

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

Financial Statements
December 31, 2021 and 2020

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

Financial Statements

For the Years ended December 31, 2021 and 2020

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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, 2021. 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 2021 financial statements have been audited by Dixon Hughes Goodman LLP. 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, 2021, 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 issued an unmodified opinion on the MLGW OPEB Trust’s financial statements for the years ended December 31, 2021 and 2020. The independent auditors’ 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 (Secretary-Treasurer) of the Division, two Employee Members, one Retiree Member, and one Citizen Member.

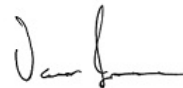
Funded Status - As of December 31, 2021, the plan was 90.15% funded. The Total OPEB Liability for benefits was \$781,347,616 and the Plan Fiduciary Net Position was \$704,348,463, resulting in a Net OPEB Liability (“NOL”) of \$76,999,153. The covered employee payroll was \$175,790,422 and the ratio of the NOL to the covered employee payroll was 43.80%.

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 Dixon Hughes Goodman LLP 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



Steve Wishnia
Chairman



J. T. Young
Vice Chairman



Dana Jeanes
Secretary-Treasurer



Nicholas Newman
Employee Member
Term Expires: 12/31/2024



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



Jerry Collins
Retired Member
Term Expires: 12/31/2023



Pamela Z. Clary
Citizen Member
Term Expires: 6/30/2023

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

Brian Jones
Senior Vice President and Senior Consultant

CUSTODIAN

Northern Trust Corporation

Anabel Arguello
Senior Vice President and Relationship Manager

Victor Paniagua
Account Manager-Trust

ACTUARY CONSULTANT

Segal Consulting

Samuel Boustani, ASA, MAAA
Consulting Actuary

LEGAL CONSULTANT

Evans & Petree, PC

Frank N. Stockdale Carney
Shareholder

Elizabeth Friary
Associate



Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements 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, which comprise the statements of fiduciary net position as of December 31, 2021 and 2020, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the fiduciary net position of the OPEB Trust as of December 31, 2021 and 2020, and the changes in its fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the OPEB Trust and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

As discussed in Note 1, the accompanying statements are those of Memphis Light, Gas and Water Division Other Post Employment Benefits Trust. 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, 2021 and 2020, and the respective changes in their financial position or, where applicable, their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.



Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Plan's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not absolute assurance, and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 OPEB Trust's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the OPEB Trust's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis the Schedule of Changes in Net OPEB Liability, the Schedule of Employer Contributions, and the Schedule of Investment Returns on pages 4 through 11 and 34 through 38 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

Management is responsible for the other information included in the annual report. The other information comprises the introductory section but does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2022, 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.

Dixon Hughes Goodman LLP

Memphis, Tennessee
May 27, 2022

OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended December 31, 2021 and 2020



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, 2021 and December 31, 2020. 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, 2021 was \$704.3 million, an increase of \$110.8 million, or 18.7%, over total fiduciary net position at December 31, 2020.
- Cash and cash equivalents increased \$4.8 million from \$4.8 million at December 31, 2020 to \$9.6 million at December 31, 2021.
- Investments at fair value were \$694.6 million at December 31, 2021, an increase of \$100.0 million, or 16.8%, over investments of \$594.5 million at December 31, 2020.
- The OPEB Trust experienced gains of \$110.8 million and \$89.2 million in 2021 and 2020, respectively.
- Total additions to OPEB Trust fiduciary net position were \$144.1 million during 2021, an increase of \$24.3 million compared to 2020.
- Net investment activities income increased by \$21.6 million, or 25.5%, primarily as a result of a \$22.1 million increase in net appreciation in the fair value of investments. For 2021, net appreciation in fair value of investments totaled \$101.9 million compared with net appreciation in the fair value of investments of \$79.8 million for 2020.
- Total deductions from OPEB Trust fiduciary net position were \$33.3 million during 2021, an increase of \$2.7 million compared to 2020.



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.

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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 | | | | | |
|---|------------------------------|------------------------------|-------------------------------------|------------------------------|-------------------------------------|
| | 2021 | 2020 | FY21 - FY20 Percentage Change | 2019 | FY20 - FY19 Percentage Change |
| Assets | | | | | |
| Cash and cash equivalents | \$ 9,558,214 | \$ 4,773,804 | 100.2% | \$ 13,596,720 | -64.9% |
| Investments, at fair value* | 694,590,617 | 594,541,824 | 16.8% | 491,154,912 | 21.0% |
| Receivables | 6,567,869 | 1,477,800 | 344.4% | 948,765 | 55.8% |
| Collateral held for securities on loan | 486,388 | 214,904 | 126.3% | 11,448,942 | -98.1% |
| Total assets | <u>711,203,088</u> | <u>601,008,332</u> | 18.3% | <u>517,149,339</u> | 16.2% |
| Liabilities | | | | | |
| Employer | 914,066 | 710,490 | 28.7% | 661,572 | 7.4% |
| Liability for securities purchased and accrued expenses | 5,454,170 | 6,538,668 | -16.6% | 692,207 | 844.6% |
| Collateral subject to return to borrowers | 486,388 | 214,904 | 126.3% | 11,448,942 | -98.1% |
| Total liabilities | <u>6,854,624</u> | <u>7,464,062</u> | -8.2% | <u>12,802,721</u> | -41.7% |
| Net position restricted for OPEB | <u><u>\$ 704,348,464</u></u> | <u><u>\$ 593,544,270</u></u> | 18.7% | <u><u>\$ 504,346,618</u></u> | 17.7% |

*Investments include a private equity investment, GPB Holdings II, LP, valued at \$12.2 million and \$8.0 million at December 31, 2021 and 2020, respectively. The 2020 and 2019 investment value is based on the June 30, 2019 statement, which represented the most recent fair value statement provided by the general partner.

