As of this report date, the fair market value (FMV) statements from the general partner have not been provided for the years ended December 31, 2019 and 2018. The 2019 investment value is based on the June 30, 2019 FMV statement, which represents the most recent FMV statement provided by the general partner. The 2018 investment value is based on the initial capital contribution less capital distributions at year-end.

OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

Years Ended December 31, 2019 and 2018



	Years Ended December 31	
	2019	2018
Additions		
Contributions:		
Employer	\$ 33,949,385	\$ 48,971,640
Total contributions	33,949,385	48,971,640
Investment Activities Income:		
Net appreciation (depreciation) in fair value of investments*	70,270,208	(22,014,468)
Interest income	2,663,456	3,320,466
Real estate income	530,002	313,077
Dividend income	4,388,508	5,015,878
Other income	34,981	3,950
Investment activities income (loss)	77,887,155	(13,361,097)
Less investment activities expense	1,357,861	940,451
Net investment activities income (loss)	76,529,294	(14,301,548)
Securities Lending Activities:		
Securities lending income	51,664	74,760
Securities Lending Expenses:		
Borrower rebates	(7,784)	(39,186)
Management fees	(8,767)	(6,871)
Total securities lending expenses	(16,551)	(46,057)
Net securities lending activities income	35,113	28,703
Total investment activities income (loss)	76,564,407	(14,272,845)
Total additions	110,513,792	34,698,795
Deductions		
Benefit payments	31,145,977	27,876,371
Administrative expense	769,689	799,933
Total deductions	31,915,666	28,676,304
Change in net position	78,598,126	6,022,491
Net position restricted for other post employment benefits		
Beginning of year	425,748,492	419,726,001
End of year	\$ 504,346,618	\$ 425,748,492

The accompanying notes are an integral part of these financial statements.

*Investments include a private equity firm, GPB Holdings II, LP, valued at \$8.0 million and \$8.8 million at 2019 and 2018, respectively. As of this report date, the fair market value (FMV) statements from the general partner have not been provided for the years ended December 31, 2019 and 2018. The 2019 investment value is based on the June 30, 2019 FMV statement, which represents the most recent FMV statement provided by the general partner. The 2018 investment value is based on the initial capital contribution less capital distributions at year-end.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

By an agreement dated January 1, 1995, by and between Memphis Light, Gas and Water Division (“MLGW”) and the Board of Commissioners of Memphis Light, Gas and Water Division (the “Trustee”), the Memphis Light, Gas and Water Division Trust for Retiree Medical and Life Insurance Benefits (the “Trust”) was established. The Trust was established as a grantor trust in accordance with Subtitle 1 of the Internal Revenue Code of 1986, as amended. The Trust held assets that could be used to assist MLGW in providing medical and life insurance benefits for retired employees of MLGW.

By an agreement dated December 4, 2007, but effective as of January 1, 2007, by and between MLGW and the Trustee, the Memphis Light, Gas and Water Division Other Post Employment Benefits Trust (“OPEB Trust”) was established. The OPEB Trust is for the exclusive benefit of MLGW’s retired employees and their dependents, who meet the eligibility requirements, to fund the postemployment benefits provided through the health and welfare benefit plan. Amounts contributed to the OPEB Trust by MLGW are held in trust and are irrevocable. The assets are for the sole and exclusive purpose of funding for health and welfare benefits of the eligible participants and the cost of operating and administering the OPEB Trust. The OPEB Trust is administered by the MLGW OPEB Investment Committee.

Basis of Presentation

The financial statements present only the Other Post Employment Benefits Trust Fund in conformity with accounting principles generally accepted in the United States of America that are applicable to a fiduciary fund of a governmental trust unit. The accompanying financial statements present the separate financial position and results of operations for the Other Post Employment Benefits Trust Fund, but do not present the financial position or results of operations of MLGW, a division of the City of Memphis (the City). Accordingly, the accompanying disclosures are related separately to the Other Post Employment Benefits Trust Fund, as applicable, and not collectively to MLGW. These statements are not intended to present the financial position of the City or the results of the City’s operations.

Basis of Accounting

The OPEB Trust’s financial statements are prepared using the accrual basis of accounting in conformity with accounting principles generally accepted in the United States that are applicable to a fiduciary fund of a governmental trust unit.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Standards

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during the implementation and application of certain GASB Statements. This Statement addresses a variety of topics. June 15, 2021 is the new effective date for most provisions of this pronouncement. The MLGW OPEB Trust has not elected early implementation of this standard and has not completed the process of evaluating the impact of this statement on its financial statements.

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

The effective dates of certain provisions contained in the subject pronouncements are postponed by at least one year. The MLGW adopted this pronouncement upon GASB's issuance. There was no material impact on the financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates and assumptions.

Cash and Cash Equivalents

The OPEB Trust considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments

The OPEB Trust's investments are reported at fair value. Securities traded on national securities exchanges are valued at the last reported sales price on the last business day of the fiscal year; investments traded in the over-the-counter market and listed securities for which no sale was reported on that date are valued at the average of the last reported bid and ask prices.



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (continued)

The Trust's investment in a limited partnership is reported at estimated fair value based on information obtained from the partnership's unaudited financial statements. The fair value of the limited partnership investment is estimated by the general partner of the limited partnership in the absence of readily ascertainable market values.

The general partner's estimate of value may differ significantly from the value that would have been used had a ready market existed for the securities and the differences could be material. In 2009, the Trust's limited partnership investment in Delta Venture Partners I, L.P. was affected by the financial market crisis, which drove down market valuations of investment securities.

During 2009, the investment was removed from the Statement of Net Position as the limited partnership's market value fell well below zero. The limited partnership's financial statements are prepared in conformity with the accounting practices prescribed or permitted by the Small Business Administration ("SBA") guidelines. The Trust's limited partnership investment was valued at \$191,168 as of December 31, 2019 by the general partner. Management determined that the limited partnership investment would not be included in the OPEB Trust investment portfolio.

The international equity funds invest in foreign and domestic equity securities. The OPEB Trust's investments in the international equity funds are valued at fair value, as determined by the respective trustee/custodian of the funds based on the fair value of the underlying investments held by the funds. In the absence of trades, the custodian's (Northern Trust) estimates of the market value may differ significantly from the value that would have been used had a ready market existed for the securities and the difference could be material.

The OPEB Trust investment in the distressed debt limited partnerships is reported at fair value. The fair value of investments is based on information obtained from the partnerships' Quarterly Investor Shareholder Statements and annual audited financial statements. The distressed debt limited partnerships are Courage Credit Opportunities Fund II, L.P., Courage Credit Opportunities Offshore Fund III, LP., Capital Point Partners II, L.P., GoldenTree Distressed Debt Fund (Cayman), L.P., GoldenTree Distressed Fund 2014 (Cayman), GoldenTree Distressed Fund III, and Courage Credit IV.

