



**TSBA OPEB Trust Meeting  
Conference Call  
October 21, 2020**

**AGENDA**

Call to Order 12:55 p.m.	Mark Hansen, Chairman
Approval of Agenda 12:55 p.m.	Mark Hansen, Chairman
Approval of the February 17, 2020 Minutes (Tab 1) 12:55 p.m.	Mark Hansen, Chairman
Acceptance of the 3-month Financial Statements (September 30, 2020) (Tab 2) 12:55 p.m.	Dr. Tammy Grissom, Trust Administrator
Report of Activities and Fiscal Condition of the Trust 12:55 p.m.	Dr. Tammy Grissom, Trust Administrator
Review and Approve Proposed Changes to OPEB Trust Bylaws (Tab 3) 12:55 p.m.	Dr. Tammy Grissom, Trust Administrator
Review and Approve Proposed Changes to the Following Policies (Tab 4): <ul style="list-style-type: none"><li>• Section 1: 1000, 1010, 1020, 1030, 1040, 1050, 1060 (New)</li><li>• Section 3: 3010, 3060, 3080, 3090</li><li>• Section 4: 4000</li></ul> 12:55 p.m.	Dr. Tammy Grissom, Trust Administrator
Approval of June 30, 2020 Audit (Tab 5) 12:55 p.m.	Erica Saeger, Audit Director, Crosslin CPA
Investment Report (Tab 6)	

12:55 p.m.

Chris Sigmund, Morgan  
Stanley

Appointment of the Following New Trustees:

- Wright Cox, Collierville
- A.J. Massey, Jackson-Madison County
- Kevin Woods, Shelby County

12:55 p.m.

Dr. Tammy Grissom,  
Trust Administrator

Election of 2021 Trust Officers (Chairman and Vice-Chairman)

12:55 p.m.

Dr. Tammy Grissom,  
Trust Administrator

Other Business

12:55 p.m.

Adjourn

12:55 p.m.



**OPEB Trust Meeting  
October 21, 2020**

**AGENDA**

11:00 a.m.	Call to Order*	Mark Hansen, Chairman
11:01 a.m.	Approval of Agenda	
11:02 a.m.	Approval of February 17, 2020 Minutes (Tab 1)	
11:03 a.m.	Acceptance of 3-month Financial Statements – September 30, 2020 (Tab 2)	Dr. Tammy Grissom, Trust Administrator
11:05 a.m.	Report of Activities and Fiscal Condition of the Trust	
11:10 a.m.	Review and Approve Proposed Changes to OPEB Trust Bylaws (Tab 3)	
11:15 a.m.	Review and Approve Proposed Changes to the Following Policies (Tab 4): <ul style="list-style-type: none"><li>• Section 1: 1000, 1010, 1020, 1030, 1040, 1050, 1060 (New)</li><li>• Section 3: 3010, 3060, 3080, 3090</li><li>• Section 4: 4000</li></ul>	
11:20 a.m.	Approval of June 30, 2020 Audit (Tab 5)	Erica Saeger, Audit Director Crosslin CPA
11:35 a.m.	Investment Report (Tab 6)	Chris Sigmund, Morgan Stanley
11:50 a.m.	Appointment of the Following New Trustees: <ul style="list-style-type: none"><li>• Wright Cox, Collierville Term: 12/01/20 – 12/31/21</li><li>• A.J. Massey, Jackson-Madison County Term: 10/21/20 – 12/31/21</li><li>• Kevin Woods, Shelby County Term: 10/21/20 – 12/31/21</li></ul>	Dr. Tammy Grissom, Trust Administrator
11:53 a.m.	Election of 2021 Trust Officers (Chairman and Vice-Chairman)	
11:56 a.m.	Other Business	
12:00 p.m.	Adjourn	

**\*In order to protect the health, safety, and welfare of Tennesseans in light of the COVID-19 outbreak, this meeting will be held electronically in accordance with Governor Lee's Executive Order 60.**

**Tennessee School Boards Association  
OPEB Trust Meeting  
Doubletree Downtown Nashville Hotel  
Robertson Room  
February 17, 2020**

The TSBA OPEB Trustees met on Monday, February 17, 2020. The following members were present: **Mark Hansen**, Collierville; **Scott McCormick**, Shelby County; **Dale Viox**, Arlington; **Mark Clark**, Fayetteville; and **Tammy Grissom**, Trust Administrator. Absent were **Kevin Long**, Johnson County and **Jim Campbell**, Jackson-Madison County. TSBA staff member present was **Emily Warren**. Also in attendance was **Chris Sigmund** with Morgan Stanley.