Assets

2021 Compared to 2020

At December 31, 2021, total assets were \$711.2 million, an increase of \$110.2 million, or 18.3%, over 2020. The increase in total assets is primarily due to investments earnings, accrued receivables 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 securities, domestic and international special strategies funds, real estate funds, life settlement funds, hedge fund, and short-term investments. For 2021, investments at fair value totaled \$694.6 million, an increase of \$100.0 million, or 16.8% over 2020. The increase in total investments is complemented by a \$4.4 million increase in receivables for securities sold compared to 2020.

2020 Compared to 2019

At December 31, 2020, total assets were \$601.0 million, an increase of \$83.9 million, or 16.2%, over 2019. The increase in total assets is primarily due to investment earnings and funds from contributions.

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 2020, investments at fair value totaled \$594.5 million, an increase of \$103.4 million, or 21.0% over 2019. The increase in total investments was offset by a decrease in collateral held for securities on loan under the OPEB Trust's securities lending program compared to 2019.

Liabilities

2021 Compared to 2020

At December 31, 2021, total liabilities were \$6.9 million, a decrease of \$0.6 million, or 8.2% from \$7.5 million at 2020. The decrease is primarily derived from the decrease in securities purchased and accrued expenses, offset in part by an increase in other liabilities and collateral subject to return to borrowers under the OPEB Trust's securities lending program.

2020 Compared to 2019

At December 31, 2020, total liabilities were \$7.5 million, a decrease of \$5.3 million, or 41.7% from \$12.8 million at 2019. The decrease is primarily derived from the decrease in collateral subject to return to borrowers under the OPEB Trust's securities lending program, offset by an increase in liabilities for securities purchased and accrued expenses.



ANALYSIS OF OPEB TRUST FIDUCIARY NET POSITION (Continued)

Fiduciary Net Position

2021 Compared to 2020

At December 31, 2021, the OPEB Trust fiduciary net position was \$704.3 million, an increase of \$110.8 million, or 18.7%, over December 31, 2020 net position. The increase in net position is primarily due to contributions and investment earnings of \$144.1 million, offset in part by benefit payments of \$32.4 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 an increase in employer contributions, offset by an increase in benefits paid.

2020 Compared to 2019

At December 31, 2020, the OPEB Trust fiduciary net position was \$593.5 million, an increase of \$89.2 million, or 17.7%, over December 31, 2019 net position. The increase in net position is primarily due to contributions and investment earnings of \$119.8 million, offset in part by benefit payments of \$29.8 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, an increase in employer contributions, and a decrease in benefits paid.

See next page



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, 2021, 2020 and 2019 | | | | | |
|--|-----------------------|-----------------------|-------------------------------------|-----------------------|-------------------------------------|
| | <u>2021</u> | <u>2020</u> | FY21 - FY20 Percentage Change | <u>2019</u> | FY20 - FY19 Percentage Change |
| Additions | | | | | |
| Contributions | \$ 37,560,901 | \$ 34,894,584 | 7.6% | \$ 33,949,385 | 2.8% |
| Net investment activities income | 106,492,979 | 84,875,225 | 25.5% | 76,529,295 | 10.9% |
| Securities lending activities income | 18,697 | 16,114 | 16.0% | 35,113 | -54.1% |
| Total additions | <u>144,072,577</u> | 119,785,923 | 20.3% | 110,513,792 | 8.4% |
| Deductions | | | | | |
| Benefit payments | 32,445,083 | 29,775,881 | 9.0% | 31,145,977 | -4.4% |
| Administrative expense | 823,301 | 812,390 | 1.3% | 769,689 | 5.5% |
| Total deductions | <u>33,268,384</u> | 30,588,271 | 8.8% | 31,915,666 | -4.2% |
| Net increase | 110,804,193 | 89,197,652 | 24.2% | 78,598,126 | 13.5% |
| Net position restricted for OPEB | | | | | |
| Beginning of year | <u>593,544,270</u> | 504,346,618 | 17.7% | 425,748,492 | 18.5% |
| End of year | <u>\$ 704,348,463</u> | <u>\$ 593,544,270</u> | 18.7% | <u>\$ 504,346,618</u> | 17.7% |

Change in Net Position

2021 Compared to 2020

The change in net position in 2021 of \$110.8 million was 24.2% more than the prior year's increase of \$89.2 million as a result of an increase in net investment activities income and employer contributions, offset by an increase in benefit payments. Net investment activities income increased by \$21.6 million, or 25.5%, due to net appreciation in the fair value of investments across the OPEB Trust's portfolio of asset classes. The investment appreciation was affiliated with domestic common stock funds, domestic and international collective funds, international distressed debt fund, domestic equity mutual index fund, and domestic private equity funds.

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

Change in Net Position (continued)

2020 Compared to 2019

The change in net position in 2020 of \$89.2 million was 13.5% more than the prior year's increase of \$78.6 million as a result of an increase in net investment activities income, employer contributions, and a decrease in benefit payments. Net investment activities income increased by \$8.3 million, or 10.9%, due to net appreciation in the fair value of investments across the OPEB Trust's portfolio of asset classes. The investment appreciation was affiliated with domestic common stock funds, domestic and international collective funds, international equity mutual fund, domestic equity mutual index fund, domestic private equity funds, domestic convertible bond mutual fund and international global bond fund.

Additions

2021 Compared to 2020

Total additions to fiduciary net position increased by \$24.3 million, or 20.3%, compared to 2020, primarily as a result of an increase in net investment activities income of \$21.6 million and employer contributions of \$2.7 million.

2020 Compared to 2019

Total additions to fiduciary net position increased by \$9.3 million, or 8.4%, compared to 2019, primarily as a result of an increase in net investment activities income of \$8.3 million and employer contributions of \$0.9 million.

Deductions

2021 Compared to 2020

Total deductions from fiduciary net position amounted to \$33.3 million for 2021, up from \$30.6 million for 2020. The increase is primarily due to a \$2.7 million increase in benefit payments. Amounts recognized in relation to OPEB related expenses totaled \$38.6 million and \$36.4 million for 2021 and 2020, respectively.