The fair value of investments in Courage Credit Opportunities Fund II, L.P. and Courage Credit Opportunities Offshore Fund III, LP. is determined by the general partner of the limited partnership, in its sole discretion, in a reasonable manner.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (continued)

The fair value of investments in Capital Point Partners II, L.P. is measured based on national securities exchanges for marketable assets or the National Market System of the National Association of Securities Dealers Automated Quotations System for assets not traded on a national securities exchange. All other assets are valued by the general partner in such a manner as may be determined by the partnership agreement.

The fair value of investments in Courage Credit IV is determined by any assets of the Partnership distributed by the Partnership in-kind shall be valued by the General Partner (or its designee) at the fair value thereof as reasonably determined by the General Partner (or its designee), taking into account any related fees and expenses incurred in connection with the disposition of such assets. The General Partner (or its designee) shall employ a pricing service approved by the Advisory Committee, such as an investment banking firm, for purposes of determining the fair value of any Partnership Investments or other assets distributed in-kind by the Partnership.

In accordance with the partnership agreement, the fair value of investments in the GoldenTree Distressed Debt Fund (Cayman), L.P. and GoldenTree Distressed Fund 2014 (Cayman) is determined by the general partner in accordance with the limited partnership's written valuation policy. For purposes of any security distribution prior to final distribution, the fair value will be determined by a nationally recognized independent valuation agent.

The fair value of investments in Golden Tree Distressed Debt III is measured based on the following: Although the Investment Manager uses its best judgment and good faith in estimating the fair value of investments, there are inherent limitations in any estimation technique. Future events may affect the estimates of fair value and the effect of such events on the estimates of fair value, including the ultimate liquidation of investments, could be material to the financial statements. Fair value represents the price that would be received upon the sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date (an exit price).

The OPEB Trust investment in the private equity limited partnerships is reported at fair value. The fair value of investments is based on information obtained from the partnerships' Quarterly Statements and annual audited financial statements. The private equity limited partnerships are Pharos Capital Partners III, L.P., Memphis Biomed Ventures III, LP., The Energy & Minerals Group Fund II, L.P, GPB Holdings, Vendata Cap-McCoy Inv III, Schroder Adveq Asia Management V, SSM Partners Growth Equity III, L.P, Preserver, L.P. and VOYA Floating.

The fair value of investments in Pharos Capital Partners III, L.P. is measured based on the marketable securities primarily traded on a securities exchange, the average of their closing sale prices on the principal securities exchange on which they are traded for each business day during

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (continued)

the ten-day period commencing five days prior to the date of the relevant distribution or date of determination and ending five days following the date of such distribution; and the principal market for over-the-counter market, the average of their closing sales prices on each business day during such ten-day period, as published by NASDAQ or any similar organization. All other securities or other assets the fair value will be determined by the General Partner in good faith.

The fair value of investments in Memphis Biomed Ventures III, LP. is measured based on the following: (i) securities for which market quotations are readily available shall be valued at the last trade on the exchange or if trade quotes are not available, generally at the closing bid price (or average of bid prices), last quoted by established over-the-counter quotation services; and (ii) securities convertible into, exchangeable for or exercisable to purchase securities for which market quotations are readily available shall be valued at the prices for underlying securities, determined in the same manner. Securities subject to investment letter or other restrictions on free marketability shall be valued by the General Partner by making an appropriate adjustment to the value determined hereunder to reflect the effect of the restrictions on transfer. All other securities or other assets the fair value will be determined by the General Partner in good faith.

The fair value of investments in Energy & Minerals Group Fund II, L.P. is measured based on the marketable securities listed on national securities exchanges or quoted on a national market system will be valued at the last sale price or in absence of a sale, the last bid price. Marketable Securities traded in the over the counter market and reported in inter-dealer quotation system will be valued at the closing bid price. Securities for which prices are regularly quoted by at least two independent recognized dealers will be valued at the most recent market price. All other securities and all assets of the Partnership which are not securities will be valued at cost or such other value as may be reasonably determined by the General Partner.

The fair value of investments in Schroder Adveq Asia Management V, is measured in good faith by the General Partner in accordance with International Private Equity and Venture Capital Valuation (IPEV) Guidelines. The valuation calculation is done on a quarterly basis with interaction with the Investment Management (IM) Department and approval by Schroder Adveq's Valuation Working Group.

The fair value of investments in SSM Partners Growth Equity III, L.P. is measured in good faith by the General Partner using an Enterprise Value Waterfall allocation model. The Partnership estimates the enterprise value of the portfolio company and then allocates the enterprise value to the portfolio company's securities in order of their relative liquidation preference. Where third-party information is unavailable or deemed unusable by the investment valuation professionals, the General Partner utilizes multiple analysis for appropriate industry metrics, adjusted for various risk factors to determine fair value of the portfolio company.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (continued)

The fair value of investments in Preserver, L.P. is based on the following: (i) limited investment securities will be valued at the last traded prices if that price falls within the bid and ask prices or the mid-price if the last price falls outside of the bid and ask; and (ii) securities not listed on an exchange are valued by an independent pricing service. All investments in limited partnerships will be valued monthly based on monthly capital balances prepared by the underlying managers and administrators.

VOYA Floating Investment Management employs the following criteria for the tier selection under the FAS 157 Rule: Level 2 is identified as any security for which a price was received through one of the pricing vendors (currently IDC, Pricing Direct, and Markit Partners). Level 3 is any security (including mortgage-related securities) for which only a broker quote is available for valuation, as opposed to prices sourced from pricing vendors. Level 1 is reserved for U.S. Treasury securities.

The OPEB Trust investment in the private debt limited partnership of WP Private Debt Co-Investment Fund III (Cayman), L.P. is reported at fair value. The fair value of investments is based on information obtained from the partnerships' Quarterly Statements and annual audited financial statements. The fair value of investments in WP Private Debt Co-Investment Fund III (Cayman), L.P. is measured based on the Partnership's assets, and shall be valued quarterly and are determined by the General Partner. Securities or other property distributed to the Partners shall be valued at the time of distribution. All securities and property shall be valued by the General Partner in such manner as it may reasonably determine in good faith.

The OPEB Trust investment in the private debt limited partnership of GPB Capital Holdings, LLC, is reported at fair value. Pursuant to the GPB's Valuation Policy, GPB's Valuation Committee ("VC") is responsible for the determination of Portfolio Company valuations, which are conducted in accordance with U.S. GAAP Accounting Standard Codification 820, *Fair Value Measurements* ("ASC 820"). The goal of ASC 820 is to provide a single definition of fair value and to form a consistent framework for the determination of fair value, utilizing the most objective level of inputs available, and to provide increased disclosure requirements for fair value measurements. In order to achieve full compliance, the Firm has developed a consistent valuation process supported by documentation that considers the most objective information available. The fair value of portfolio company investments is measured in good faith by the Firm using consistent valuation techniques for various different types of investments. The fair value of publicly traded securities is based on the closing stock price on the principal exchange on which the security trades at the end of the respective reporting period, unless the Firm believes that such closing stock price is unreliable. The fair value of restricted stock is measured based on the quoted price of an otherwise identical unrestricted security of the same issuer, adjusted for the effect of the restriction.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (continued)

The OPEB Trust investment in the private debt limited partnership of McCoy Investments III, L.P., is reported at fair value. The fair value of investments is based on information received and reported from such funds, including the financial statements and the fair value methods applied by the general partner of each fund investment. Fair Value of the Partnership's fund investments generally starts with the net asset value as reported by the fund investment's management, who determines the value of the fund investment's net asset value. All other securities or other assets the fair value will be determined by the Manager in good faith.

The OPEB Trust investment in the real estate funds is reported at fair value based on the information obtained from the company's Quarterly Statement. The real estate funds are Aureus Global Core Plus Real Estate, LLC, Step Stone Investor Service (formerly MFIRE Global Partnership Fund II, L.P.), TerraCap Partners III, L.P., Intercontinental US Real Estate Investment Fund, LLC, American Strategic Value, and T.A. Realty Core Properties.

The fair value of investments in Aureus Global Core Plus Real Estate, LLC is determined in good faith by the fund's advisors using the following criteria. The value of an asset shall be the market value thereof if market quotations are readily available and are, in the judgment of the fund's advisors, appropriate, taking into account the size and nature of the asset and the rights and restrictions that pertain to the asset. Such assets will be valued at the last trade on the exchange on which they are primarily traded, or if not traded on an exchange, generally at the closing bid price (or average of bid prices) last quoted by an established over-the-counter quotation service. If market values are not readily available, or in the judgment of the fund's advisors do not accurately reflect the value of the asset, the fund's advisors may determine the value of the asset in its reasonable judgment based upon all available relevant information. The fund's advisors shall be entitled to rely upon any valuations provided to it by Core-Q and its Manager, but will not necessarily be bound by such valuations.

The fair value of investments in Stepstone Investor Service (formerly MFIRE Global Partnership Fund II, L.P.) is determined by the General Partner or its designee in its reasonable discretion.

The fair value of investments in TerraCap Partners III, L.P. is not required to report its real estate investments at fair market value, rather investments in real estate are stated at cost, less accumulated depreciation. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value.

The fair value of investments in American Strategic is measured based external appraisal which is done by an independent appraiser no less than quarterly, starting within 15 months of asset

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (continued)

acquisition. The investment is marked to market quarterly and written up, written down, or held constant as appropriate reflecting the determined values of the asset.

The fair value of real estate investments in Intercontinental is stated at fair value and reviewed and adjusted quarterly based on appraisal reports prepared by independent third party appraisers, reviewed and approved by management. The real estate valuations have been prepared giving consideration to the income capitalization, cost, and sales comparison approach.

The fair value of real estate investments in T.A. Realty Core Properties is calculated using methodologies commonly accepted in the industry, including discounted cash flow analysis, capitalization of current or stabilized net operating income, replacement cost analysis and analysis of recent sales comparables in the market. Real estate investment fair values are determined and reported on a quarterly basis. Quarterly valuations are completed either internally or externally as stated in the applicable organizational documents and/or investment advisory agreements. This is consistent with GAAP requirements and NPRS recommendations.

The OPEB Trust investment in life settlement funds is reported at fair value. The fair value of investments is based on information obtained from the partnerships' Quarterly Investor Shareholder Statements. The life settlement funds are CCA Black, L.P. (formerly Corry Capital), Vida Longevity Fund, L.P. and CCA Longevity Fund VI, L.P.

The fair value of the life settlement investments in CCA Black, L.P. (formerly Corry Capital) is market-based considered from the perspective of a market participant rather than an entity-specific measure. The Partnership uses prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many securities. This condition could cause a security to be reclassified to a lower level within the fair value hierarchy.

The fair value of the life settlement investments in Vida Longevity Fund, L.P. is determined by summing the individual values for each policy in the portfolio. Policy values are determined as the present value of future projected cash flows for premiums and maturities under the policy. This calculation involves assumptions for mortality and discount rate, as well as modeling the specific policy provisions for determination of premium requirements to maintain the policy in force.

The fair value of the life settlement investments in CCA Longevity Fund VI, L.P. is determined on a discounted cash flow basis, incorporating current life expectancy and other key assumptions. The Partnership uses an established fair value hierarchy for inputs used in

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (continued)

measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available.

2. OTHER POSTEMPLOYMENT BENEFITS

Plan Description

Memphis Light, Gas and Water Division, by resolution of its Board of Commissioners, has established, adopted, and maintains a medical benefits (health and welfare) plan (the “Plan”) for its retired employees and their eligible dependents. The Plan is a single-employer defined benefit healthcare plan administered by MLGW.

The Board of Commissioners of Memphis Light, Gas and Water Division serves as the “Trustee” and establishes the policies of the MLGW OPEB Trust. The Trustee shall fulfill the duties of the fiduciary responsible for MLGW OPEB Trust’s administration and shall have overall control of the administration of the Plan, with all powers and discretion necessary to enable it to properly carry out its duties. The Trustee delegated the responsibility and authority to administer the assets of the OPEB Trust to the OPEB Trust Investment Committee.

The OPEB Trust Investment Committee is comprised of one member of the Board of Commissioners of the Division (who serves as Chairman), the President and CEO of the Division, the Sr.Vice President, CFO & CAO (Secretary-Treasurer) of the Division, two Employee Members, one Retiree Member, and one Citizen Member.

The Plan provides postemployment healthcare, prescription drugs, life insurance and accidental death and dismemberment insurance (AD&D) to retirees. Changes to plan benefits must be approved by the MLGW Board of Commissioners. Eligible dependents are provided life insurance, healthcare and prescription drugs. Benefits are payable to retirees and their spouse for their lifetime. Qualified dependents will continue to receive benefits as long as they are qualified under the Plan. Dental, dependent life insurance, cancer, accident and long-term care benefits are available, but are 100% paid by the retiree.