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

Deductions (continued)

2020 Compared to 2019

Total deductions from fiduciary net position amounted to \$30.6 million for 2020, down from \$31.9 million for 2019. The decrease is primarily due to a \$1.4 million decrease in benefit payments. Amounts recognized in relation to OPEB related expenses totaled \$36.4 million and \$37.9 million for 2020 and 2019, respectively.

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

December 31, 2021 and 2020



| | December 31 | |
|---|------------------------------|------------------------------|
| | <u>2021</u> | <u>2020</u> |
| Assets | | |
| Cash and cash equivalents | \$ 9,558,214 | \$ 4,773,804 |
| Investments, at Fair Value: | | |
| Equity Funds: | | |
| Common stock - domestic | 132,720,754 | 120,368,482 |
| Common stock - international | 508,250 | 538,871 |
| Equity mutual fund - international | 30,398,399 | 32,145,671 |
| Equity collective fund - domestic | 49,101,159 | 41,340,909 |
| Equity collective fund - international | 41,808,720 | 43,880,745 |
| Equity commingled fund - international | 17,991,457 | 17,260,269 |
| Equity mutual index fund - domestic | 91,288,714 | 72,137,442 |
| Equity hedge fund - domestic | 11,386,564 | 10,553,825 |
| Fixed Income Funds: | | |
| Corporate bond mutual funds - domestic | 51,204,241 | 34,977,257 |
| Convertible bond mutual fund - domestic | 16,893,880 | 16,047,166 |
| Global bond fund - international | 38,409,437 | 28,234,357 |
| Special Strategies Funds: | | |
| Private equity funds - domestic* | 66,587,812 | 53,009,830 |
| Private equity funds - international | 8,789,169 | 6,459,434 |
| Private debt fund - domestic | 2,309,117 | 2,057,751 |
| Distressed debt funds - domestic | 16,481,666 | 20,415,384 |
| Distressed debt funds - international | 24,664,917 | 27,335,504 |
| Life settlement funds | 17,503,199 | 15,028,808 |
| Real Estate Funds | 76,543,162 | 52,750,119 |
| Total investments | <u>694,590,617</u> | <u>594,541,824</u> |
| Receivables: | | |
| Employer | 914,066 | 710,490 |
| Interest and dividends | 1,059,562 | 603,071 |
| Securities sold and accrued income | 4,594,240 | 164,239 |
| Total receivables | <u>6,567,868</u> | <u>1,477,800</u> |
| Collateral held in trust for securities on loan | <u>486,388</u> | <u>214,904</u> |
| Total assets | <u>711,203,087</u> | <u>601,008,332</u> |
| Liabilities | | |
| Employer | 914,066 | 710,490 |
| Securities purchased and accrued expenses | 5,454,170 | 6,538,668 |
| Collateral subject to return to borrowers | 486,388 | 214,904 |
| Total liabilities | <u>6,854,624</u> | <u>7,464,062</u> |
| Net position restricted for other post employment benefits | <u><u>\$ 704,348,463</u></u> | <u><u>\$ 593,544,270</u></u> |

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

*Private equity funds - domestic include a private equity investment, GPB Holdings II, LP, valued at \$12.2 million and \$8.0 million at December 31, 2021 and 2020, respectively. The 2020 investment value is based on the June 2019 statement, which represented the most recent fair value statement provided by the general partner.

OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
Years Ended December 31, 2021 and 2020



| | Years Ended December 31 | |
|---|--------------------------------|-----------------------|
| | <u>2021</u> | <u>2020</u> |
| Additions | | |
| Contributions: | | |
| Employer | <u>\$ 37,560,901</u> | <u>\$ 34,894,584</u> |
| Total contributions | <u>37,560,901</u> | <u>34,894,584</u> |
| Investment Activities Income: | | |
| Net appreciation in fair value of investments | <u>101,942,849</u> | 79,813,915 |
| Interest income | <u>2,786,935</u> | 3,183,377 |
| Real estate income | <u>1,131,992</u> | 1,006,802 |
| Dividend income | <u>2,658,379</u> | 2,645,627 |
| Other income | <u>9,462</u> | 2,858 |
| Investment activities income | <u>108,529,617</u> | 86,652,579 |
| Less investment activities expense | <u>2,036,638</u> | <u>1,777,354</u> |
| Net investment activities income | <u>106,492,979</u> | 84,875,225 |
| Securities Lending Activities: | | |
| Securities lending income | <u>12,271</u> | 25,118 |
| Securities Lending Expenses: | | |
| Borrower rebates | <u>11,094</u> | (4,981) |
| Management fees | <u>(4,668)</u> | <u>(4,023)</u> |
| Total securities lending expenses | <u>6,426</u> | <u>(9,004)</u> |
| Net securities lending activities income | <u>18,697</u> | 16,114 |
| Total investment activities income | <u>106,511,676</u> | <u>84,891,339</u> |
| Total additions | <u>144,072,577</u> | 119,785,923 |
| Deductions | | |
| Benefit payments | <u>32,445,083</u> | 29,775,881 |
| Administrative expense | <u>823,301</u> | <u>812,390</u> |
| Total deductions | <u>33,268,384</u> | <u>30,588,271</u> |
| Change in net position | <u>110,804,193</u> | 89,197,652 |
| Net position restricted for other post employment benefits | | |
| Beginning of year | <u>593,544,270</u> | 504,346,618 |
| End of year | <u>\$ 704,348,463</u> | <u>\$ 593,544,270</u> |

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



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

By an agreement dated January 1, 1995, by and between Memphis Light, Gas and Water Division (“MLGW” or the “Division”) 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Recent Accounting Standards

In October 2021, the Government Accounting Standards Board ("GASB") issued Statement No. 98, *The Annual Comprehensive Financial Report*. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace the term comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. Adoption of this statement will have no effect on the OPEB Trust's 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.



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

The OPEB Trust's investments are reported at fair value. Securities traded on a national securities exchange 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.

Equity securities are comprised of both domestic and international securities.