Employees retired under the MLGW Retirement and Pension Plan (“the MLGW Pension Plan”), or disabled with five years of service at any age, or disabled in the line of duty at any age with no years of service restriction are eligible for OPEB benefits. Health care benefits are also offered to qualifying survivors of active employees, who are eligible to retire at the time of death.

OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST**NOTES TO THE FINANCIAL STATEMENTS****Years Ended December 31, 2019 and 2018****2. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)****Plan Description(continued)**

Members of the Plan consisted of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Retirees and beneficiaries receiving benefits	3,732	3,821
Active plan members	2,543	2,621
Total	<u>6,275</u>	<u>6,442</u>

Contributions

The contribution requirements of plan members and MLGW are established and may be amended by the MLGW Board of Commissioners. Contribution rates for retired plan members and beneficiaries currently receiving benefits are periodically reset and are currently at 25.0% of costs for medical and drug benefits. For life insurance and AD&D, retirees contribute 40.0% of the cost. For the year ended December 31, 2019, plan members contributed \$6,185,582, or 16.3% of total premiums and expenses, through their required contributions of \$54.30 to \$531.92 (dollars) per month depending on the coverage (retiree only, retiree and spouse, or family) and health plan selected. For 2018, plan members contributed \$6,456,347, or 18.5% of total premiums and expenses. On the Statement of Changes in Fiduciary Net Position, plan member contributions are netted against benefit payments.

In accordance with the OPEB Trust agreement, MLGW, in its sole discretion, with the approval of the Council of the City of Memphis ("Council"), may at any time make deposits, contributions, and payments of cash or other property to the OPEB Trust to be held and administered in accordance with the terms and provisions of the OPEB Trust.

Approximately \$36,704,711 previously held by MLGW for retiree health care benefits was transferred to the former Trust upon its establishment in 1995. In addition, MLGW made contributions to the former Trust during 1995 through 1997. Subsequent to the establishment of the OPEB Trust in 2007, MLGW has made annual contributions. MLGW contributed \$33,949,385 and \$48,971,640 for the years ended December 31, 2019 and 2018, respectively.

In accordance with the OPEB Trust agreement, the OPEB Trust is permitted to pay or reimburse MLGW for benefits paid under the Plan. The OPEB Trust premium expenses totaled \$31,669,385 and \$28,401,446 for 2019 and 2018, respectively. On the Statement of Changes in Fiduciary Net Position, these premium expenses equal total deductions of \$31,915,666 and \$28,676,304 in 2019 and 2018, respectively less professional services related administrative

OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST

NOTES TO THE FINANCIAL STATEMENTS

Years Ended December 31, 2019 and 2018



2. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Contributions (continued)

expenses (e.g., investment advisory fees, actuarial consulting fees, etc.) of \$246,282 and \$274,861 in 2019 and 2018, respectively.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plan by employers in comparison to the actuarially determined contribution ("ADC"), an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The ADC is determined in conformity with Actuarial Standards of Practice based on the most recent measurement available when the contribution for the reporting period was adopted.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of calculations.

Net OPEB Liability ("NOL") of MLGW

The components of the Net OPEB Liability of MLGW at December 31, 2019 were as follows:

Total OPEB Liability	\$ 712,904,713
Plan Fiduciary Net Position	504,346,618
Net OPEB Liability	<u>\$ 208,558,095</u>

Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	70.75%
---	--------

OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST

NOTES TO THE FINANCIAL STATEMENTS

Years Ended December 31, 2019 and 2018



2. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Net OPEB Liability (“NOL”) of MLGW (continued)

Significant assumptions were as follows:

Actuarial Assumptions:

Investment Rate of Return	7.25%
Inflation Rate	2.50%
Projected Salary Increases	Inflation plus merit increases that vary by age and service
Medical Cost Trend Rate	7.00% grading to 4.50% over 10 years
Drug Cost Trend Rate	8.00% grading to 4.50% over 14 years

Discount Rate and Investment Rates of Return

The projection of cash flow used to determine the discount rate assumed that MLGW contributions would be made at rates equal to the actuarially determined contribution rates. Based on these assumptions, the OPEB Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members as of December 31, 2019.

The long-term expected rate of return on OPEB plan investments was determined using a building block method in which best estimate ranges of expected future rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and subtracting expected investment expenses and a risk margin.

OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST**NOTES TO THE FINANCIAL STATEMENTS**

Years Ended December 31, 2019 and 2018

**2. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)****Discount Rate and Investment Rates of Return (continued)**

The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	39.00%	6.40%
International Equity	12.00%	7.54%
Fixed Income	29.00%	1.63%
Alternatives	8.00%	3.32%
Real Estate	10.00%	4.50%
Short Term Investments	2.00%	0.65%
Total	100.00%	

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate and Cost Trend

The following presents the NOL of the Division as of December 31, 2019 as well as what the Division's NOL would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate. Also, shown is the NOL as if it were calculated using healthcare cost trend rates that were 1-percentage point lower or 1-percentage point higher than the current healthcare trend rates.

	1% Decrease in Discount Rate (6.25%)	Current Discount Rate (7.25%)	1% Increase in Discount Rate (8.25%)
Net OPEB Liability (Asset) as of December 31, 2019 (\$ in thousands)	\$ 305,052	\$ 208,558	\$ 129,283

	1% Decrease in Trend Rate	Current Trend Rate	1% Increase in Trend Rate
Net OPEB Liability (Asset) as of December 31, 2019 (\$ in thousands)	\$ 131,411	\$ 208,558	\$ 303,385

3. DEPOSITS AND INVESTMENTS

The OPEB Trust adopted a new Investment Policy Statement in August 2015, to establish and set forth a clear understanding on the part of the OPEB Trust's Investment Committee in its role as the Investment Committee for the assets of the OPEB Trust ("Fund") and as to the investment policy and objectives for the assets of the Fund. The intent of this Investment Policy Statement is to design an investment environment with specific parameters that reflects the philosophy of the Trustees and which allows the Investment Managers to obtain desired performance goals of the Fund. The overall investment objective is to provide for the funding needs of the OPEB Trust.

The Trustees are charged with the responsibility to manage assets of the Fund. The Trustees exercise authority and control over the OPEB Trust's portfolio by setting policies which MLGW's investment staff executes either internally or through the use of external prudent experts. The Trustees oversee and guide the Fund with the advice of the OPEB Investment Committee subject to the following basic fiduciary responsibilities:

- Act solely in the interest of the Fund and for the exclusive purpose of meeting the financial needs of the Fund.
- Act with the care, skill, prudence and diligence, under the circumstances then prevailing, that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and similar goals.
- Determine the asset allocation that offers the highest probability of achieving the investment goals and objectives. Moreover, update and revise the asset mix as the financial needs of the Fund and/or the outlook for the capital markets change. Also, place certain maximum exposures on some of the assets being employed by the Fund. The maximum exposures are disclosed in the following section of this note. The Trustees have delegated to the OPEB Investment Committee the responsibility of determining the asset allocation. In addition, the OPEB Investment Committee determines the target asset allocation of the Fund, as set periodically, to give balance to the overall structure of the Fund's investment program over a long time horizon.
- Engage the services of registered investment managers, co-fiduciaries of the Fund, who possess the necessary specialized research facilities and skilled professionals to meet the investment objectives and guidelines of the Fund. They are expected to invest the assets entrusted to them according to the goals and objectives of the Fund and within the constraints placed on them by the MLGW Board.

In accordance with the OPEB Trust's investment policy, the OPEB Trust may invest in the following major asset classes: domestic, international and enhanced equities; domestic, international and enhanced fixed income with specified ratings; real estate; futures contracts; special strategies; life settlement funds; and short-term investments.

OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST

NOTES TO THE FINANCIAL STATEMENTS

Years Ended December 31, 2019 and 2018



3. DEPOSIT AND INVESTMENTS (CONTINUED)

As of December 31, 2019, the OPEB Trust's cash and cash equivalents and investments consisted of the following:

Investment Type	Fair Value	Actual Exposure	Maximum Exposure	Minimum Exposure
Domestic Equity Funds:				
Common stock - domestic	\$ 101,001,116	20.01%		
Common stock - international	560,331	0.11%		
Equity mutual index fund - domestic	72,101,578	14.28%		
Equity ETF - domestic	19,824,132	3.93%		
Securities on Loan:		0.00%		
Common stock - domestic	4,543,998	0.90%		
Common stock - international	256,325	0.05%		
Equity ETF - domestic	12,774,968	2.53%		
Subtotal Domestic Equity Funds:	211,062,448	41.82%	65%	20%
International Equity Funds:				
Equity mutual fund - international	34,112,334	6.76%		
Equity collective fund - international	34,000,000	6.74%		
Subtotal International Equity Funds:	68,112,334	13.49%	25%	0%
Domestic Fixed Income Funds:				
Corporate Bond mutual funds - domestic	30,022,422	5.95%		
Convertible Bond mutual fund - domestic	10,782,042	2.14%		
Subtotal Domestic Fixed Income Funds:	40,804,464	8.08%	50%	5%
International Fixed Income Fund:				
Global Bond fund - international	25,283,829	5.01%		
Subtotal International Fixed Income Fund:	25,283,829	5.01%	25%	0%
Special Strategies Funds:				
Domestic:				
Private equity funds - domestic	51,656,236	10.23%		
Private debt fund - domestic	1,828,269	0.36%		
Distressed debt funds - domestic	7,874,757	1.56%		
Life Settlement Funds	12,366,640	2.45%		
Subtotal Domestic Special Strategies Funds:	73,725,902	14.61%		
International:				
Private equity funds - international	5,113,821	1.01%		
Distressed debt funds - international	20,157,665	3.99%		
Subtotal International Special Strategies Funds:	25,271,486	5.01%		
Subtotal Special Strategies Funds:	98,997,388	19.61%	25%	0%
Real Estate Funds	46,894,449	9.29%	20%	0%
Cash and Cash Equivalents	13,596,720	2.69%	40%	0%
Total Cash and Cash Equivalents and Investments	\$ 504,751,632	100.00%		

3. DEPOSIT AND INVESTMENTS (CONTINUED)

The OPEB Trust's investments (including investments bought, sold, as well as held during the year) appreciated/depreciated in fair value, as follows during the years ended December 31:

	Net Appreciation (Depreciation) in Fair Value	
	2019	2018
Investments, at Fair Value:		
Equity Funds:		
Common stock - domestic	\$ 27,742,138	\$ (8,664,868)
Common stock - international	246,410	-
Equity ETF	7,227,764	(3,065,262)
Equity mutual fund - international	12,230,174	(8,651,617)
Equity mutual index fund - domestic	12,194,845	(2,470,308)
Subtotal Equity Funds:	59,641,331	(22,852,055)
Fixed Income Funds:		
Corporate Bond mutual funds - domestic	2,057,031	(1,859,181)
Other Fixed Income fund - domestic	(23,115)	23,163
Convertible Bond mutual fund - domestic	2,006,028	(601,415)
Global Bond fund - international	2,245,879	(969,035)
Subtotal Fixed Income Funds:	6,285,823	(3,406,468)
Special Strategies Funds:		
Private equity funds - domestic*	3,237,037	(481,269)
Private equity funds - international	154,528	180,588
Private debt fund - domestic	(36,535)	(162,695)
Distressed debt funds - domestic	(1,456,676)	(706,019)
Distressed debt funds - international	955,163	1,329,228
Life Settlement Funds	724,662	758,287
Subtotal Special Strategies Funds:	3,578,179	918,120
Real Estate Funds	764,875	3,325,935
Total Net Appreciation (Depreciation) in fair value	\$ 70,270,208	\$ (22,014,468)

*Investments include a private equity firm, GPB Holdings II, LP, valued at \$8.0 million and \$8.8 million at 2019 and 2018, respectively. As of this report date, the fair market value (FMV) statements from the general partner have not been provided for the years ended December 31, 2019 and 2018. The 2019 investment value is based on the June 30, 2019 FMV statement, which represents the most recent FMV statement provided by the general partner. The 2018 investment value is based on the initial capital contribution less capital distributions at year-end.



3. DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk

Credit risk is the risk that an issuer of a debt security will not fulfill its obligation. This credit risk is measured by the credit quality of investments in debt securities as described by nationally recognized statistical rating organizations. Investments in obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk. The following table presents the OPEB Trust's investment exposure to credit risk as of December 31, 2019:

<u>Investment Type</u>	<u>Fair Value</u>	<u>S&P Rating</u>	<u>Moody's Rating</u>
Corporate Bond mutual funds - domestic	\$ 30,022,422	NR	NR
Convertible Bond mutual fund - domestic	10,782,042	NR	NR
Global Bond fund - international	25,283,829	NA	NA
Total credit risk debt securities	<u>66,088,293</u>		
Money Market Mutual Funds and Short Term Securities	<u>13,596,720</u> ¹	AAAm	Aaa-mf
Total Fixed Income Securities	<u><u>\$ 79,685,013</u></u>		

¹ Government/Agency Money Market Fund primarily consists of securities issued or guaranteed as to principal and interest by the U.S. Government or by its agencies, instrumentalities or sponsored enterprises. These securities are not subject to credit risk.