Collective Investment Trusts ("CITs") are incorporated into the OPEB Trust and are designed to streamline investment management for the investment manager by combining assets from different clients into a single fund with a specific investment strategy, similar to a mutual fund. They provide for pooling of assets of employee benefits trusts, that meet all of the conditions as permitted under Revenue Rulings 81-100 and 2011-1, or subsequent guidance, and that are operated or maintained exclusively for the commingling and collective investment of funds from other trusts.

For certain corporate and convertible bonds that do not have quoted prices in active markets, MLGW's Custodian determines the value using basic assumptive information received from Bloomberg or Reuter's Analytics after the prices for the majority of corporate deals are obtained.

The special strategies funds are comprised of domestic and international limited partnerships and other investments in the following categories: private equity, distressed debt, private debt, and life settlement. The fair value of these funds and the real estate funds is based on information obtained from the partnerships' monthly and quarterly statements provided by the fund managers. They are measured at Net Asset Value ("NAV").

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.



2. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Plan Description (continued)

The Board of Commissioners of Memphis Light, Gas and Water Division serves as the “Trustee” and establishes the policies of the MLGW Plan. 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.

Members of the Plan consisted of the following at December 31, 2021 and 2020:

| | <u>2021</u> | <u>2020</u> |
|---|--------------|--------------|
| Retirees and beneficiaries receiving benefits | 3,637 | 3,797 |
| Active plan members | 2,426 | 2,480 |
| Total | <u>6,063</u> | <u>6,277</u> |

2. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Plan Description (continued)

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, 2021, plan members contributed \$5,549,929, or 14.4% of total premiums and expenses, through their required contributions of \$54.30 to \$531.92 per month depending on the coverage (retiree only, retiree and spouse, or family) and health plan selected. For the year ended December 31, 2020, plan members contributed \$6,091,713, or 16.7% of total premiums and expenses, through their required contributions of \$54.30 to \$531.92 per month depending on the coverage (retiree only, retiree and spouse, or family) and health plan selected. On the Statements 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 \$37,560,901 and \$34,894,584 for the years ended December 31, 2021 and 2020, 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 \$33,039,721 and \$30,323,580 for 2021 and 2020, respectively. On the Statements of Changes in Fiduciary Net Position, these premium expenses equal total deductions of \$33,268,384 and \$30,588,271 in 2021 and 2020, respectively, less professional services related administrative expenses (e.g., investment advisory fees, actuarial consulting fees, etc.) of \$228,663 and \$264,691 in 2021 and 2020, 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.

OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST

NOTES TO THE FINANCIAL STATEMENTS

Years Ended December 31, 2021 and 2020



2. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Contributions

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")

The components of the Net OPEB Liability of the OPEB Trust at December 31, 2021 and 2020 were as follows:

| | <u>2021</u> | <u>2020</u> |
|---|-----------------------|-----------------------|
| Total OPEB Liability | <u>\$ 781,347,616</u> | <u>\$ 745,339,169</u> |
| Plan Fiduciary Net Position | <u>704,348,463</u> | <u>593,544,270</u> |
| Net OPEB Liability | <u>\$ 76,999,153</u> | <u>\$ 151,794,899</u> |
| | | |
| Plan Fiduciary Net Position as a percentage of the Total OPEB Liability | 90.15% | 79.63% |

2. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Net OPEB Liability(“NOL”) (continued)

Significant assumptions were as follows at December 31, 2021:

Actuarial Assumptions:

| | |
|------------------------------|---|
| Inflation | 2.50% |
| Salary increases | Inflation plus merit increases based on age and service |
| Discount Rate | 7.00% |
| Healthcare costs trend rates | |
| Medical | 7.00% grading to 4.50% over 10 years |
| Prescription drug | 8.00% grading to 4.50% over 14 years |
| Administrative costs | 3.00% |
| Mortality rates | PRI-2012 Healthy Annuitant Mortality Table, Headcount-Weighted, for males and females, as appropriate, with adjustments for mortality improvement using Scale SSA-2019. |

Discount Rate and Investment Rates of Return

The discount rate used to measure the total OPEB liability was 7.00% and 7.25% for December 31, 2021 and 2020, respectively. The projection of cash flows 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, 2021.

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.



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 in the following table as of December 31, 2021:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|------------------------|--------------------------|---|
| Domestic Equity | 35.00% | 6.40% |
| International Equity | 9.00% | 7.37% |
| Fixed Income | 24.00% | 0.77% |
| Alternatives | 15.00% | 7.85% |
| Real Estate | 15.00% | 3.90% |
| Short Term Investments | 2.00% | -0.10% |
| Total | 100.00% | |

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

The following presents the NOL of the Division as of December 31, 2021 as well as what the Division's NOL would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) 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 cost trend rate.

| | <u>1% Decrease in Discount Rate (6.00%)</u> | <u>Current Discount Rate (7.00%)</u> | <u>1% Increase in Discount Rate (8.00%)</u> |
|---|---|--------------------------------------|---|
| Net OPEB Liability (Asset) as of December 31, 2021 (\$ in thousands) | \$ 182,863 | \$ 76,999 | \$ (10,098) |

| | <u>1% Decrease in Health Care Cost Trend Rate</u> | <u>Current Health Care Cost Trend Rate</u> | <u>1% Increase in Health Care Cost Trend Rate</u> |
|---|---|--|---|
| Net OPEB Liability (Asset) as of December 31, 2021 (\$ in thousands) | \$ (8,375) | \$ 76,999 | \$ 182,014 |



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; hedge fund; and short-term investments.

OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST

NOTES TO THE FINANCIAL STATEMENTS

Years Ended December 31, 2021 and 2020



3. DEPOSITS AND INVESTMENTS (CONTINUED)

As of December 31, 2021, 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 | \$ 128,471,039 | 18.24% | | |
| Equity collective fund - domestic | 49,101,159 | 6.97% | | |
| Equity mutual index fund - domestic | 91,288,714 | 12.96% | | |
| Equity hedge fund - domestic | 11,386,564 | 1.62% | | |
| Securities on Loan: | | | | |
| Common stock - domestic | 4,249,715 | 0.60% | | |
| Subtotal Domestic Equity Funds: | 284,497,191 | 40.39% | 65% | 20% |
| International Equity Funds: | | | | |
| Common stock - international | 349,218 | 0.05% | | |
| Equity collective funds - international | 41,808,720 | 5.94% | | |
| Equity commingled fund - international | 17,991,457 | 2.56% | | |
| Equity mutual fund - international | 30,398,399 | 4.32% | | |
| Securities on Loan: | | | | |
| Common stock - international | 159,032 | 0.02% | | |
| Subtotal International Equity Funds: | 90,706,826 | 12.89% | 25% | 0% |
| Domestic Fixed Income Funds: | | | | |
| Corporate bond mutual funds - domestic | 51,204,241 | 7.27% | | |
| Convertible bond mutual fund - domestic | 16,893,880 | 2.40% | | |
| Subtotal Domestic Fixed Income Funds: | 68,098,121 | 9.67% | 50% | 5% |
| International Fixed Income Funds: | | | | |
| Global bond fund - international | 38,409,437 | 5.45% | | |
| Subtotal International Fixed Income Funds: | 38,409,437 | 5.45% | 25% | 0% |
| Special Strategies Funds: | | | | |
| Domestic: | | | | |
| Private equity funds - domestic* | 66,587,812 | 9.46% | | |
| Private debt fund - domestic | 2,309,117 | 0.33% | | |
| Distressed debt funds - domestic | 16,481,666 | 2.34% | | |
| Life settlement funds | 17,503,199 | 2.49% | | |
| Subtotal Domestic Special Strategies Funds: | 102,881,794 | 14.62% | | |
| International: | | | | |
| Private equity funds - international | 8,789,169 | 1.25% | | |
| Distressed debt funds - international | 24,664,917 | 3.50% | | |
| Subtotal International Special Strategies Funds: | 33,454,086 | 4.75% | | |
| Subtotal Special Strategies Funds: | 136,335,880 | 19.36% | 25% | 0% |
| Real Estate Funds | 76,543,162 | 10.87% | 20% | 0% |
| Cash and Cash Equivalents | 9,558,214 | 1.36% | 40% | 0% |
| Total Cash and Cash Equivalents and Investments | \$ 704,148,831 | 100.00% | | |

OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST

NOTES TO THE FINANCIAL STATEMENTS

Years Ended December 31, 2021 and 2020



3. DEPOSITS 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 | |
|---|---|-----------------------------|
| | 2021 | 2020 |
| Investments, at Fair Value: | | |
| Equity Funds: | | |
| Common stock - domestic | \$ 32,471,338 | \$ 19,953,689 |
| Common stock - international | (40,499) | 204,354 |
| Equity collective fund - domestic | 10,260,250 | 11,340,909 |
| Equity collective funds - international | 4,068,355 | 10,174,724 |
| Equity commingled fund - international | 731,188 | 2,260,269 |
| Equities ETF | - | (2,443,019) |
| Equity mutual fund - international | (1,747,272) | 8,520,470 |
| Equity mutual index fund - domestic | 19,509,810 | 9,410,612 |
| Equity hedge fund - domestic | 832,739 | 2,553,825 |
| Subtotal Equity Funds: | <u>66,085,909</u> | <u>61,975,832</u> |
| Fixed Income Funds: | | |
| Corporate bond mutual funds - domestic | (1,654,287) | 774,857 |
| Other fixed income fund - domestic | 14,918 | 13,702 |
| Other fixed income fund - international | 40 | |
| Convertible bond mutual fund - domestic | 746,595 | 5,785,988 |
| Global bond fund - international | (1,687,934) | 3,060,733 |
| Subtotal Fixed Income Funds: | <u>(2,580,668)</u> | <u>9,635,281</u> |
| Special Strategies Funds: | | |
| Private equity funds - domestic* | 16,168,198 | 4,041,965 |
| Private equity funds - international | 619,735 | 1,087,405 |
| Private debt fund - domestic | 251,366 | 229,482 |
| Distressed debt funds - domestic | 890,701 | 1,779,217 |
| Distressed debt fund - international | 9,317,622 | 1,156,839 |
| Life settlement funds | 882,861 | (214,011) |
| Subtotal Special Strategies Funds: | <u>28,130,483</u> | <u>8,080,896</u> |
| Real Estate Funds | 10,307,125 | 121,905 |
| Total Net Appreciation in fair value | <u><u>\$ 101,942,849</u></u> | <u><u>\$ 79,813,915</u></u> |

3. DEPOSITS AND INVESTMENTS (CONTINUED)

Rate of Return

For the years ended December 31, 2021 and 2020, the annual money-weighted rate of return on the OPEB Trust's investments, net of investment expenses, was 17.75% and 16.97 %, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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, 2021:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>S&P Rating</u> | <u>Moody's Rating</u> |
|---|-------------------------------|-----------------------|-----------------------|
| Corporate bond mutual funds - domestic | \$ 51,204,241 | Not Rated | Not Rated |
| Convertible bond mutual fund - domestic | 16,893,880 | Not Rated | Not Rated |
| Global bond fund - international | <u>38,409,437</u> | Unavailable | Unavailable |
| Total credit risk debt securities | 106,507,558 | | |
| Money market mutual funds and short term securities | <u>9,558,214</u> ¹ | | |
| Total Fixed Income Securities | <u>\$ 116,065,772</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.

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 statements of fiduciary 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, 2021 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, 2021.