Non-Rating Descriptions	
NA	Not Available
NR	Not Rated



3. DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of failure of the counterparty to a transaction, the Fund will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty, or the counterparty's trust department or agent but not in the name of the Fund. Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risks because their existence is not evidenced by securities that exist in physical or book entry form. In addition, underlying securities are not subject to custodial credit risk disclosure requirements if the collateral for those loans is reported in the statement of net position.

By an agreement dated December 20, 2007, between the Board and The Northern Trust Company ("Northern"), the MLGW OPEB Trust Master Custody Agreement ("Agreement") was established. The Agreement requires Northern to hold securities or other property for the OPEB Trust through an agent or in the name of its nominee or in a corporate depository of federal book entry account system or other form as it deems best. The OPEB Trust does not have a formal policy for custodial credit risk. None of the Fund's investments at December 31, 2019 were exposed to custodial credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments in any one issuer that represents five percent or more of total investments must be disclosed by amount and issuer. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement.

In accordance with the investment policy, no more than 5% of the OPEB Trust's portfolio will be invested in the securities of any single issuer with the following exceptions: short-term investments will not exceed 10%. Of the investments subject to concentration of credit risk, there were no investments in any one issuer that represented 5% or more of the Fund's investments at December 31, 2019.

3. DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment in debt securities. The OPEB Trust Investment Policy Statement does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. For interest rate risk disclosure the weighted average maturity method was used.

At December 31, 2019, the OPEB Trust had the following investments exposed to interest rate risk:

Investment Type	Fair Value	Weighted Average Maturity (in years)
Corporate Bond mutual funds - domestic	30,022,422	7.14
Convertible Bond mutual fund - domestic	10,782,042	Not available
Global Bond fund - international	25,283,829	8.38
Subtotal:	66,088,293	
Other Investments ¹ :		
Equity Securities:		
Domestic	210,245,792	
International	68,928,990	
Subtotal:	279,174,782	
Special Strategies:		
Domestic	61,359,262	
International	25,271,486	
Life Settlement Funds	12,366,640	
Subtotal:	98,997,388	
Real Estate Funds	46,894,449	
Subtotal Other Investments:	425,066,618	
Total Investments	\$ 491,154,912	

¹ Other Investments are not subject to interest rate risk.



3. DEPOSITS AND INVESTMENTS (CONTINUED)

Securities Lending Transactions

The OPEB Trust has authorized The Northern Trust Company (“Agent”) to enter into, on behalf of the OPEB Trust, securities lending transactions—loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. Initial collateral, consisting of cash or securities, levels must be at least 102% of the market value of borrowed securities, or at least 105% if the borrowed securities and collateral are denominated in different currencies. The maturities of the investments made with cash collateral do not necessarily match the maturities of the securities on loan. There are no restrictions on the amount of securities that can be lent at one time or to one borrower. The borrower is required to deliver additional collateral when necessary so that the total collateral held by the Agent for all loans to the borrower will at least equal the market value of the securities loaned. The OPEB Trust does not have the ability to pledge or sell collateral securities without a borrower default.

Collateral held in trust for securities on loan included in the 2019 and 2018 Statements of Fiduciary Net Position consists of cash collateral. At December 31, 2019 and 2018, the OPEB Trust has no credit risk exposure to borrowers because the amounts the OPEB Trust owes to the borrowers exceed the amounts the borrowers owe the OPEB Trust. Under the terms of the lending agreement, the OPEB Trust is indemnified against any losses, damages, costs and expenses should the Agent be unable to recover borrowed securities and distributions due borrower filing for bankruptcy or similar relief or failure of the Agent to properly evaluate the creditworthiness of the borrower. In addition, the OPEB Trust is indemnified against loss should the Agent fail to demand adequate and appropriate collateral on a timely basis. Investments held by broker-dealers under securities loans consist of the following:

As of December 31, 2019						
Security Type	Market Value of Loaned Securities Collateralized			Collateral Received from Borrowers		
	Cash Collateral	Non-Cash Collateral	Total	Cash Collateral	Non-Cash Collateral ¹	Total
US Equities	\$ 11,217,013	\$ 6,287,544	\$ 17,504,557	\$ 11,448,942	\$ 6,419,197	\$ 17,868,139
Total	\$ 11,217,013	\$ 6,287,544	\$ 17,504,557	\$ 11,448,942	\$ 6,419,197	\$ 17,868,139

As of December 31, 2018						
Security Type	Market Value of Loaned Securities Collateralized			Collateral Received from Borrowers		
	Cash Collateral	Non-Cash Collateral	Total	Cash Collateral	Non-Cash Collateral ¹	Total
GLOBAL Equities	\$ -	\$ 156,584	\$ 156,584	\$ -	\$ 166,234	\$ 166,234
US Equities	654,246	5,454,745	6,108,991	667,853	5,589,515	6,257,368
US Government Fixed	-	4,995,240	4,995,240	-	5,086,620	5,086,620
Total	\$ 654,246	\$ 10,606,569	\$ 11,260,815	\$ 667,853	\$ 10,842,369	\$ 11,510,222

¹ Collateral values are estimates based on program wide collateralization levels

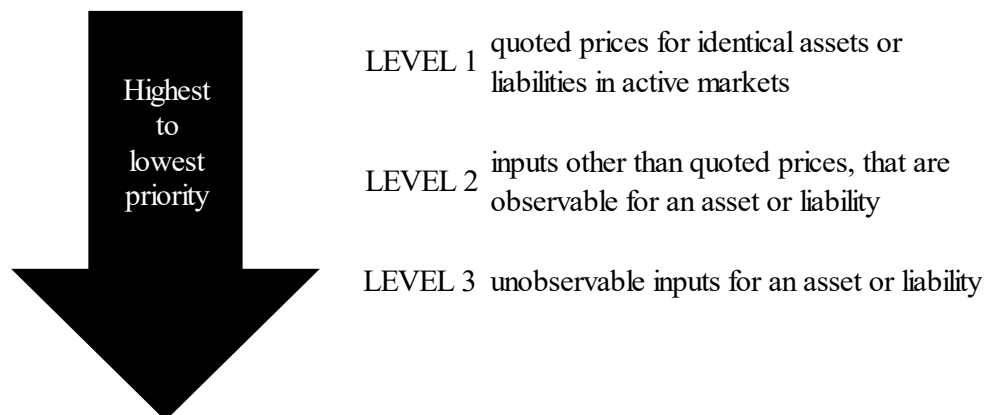
4. FAIR VALUE MEASUREMENTS

The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB 72 requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. This Statement establishes a hierarchy that prioritizes and ranks the inputs to valuation techniques used to measure fair value based on observability. The accounting standards break down the fair value hierarchy into three levels, based on how observable the inputs are that make up the valuation. The most observable inputs are classified as Level 1, inputs other than quoted prices included within level 1 that are observable for an asset or liability, either directly or indirectly are classified as Level 2, and the unobservable inputs are classified as Level 3.