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, 2021, 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 | \$ 51,204,241 | 8.00 |
| Convertible bond mutual fund - domestic | 16,893,880 | Not available |
| Global bond fund - international | 38,409,437 | 8.19 |
| Subtotal: | 106,507,558 | |

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 2021 and 2020 Statements of Fiduciary Net Position consists of cash collateral. At December 31, 2021 and 2020, 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

OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST

NOTES TO THE FINANCIAL STATEMENTS

Years Ended December 31, 2021 and 2020



3. DEPOSITS AND INVESTMENTS (CONTINUED)

Securities Lending Transactions (Continued)

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, 2021 | | | | | | |
|-------------------------|--|---------------------|---------------------|------------------------------------|----------------------------------|---------------------|
| 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 | \$ 474,876 | \$ 3,933,871 | \$ 4,408,747 | \$ 486,388 | \$ 4,089,626 | \$ 4,576,014 |
| Total | \$ 474,876 | \$ 3,933,871 | \$ 4,408,747 | \$ 486,388 | \$ 4,089,626 | \$ 4,576,014 |

| As of December 31, 2020 | | | | | | |
|-------------------------|--|---------------------|---------------------|------------------------------------|----------------------------------|---------------------|
| 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 | \$ 209,549 | \$ 4,442,669 | \$ 4,652,218 | \$ 214,904 | \$ 4,572,781 | \$ 4,787,685 |
| Total | \$ 209,549 | \$ 4,442,669 | \$ 4,652,218 | \$ 214,904 | \$ 4,572,781 | \$ 4,787,685 |

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 Statement No. 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.

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. Level 1 investments include the following: (i) common and preferred stock, (ii) mutual funds, (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. Level 2 investments 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, 2021 and 2020



4. FAIR VALUE MEASUREMENTS (CONTINUED)

The following table displays information regarding investments measured using the fair value hierarchy at December 31, 2021:

| Investments Measured at Fair Value (Dollars in Thousands) | | | | |
|--|---------------------|-------------------------|-------------|-------------|
| | December 31 2021 | Fair Value Measurements | | |
| | | Level 1 | Level 2 | Level 3 |
| Investments by fair value level | | | | |
| Bond mutual funds and other | \$ 106,508 | \$ 106,508 | \$ - | \$ - |
| Total Debt Securities | 106,508 | 106,508 | - | - |
| Equity Securities | | | | |
| Communication Services | 8,185 | 8,185 | - | - |
| Consumer Discretionary | 18,856 | 18,856 | - | - |
| Consumer Staples | 6,907 | 6,907 | - | - |
| Energy | 5,226 | 5,226 | - | - |
| Equity Other | 241,976 | 241,976 | - | - |
| Financials | 20,659 | 20,659 | - | - |
| Health Care | 20,056 | 20,056 | - | - |
| Industrials | 17,919 | 17,919 | - | - |
| Information Technology | 24,329 | 24,329 | - | - |
| Materials | 9,517 | 9,517 | - | - |
| Real Estate | 1,574 | 1,574 | - | - |
| Total Equity Securities | 375,204 | 375,204 | - | - |
| Total investments by fair value level | 481,712 | \$ 481,712 | \$ - | \$ - |
| Investments measured at the net asset value (NAV)* | | | | |
| Distressed Debt | 41,147 | | | |
| Hedged Fund - Life Settlement Contracts | 17,503 | | | |
| Private Equity** | 75,377 | | | |
| Private Debt | 2,309 | | | |
| Real Estate | 76,543 | | | |
| Total investments Measured at Net Asset Value | 212,879 | | | |
| Total Investments Measured at Fair Value | \$ 694,591 | | | |

*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 statements of fiduciary net position.

**Investments include a private equity firm, GPB Holdings II, LP, valued at \$12.2 million and \$8.0 million at 2021 and 2020, respectively. The 2020 investment value is based on the June 30, 2019 statement, which represented the most recent value provided by the general partner as of December 31, 2020.

OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST

NOTES TO THE FINANCIAL STATEMENTS

Years Ended December 31, 2021 and 2020



4. FAIR VALUE MEASUREMENTS (CONTINUED)

The following table displays information regarding investments measured using the fair value hierarchy at December 31, 2020:

| Investments Measured at Fair Value (Dollars in Thousands) | December 31 | Fair Value Measurements | | |
|--|-------------------|-------------------------|------------------|-------------|
| | 2020 | Level 1 | Level 2 | Level 3 |
| Investments by fair value level | | | | |
| Bond mutual funds and other | \$ 79,258 | \$ 51,024 | \$ 28,234 | \$ - |
| Total Debt Securities | 79,258 | 51,024 | 28,234 | - |
| Equity Securities | | | | |
| Communication Services | 5,890 | 5,890 | - | - |
| Consumer Discretionary | 16,061 | 16,061 | - | - |
| Consumer Staples | 6,726 | 6,726 | - | - |
| Energy | 3,511 | 3,511 | - | - |
| Equity Other | 217,319 | 217,319 | - | - |
| Financials | 18,862 | 18,862 | - | - |
| Health Care | 19,854 | 19,854 | - | - |
| Industrials | 15,932 | 15,932 | - | - |
| Information Technology | 23,392 | 23,392 | - | - |
| Materials | 9,312 | 9,312 | - | - |
| Real Estate | 1,368 | 1,368 | - | - |
| Utilities | - | - | - | - |
| Total Equity Securities | 338,227 | 338,227 | - | - |
| Total investments by fair value level | 417,485 | \$ 389,251 | \$ 28,234 | \$ - |
| Investments measured at the net asset value (NAV) *□ | | | | |
| Distressed Debt | 47,751 | | | |
| Hedge Fund - Life Settlement Contracts | 15,029 | | | |
| Private Equity** | 59,469 | | | |
| Private Debt | 2,058 | | | |
| Real Estate | 52,750 | | | |
| Total investments Measured at Net Asset Value | 177,057 | | | |
| Total Investments Measured at Fair Value | \$ 594,542 | | | |

*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 statements of fiduciary net position.

**Investments include a private equity firm, GPB Holdings II, LP, valued at \$12.2 million and \$8.0 million at 2021 and 2020, respectively. The 2020 investment value is based on the June 30, 2019 statement, which represented the most recent value provided by the general partner as of December 31, 2020.

OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST

NOTES TO THE FINANCIAL STATEMENTS

Years Ended December 31, 2021 and 2020



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 at December 31, 2021 and 2020:

| Investments Measured at Net Asset Value (NAV) (Dollars in Thousands) | | | | | | |
|---|-------------------|-------------------|----------------------|--------------------------|---|--|
| | Fair Value | | Unfunded Commitments | Redemption Notice Period | Redemption Frequency (If Currently Eligible) | |
| | 2021 | 2020 | | | | |
| Distressed Debt ¹ □ | \$ 41,147 | \$ 47,751 | \$ 3,945 | NA | NA | |
| Hedge Fund - life settlement contracts ² | 17,503 | 15,029 | - | 90-120 days | Quarterly | |
| Private Debt ³ | 2,309 | 2,058 | - | NA | NA | |
| Private Equity ⁴ | 75,377 | 59,469 | 27,932 | NA | NA | |
| Real Estate ⁵ | 76,543 | 52,750 | 22,053 | 30-120 days | Quarterly/Annually | |
| Total investments measured at NAV | \$ 212,879 | \$ 177,057 | \$ 53,930 | | | |

1. *Distressed Debt.* This category includes six distressed debt limited partnership 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. *Hedge fund – life settlement contracts.* This category includes four 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 14.7% can be redeemed quarterly with 120 days notice; 31.4% can be redeemed quarterly with 90 days notice. The remaining 53.9% are not subject to redemption.
3. *Private debt.* This category includes one private debt fund that invests in miscellaneous investments. 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. *Private Equity.* This category includes thirteen 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 16.2% can be redeemed monthly after the third month; 24.6% can be redeemed with 60-day notice. The remaining 59.2% is generally not subject to

OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST

NOTES TO THE FINANCIAL STATEMENTS

Years Ended December 31, 2021 and 2020



4. FAIR VALUE MEASUREMENTS (CONTINUED)

redemption and is normally returned through distributions as a result of the liquidation of holdings.

5. *Real Estate.* This category includes seven real estate funds that invest in office, retail, industrial, and multi-family properties. OPEB Trust investment in this category representing 16.7% with no redemption queue; 24.0% can be redeemed quarterly with 45 days notice; 27.1% can be redeemed quarterly with 90 days notice. The remaining 32.2% 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.

REQUIRED SUPPLEMENTARY INFORMATION

OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST

REQUIRED SUPPLEMENTARY INFORMATION

Years Ended December 31, 2021 and 2020



Schedule of Changes in Net OPEB Liability
(in thousands)

| | 2021 | 2020 | 2019 | 2018 | 2017 |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Total OPEB Liability | | | | | |
| Service cost | \$ 16,093 | \$ 15,400 | \$ 15,804 | \$ 15,381 | \$ 19,520 |
| Interest | 54,018 | 51,712 | 53,030 | 50,560 | 64,667 |
| Change of benefit terms | - | - | - | - | (61,896) |
| Differences between expected and actual experience | (30,124) | (4,090) | 15,351 | (3,134) | 3,674 |
| Changes in assumptions | 29,289 | - | (46,583) | - | (200,370) |
| Benefit payments, including refunds of employee contributions | (33,268) | (30,588) | (31,916) | (28,677) | (29,457) |
| Net change in Total OPEB Liability | 36,008 | 32,434 | 5,686 | 34,130 | (203,862) |
| Total OPEB Liability – beginning | 745,339 | 712,905 | 707,219 | 673,089 | 876,951 |
| Total OPEB Liability – ending (a) | \$ 781,347 | \$ 745,339 | \$ 712,905 | \$ 707,219 | \$ 673,089 |
| Plan Fiduciary Net Position | | | | | |
| Contributions – employer | \$ 37,561 | \$ 34,895 | \$ 33,949 | \$ 48,972 | \$ 45,184 |
| Contributions – employee | - | - | - | - | - |
| Net investment income | 106,511 | 84,891 | 76,566 | (14,273) | 57,671 |
| Benefit payments including refunds of employee contributions | (33,268) | (30,589) | (31,916) | (28,677) | (29,457) |
| Administrative expense | - | - | - | - | - |
| Other | - | - | - | - | - |
| Net change in Plan Fiduciary Net Position | 110,804 | 89,197 | 78,599 | 6,022 | 73,398 |
| Other Adjustments | - | - | - | - | - |
| Plan Fiduciary Net Position – beginning | 593,544 | 504,347 | 425,748 | 419,726 | 346,328 |
| Plan Fiduciary Net Position – ending (b) | \$ 704,348 | \$ 593,544 | \$ 504,347 | \$ 425,748 | \$ 419,726 |
| Net OPEB Liability – ending (a) – (b) | \$ 76,999 | \$ 151,795 | \$ 208,558 | \$ 281,471 | \$ 253,363 |
| Plan Fiduciary Net Position as a percentage of the Total OPEB Liability | 90.15% | 79.63% | 70.75% | 60.20% | 62.36% |
| Covered employee payroll¹ | \$ 175,790 | \$ 173,425 | \$ 170,946 | \$ 169,605 | \$ 167,221 |
| Plan Net OPEB Liability as a percentage of covered employee payroll | 43.80% | 87.53% | 122.00% | 165.96% | 151.51% |

Notes to Schedule:

¹ Covered payroll represents compensation earnable and pensionable compensation. Only compensation earnable and pensionable compensation that would possibly go into the determination of the retirement benefits are included.

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

Change of assumptions:

- Healthcare claims cost and trends were updated to reflect the most recent experience.
- The discount rate was lowered from 7.25% to 7.00% in 2021.

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, 2021 and 2020



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 |
|--|--|---|---|----------------------------|---|
| 2021 | \$ 32,403 | \$ 37,561 | \$ (5,158) | \$ 175,790 | 21.37% |
| 2020 | 32,111 | 34,895 | (2,784) | 173,425 | 20.12% |
| 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% |

OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST

REQUIRED SUPPLEMENTARY INFORMATION

Years Ended December 31, 2021 and 2020



Schedule of Investment Returns

Last 10 Fiscal Years

| | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 |
|--|--------|--------|--------|--------|--------|-------|--------|-------|--------|--------|
| Annual money-weighted rate of return, net of investment expense * | 17.75% | 16.97% | 17.84% | -3.45% | 17.16% | 9.26% | -2.36% | 4.42% | 15.49% | 12.18% |

*The annual money-weighted rate of return on the OPEB Trust's investments is calculated as the internal rate of return on investments, net of investment expense. A money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. The OPEB Trust's investment expense should be measured on the accrual basis of accounting.

OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST

REQUIRED SUPPLEMENTARY INFORMATION

Years Ended December 31, 2021 and 2020



Notes to the Required Schedules

| | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Valuation Date | January 1, one year prior ¹ (for 2021 - 2017) | | | | | | | | | |
| Measurement Date | December 31, 2021 | December 31, 2019 | December 31, 2018 | December 31, 2017 | December 31, 2017 | December 31, 2015 | December 31, 2015 | December 31, 2013 | December 31, 2013 | December 31, 2011 |
| Census data collected | December 31, 2021 | December 31, 2019 | December 31, 2017 | December 31, 2017 | December 31, 2017 | December 31, 2015 | December 31, 2013 | December 31, 2011 | December 31, 2011 | December 31, 2009 |
| Actuarial cost method | Entry Age Actuarial Cost Method (for all years presented) | | | | | | | | | |
| Amortization method | Level percent of pay, 30-year closed amortization (for all years presented) | | | | | | | | | |
| Amortization period of initial unfunded AAL | 23 years | 25 years | 26 years | 27 years | 28 years | 29 years | 21 years | 22 years | 23 years | 24 years |
| Remaining amortization period | 23 years | 25 years | 26 years | 27 years | 28 years | 29 years | 21 years | 22 years | 23 years | 24 years |
| Asset valuation method | Market value ² (for all years presented) | | | | | | | | | |
| Investment rate of return | 7.00% | 7.25% | 7.25% | 7.50% | 7.50% | 7.50% | 7.50% | 7.50% | 7.50% | 7.50% |
| Inflation rate | 2.50% | 2.50% | 2.50% | 2.75% | 2.75% | 2.75% | 2.75% | 3.25% | 3.25% | 3.25% |
| Salary increases | Inflation plus merit increases that vary by age and service (for all years presented) | | | | | | | | | |
| Administrative costs | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| Medical cost trend: | 7.75% graded to 5.00% over 6 years for 2011 and 2012 7.75% graded to 5.00% over 11 years for 2013 and 2014 7.25% graded to 5.00% over 9 years for 2015 and 2016 7.00% graded to 4.50% over 10 years for 2017 through 2021 | | | | | | | | | |
| Prescription cost trend: | 6.50% graded to 5.00% over 3 years for 2011 and 2012 6.00% graded to 5.00% over 5 years for 2013 and 2014 11.50% graded to 5.00% over 11 years for 2015 9.50% graded to 5.00% over the 7 years for 2016 9.00% graded to 4.50% over the 10 years for 2017 and 2019 8.00% graded to 4.50% over 14 years for 2020 and 2021 | | | | | | | | | |

OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST

REQUIRED SUPPLEMENTARY INFORMATION

Years Ended December 31, 2021 and 2020



Notes to the Required Schedules (continued)

Mortality Rates (2012 - 2014):

Healthy

Males: RP-2000 Combined Healthy Blue Collar Mortality Table

Females: RP-2000 Combined Healthy White Collar Mortality Table

Disabled

RP-2000 Disabled Retiree Mortality Table

The above mortality tables were determined to contain provision appropriate to reasonable reflect future mortality improvement, based on a five-year review of mortality experience ended December 31, 2008.

Mortality Rates (2015 - 2019):

Pre-retirement:

RP-2014 Employee Mortality Table with sex-distinct rates, projected generationally with a modified RPEC2014 projection table using a 15-year convergence period for cohort effects and a 10-year convergence for age/period effects.

Healthy annuitants:

RP-2014 Healthy Annuitant Mortality Table with sex-distinct rates, adjusted by a factor of 138%, projected generationally with a modified RPEC2014 projection table using a 15-year convergence period for cohort effects and a 10-year convergence period for age/period effects.

Disabled annuitants:

RP-2014 Disabled Retiree Mortality Table with sex-distinct rates, adjusted by a factor of 138%, projected generationally with a modified RPEC2014 projection table using a 15-year convergence period for cohort effects and a 10-year convergence period for age/period effects.

Mortality Rates (2020 - 2021):

Pre-retirement:

PRI-2012 Employee Mortality Table, Headcount-Weighted, with sex-distinct rates, projected generationally with Scale SSA-2019.

Healthy annuitants:

PRI-2012 Healthy Annuitant Mortality Table, Headcount-Weighted, with sex-distinct rates, plus a 20% load, projected generationally with SSA-2019.

Disabled annuitants:

PRI-2012 Disabled Retiree Mortality Table, Headcount-Weighted, with sex-distinct rates, plus a 20% load, projected generationally with SSA-2019.

Beneficiaries:

PRI-2012 Contingent Survivor Mortality Table, Headcount-Weighted, with sex-distinct rates, plus a 20% load, projected generationally with SSA-2019.

Notes:

¹ Actuarially determined contribution rates are calculated as of January 1, one year prior to the end of the fiscal year in which contributions are reported.

² Market value of assets less unrecognized returns in each of the last five years (applied prospectively beginning with 2014). Unrecognized return is equal to the difference between the actual market value return and the expected market return, and is recognized over a five-year period, further adjusted, if necessary, to be within 20% of the market value.



Independent Auditors' 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"), which comprise the statement of fiduciary net position as of December 31, 2021, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 27, 2022. Our report disclosed that the statements of the OPEB Trust 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, 2021, 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.

Report on 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") as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 over financial reporting 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.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the OPEB Trust's financial statements are free of 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 financial statements. 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 OPEB Trust'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 OPEB Trust's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dixon Hughes Goodman LLP

Memphis, Tennessee
May 27, 2022

OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
For the Year Ended December 31, 2021



There were no prior findings reported.