Level 1: Fair value is determined using unadjusted quoted prices for identical assets or liabilities in active markets that are accessible on the measurement date. Examples of Level 1 inputs include the following: (i) common and preferred stock, (ii) mutual fund, (iii) short-term securities.

Level 2: Fair value is determined using quoted market prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive market; inputs other than quoted prices that are observable for the asset or liability; market-corroborated inputs. Examples of Level 2 inputs include the following: bond or fixed income fund valued by a pricing service that uses matrix pricing.

Level 3: Fair value is determined using unobservable inputs for an asset or liability. As a general rule, Level 3 inputs are those that are difficult to obtain on a regular basis and require verification from an outside party to validate the valuation.



OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2019 and 2018



4. FAIR VALUE MEASUREMENTS (CONTINUED)

The following table displays information regarding investments measured using the fair value hierarchy:

Investments Measured at Fair Value (Dollars in Thousands)				
	December 31 2019	Fair Value Measurements		
		Level 1	Level 2	Level 3
Assets:				
Investments by fair value level				
Debt other	\$ 66,088	\$ 40,804	\$ 25,284	\$ -
Total Debt Securities	66,088	40,804	25,284	-
Equity Securities				
Consumer Discretionary	\$ 13,737	13,737	-	-
Consumer Staples	5,739	5,739	-	-
Energy	4,792	4,792	-	-
Equity Other	172,813	172,813	-	-
Financials	18,471	18,471	-	-
Health Care	18,881	18,881	-	-
Industrials	13,193	13,193	-	-
Information Technology	17,626	17,626	-	-
Materials	8,424	8,424	-	-
Real Estate	822	822	-	-
Telecommunication Services	4,548	4,548	-	-
Utilities	130	130	-	-
Total Equity Securities	279,176	279,176	-	-
Total investments by fair value level	\$ 345,264	\$ 319,980	\$ 25,284	-
Investments measured at the net asset value (NAV) *				
Distressed Debt	\$ 28,032			
Hedge Fund - Life Settlement Contracts	12,367			
Private Debt	1,828			
Private Equity**	56,770			
Real Estate	46,894			
Total investments Measured at Net Asset Value	\$ 145,891			
Total Investments Measured at Fair Value	\$ 491,155			

*In accordance with GASB 72, certain investments that were measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statement of net position.

**Investments include a private equity firm, GPB Holdings II, LP, valued at \$8.0 million and \$8.8 million at 2019 and 2018, respectively. As of this report date, the fair market value (FMV) statements from the general partner have not been provided for the years ended December 31, 2019 and 2018. The 2019 investment value is based on the June 30, 2019 FMV statement, which represents the most recent FMV statement provided by the general partner. The 2018 investment value is based on the initial capital contribution less capital distributions at year-end.

OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST

NOTES TO THE FINANCIAL STATEMENTS

Years Ended December 31, 2019 and 2018



4. FAIR VALUE MEASUREMENTS (CONTINUED)

OPEB Trust measures certain investments that do not have a readily determinable fair value using NAV as a practical expedient. These investments are generally structured as limited partnerships, hedge funds, private equity funds, private debt, and real estate funds. The investments measured at NAV as a practical expedient are excluded from the fair value hierarchy because the valuation is not based on actual market inputs, but rather is quantified using the fund's reported NAV.

The following table displays information regarding investments that use NAV per share (or equivalent) as their fair value measurement:

Investments Measured at Net Asset Value (NAV) (Dollars in Thousands)				
	Fair Value December 31, 2019	Unfunded Commitments	Redemption Notice Period	Redemption Frequency (If Currently Eligible)
Distressed Debt ¹	28,032	19,701	NA	NA
Hedge Fund - life settlement contracts ²	12,367	-	90-120 days	Quarterly
Private Debt ³	1,828	-	NA	NA
Private Equity ⁴	56,770	16,929	NA	NA
Real Estate ⁵	46,894	4,598	30-120 days	Quarterly/Annually
Total investments measured at NAV	\$ 145,891	\$ 41,228		

¹ This category includes seven distressed debt funds that invest in senior secured debt and stressed assets that are restructuring or believed to be misunderstood in the market place. OPEB Trust investment in each fund is generally not subject to redemption and is normally returned through distributions as a result of the liquidation of holdings.

² This category includes three hedge funds - life settlement contracts that invest in longevity contingent assets, including life settlements and a portfolio of individual, non-variable, life insurance policies. OPEB Trust investments in this category are generally subject to a 1 year lockup period before redemption is permissible. The investments in this category representing 23.0% can be redeemed quarterly with 120 days notice; 47.7% can be redeemed quarterly with 90 days notice. The remaining 29.3% are not subject to redemption.

³ This category includes one private debt fund that invest in miscellaneous. OPEB Trust investment in each fund is generally not subject to redemption and is normally returned through distributions as a result of the liquidation of holdings.

⁴ This category includes six private equity funds that invest in health care and technology, utilities, transportation, and energy assets, high quality cash flowing companies and secondary investments across various sectors. OPEB Trust investment in this category representing 14.0% can be redeemed monthly after the third month; 13.2% can be redeemed with 60 day notice. The remaining 72.8% is generally not subject to redemption and is normally returned through distributions as a result of the liquidation of holdings.

⁵ This category includes five real estate funds that invest in office, retail, industrial, and multi-family properties. OPEB Trust investment in this category representing 14.0% with no redemption queue; 31.0% can be redeemed quarterly with 45 days notice; 36.5% can be redeemed quarterly with 90 days notice. The remaining 18.5% are not subject to redemption.

5. INCOME TAX STATUS

The OPEB Trust is a non-taxable trust formed under Section 115 of the Internal Revenue Code as an essential government function trust. MLGW intends to obtain a private letter ruling confirming the Section 115 Trust. Management believes that the plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code.

OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST

NOTES TO THE FINANCIAL STATEMENTS

Years Ended December 31, 2019 and 2018



6. SUBSEQUENT EVENT

Subsequent to December 31, 2019, the report date of the OPEB Trust financial statements, the World Health Organization declared the outbreak of what is now known as the Coronavirus (COVID-19) a pandemic in March of 2020. As the world struggled to understand the nature of the disease, its impact was being felt across various sectors of the economy, resulting in significant volatility in the financial markets. The downward turn in the market towards the end of March 2020 negatively impacted the OPEB Trust's investments, resulting in a 13.34% decline in the fund balance as of the end of the first quarter. Because the OPEB Trust remained fully invested, it also experienced the recovery, a preliminary gain of 7.2% that occurred in April. Consequently, the results in 2020 are slightly ahead of expectations given the toll the COVID-19 pandemic has had on the economy as a whole.

REQUIRED SUPPLEMENTARY INFORMATION

OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST

REQUIRED SUPPLEMENTARY INFORMATION

Years Ended December 31, 2019 and 2018



Schedule of Changes in Net OPEB Liability

	2019	2018	2017
Total OPEB Liability			
Service cost	\$ 15,804	\$ 15,381	\$ 19,520
Interest	53,030	50,560	64,667
Change of benefit terms	-	-	(61,896)
Differences between expected and actual experience	15,351	(3,134)	3,674
Changes in assumptions	(46,583)	-	(200,370)
Benefit payments, including refunds of employee contributions	(31,916)	(28,677)	(29,457)
Net change in Total OPEB Liability	5,686	34,130	(203,862)
Total OPEB Liability – beginning	707,219	673,089	876,951
Total OPEB Liability – ending (a)	\$ 712,905	\$ 707,219	\$ 673,089
Plan Fiduciary Net Position			
Contributions – employer	\$ 33,949	\$ 48,972	\$ 45,184
Contributions – employee	-	-	-
Net investment income	76,566	(14,273)	57,671
Benefit payments including refunds of employee contributions	(31,916)	(28,677)	(29,457)
Administrative expense	-	-	-
Other	-	-	-
Net change in Plan Fiduciary Net Position	\$ 78,599	\$ 6,022	\$ 73,398
Other Adjustments	-	-	-
Plan Fiduciary Net Position – beginning	425,748	419,726	346,328
Plan Fiduciary Net Position – ending (b)	\$ 504,347	\$ 425,748	\$ 419,726
Net OPEB Liability – ending (a) – (b)	\$ 208,558	\$ 281,471	\$ 253,363
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	70.75%	60.20%	62.36%
Covered employee payroll	\$ 170,946	\$ 169,605	\$ 167,221
Plan Net OPEB Liability as a percentage of covered employee payroll	122.00%	165.96%	151.51%

Notes to Schedule:

Benefit changes: There have been no material changes in benefit provisions.

Change of assumptions:

- Medical and Prescription Drug trends were updated.
- Expected claims were also updated.
- The excise tax was removed.
- The discount rate was lowered from 7.50% to 7.25%.
- The demographic assumptions were updated for the December 31, 2019 OPEB liability based on the five year experience study ending December 31, 2018.

Historical data: This schedule will be expanded to reflect ten years of data, as the information becomes available.

OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST**REQUIRED SUPPLEMENTARY INFORMATION**

Years Ended December 31, 2019 and 2018

**Schedule of Employer Contributions**

Fiscal Year Ended December 31	Actuarially Determined Contribution (ADC)	Actual Contribution in Relation to ADC	Contribution Deficiency (Excess)	Covered Payroll	Contributions as Percentage of Covered Payroll
2019	\$ 31,701	\$ 33,949	\$ (2,248)	\$ 170,946	19.86%
2018	48,270	48,972	(702)	169,605	28.87%
2017	46,978	45,184	1,794	167,221	27.02%
2016	45,289	42,496	2,793	161,926	26.24%
2015	38,187	38,438	(251)	160,641	23.93%
2014	38,386	42,100	(3,714)	152,368	27.63%
2013	42,854	43,043	(189)	154,759	27.81%
2012	42,427	39,747	2,680	154,347	25.75%
2011	44,666	43,554	1,112	154,036	28.28%
2010	43,693	43,476	217	153,509	28.32%

OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST

REQUIRED SUPPLEMENTARY INFORMATION

Years Ended December 31, 2019 and 2018



Schedule of Investment Returns

Fiscal Year Ended December 31	Actuarial Value Investment Return		Market Value Investment Return	
	Amount	Percent	Amount	Percent
2019	\$ 32,838,366	7.32	\$ 76,564,407	17.94
2018	21,144,708	5.08	(14,072,778)	-3.27
2017	27,899,278	7.52	57,671,196	16.28
2016	14,123,059	4.14	26,412,553	8.47
2015	15,526,835	4.99	(7,239,204)	-2.37
2014	19,365,937	6.95	13,205,614	4.74
2013	32,724,319	14.23	32,724,319	14.23
2012	22,593,929	11.92	22,593,929	11.92
2011	2,246,675	1.32	2,246,675	1.32
2010	15,603,337	11.52	15,603,337	11.52
Total	\$ 204,066,443		\$ 225,710,048	
Five-year average return		5.91%	7.62%	
Ten-year average return		7.06%	7.97%	

AVA return for 2014 reflects an asset method change which increased the return by 6,160,323, or 2.21%. Prior to 2014, the actuarial value of assets was equal to the market value of assets.

OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST**REQUIRED SUPPLEMENTARY INFORMATION**

Years Ended December 31, 2019 and 2018

**Notes to the Required Schedules**

Valuation Date	December 31, 2019
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay, closed, 30 years
Remaining Amortization Period	26 years as of December 31, 2019
Asset Valuation Method	Market value of assets less unrecognized returns in each of the last four years (applied prospectively beginning with 2014). Unrecognized return is equal to the difference between the actual market return and expected market return, and is recognized over a five-year period, further adjusted, if necessary, to be within 20% of the market value.
Actuarial Assumptions:	
Investment Rate of Return	7.25%
Inflation Rate	2.50%
Projected Salary Increases	Inflation plus merit increases that vary by age and service
Medical Cost Trend Rate	7.00% grading to 4.50% over 10 years
Drug Cost Trend Rate	8.00% grading to 4.50% over 14 years

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Board of Commissioners and Management
Memphis Light, Gas and Water Division
Other Post Employment Benefits Trust
Memphis, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Memphis Light, Gas and Water Division Other Post Employment Benefits Trust (the "OPEB Trust"), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the OPEB Trust's basic financial statements, and have issued our report thereon dated June 3, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the OPEB Trust's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the OPEB Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of the OPEB Trust's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the OPEB Trust's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Memphis, Tennessee

June 3, 2020

OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2019



There were no prior findings reported.