Mark Hansen called the meeting to order at 1:31 p.m. and welcomed everyone.

**MCCORMICK/VIOX:** Motion to approve the agenda. MOTION CARRIED.

**VIOX/MCCORMICK:** Motion to approve November 16, 2019 Minutes. MOTION CARRIED.

**MCCORMICK/ VIOX:** Motion to accept the 6-month Financial Statements (December 31, 2019). MOTION CARRIED.

Discussion was held as to whether any changes needed to be made to Investment policy 3060. Chris Sigmund with Morgan Stanley advised that the investment policy had zero short-comings and is a moderately-conservative policy that fits the needs of the Trust. Sigmund recommended that we kept the policy as is and that no changes were needed as this time.

**VIOX/MCCORMICK:** Motion to approve proposed changes to policy 1010. MOTION CARRIED.

**VIOX/MCCORMICK:** Motion to approve proposed changes to policy 3080. MOTION CARRIED.

Chris Sigmund with Morgan Stanley reported on the financial stability of the OPEB Trust and the performance of the Trust's investments in the current economy. He stated that the Trust is making money and is performing within the fiduciary guidelines as set forth by the investment policy. He stated that the rate of return for the Trust is extremely good – being at 20% for last year. He went into detail as to how the economy is still in a good spot and discussed the current trend of the market with special emphasis as to the epidemic occurring in China.

The meeting adjourned at 2:02 p.m.

**Respectfully submitted,**

\_\_\_\_\_

**Mark Hansen, Chairman**

**Tammy Grissom, OPEB Trust Administrator**

**TSBA OPEB Trust**  
**Balance Sheet**  
As of September 30, 2020

	<u>Sep 30, 20</u>
<b>ASSETS</b>	
<b>Current Assets</b>	
<b>Checking/Savings</b>	
1000-00 · Suntrust Operating Account	5,652.53
<b>Total Checking/Savings</b>	5,652.53
<b>Other Current Assets</b>	
1300-00 · Investments	
1300-10 · Hickman County Investments	2,322,312.93
1300-20 · Johnson County Investments	1,149,185.32
1300-30 · Shelby County Investments	93,784,738.81
1300-50 · Jackson-Madison Investments	422,259.61
1300-60 · Arlington Investments	2,949,341.40
1300-70 · Bartlett Investments	3,658,006.22
1300-80 · Collierville Investments	1,620,752.86
1300-90 · Lakeland Investments	1,682,138.09
1300-91 · Millington Investments	320,590.68
<b>Total 1300-00 · Investments</b>	107,909,325.92
<b>Total Other Current Assets</b>	107,909,325.92
<b>Total Current Assets</b>	107,914,978.45
<b>TOTAL ASSETS</b>	<b>107,914,978.45</b>
<b>LIABILITIES &amp; EQUITY</b>	
<b>Equity</b>	
3200-00 · Unrestricted Net Assets	102,224,602.86
Net Income	5,690,375.59
<b>Total Equity</b>	107,914,978.45
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>107,914,978.45</b>

**TSBA OPEB Trust**  
**Profit & Loss**  
 July through September 2020

	Jul - Sep 20
<b>Income</b>	
4300-00 · Contributions	
4300-10 · Contributions - Hickman County	-57,411.90
4300-50 · Contributions - Jackson-Madison	5,000.00
	-52,411.90
<b>Total 4300-00 · Contributions</b>	<b>-52,411.90</b>
4400-00 · Unrealized Gain/Loss	
4400-10 · Unrealized Gain/Loss - Hickman	120,392.79
4400-20 · Unrealized Gain/Loss - Johnson	58,365.43
4400-30 · Unrealized Gain/Loss - Shelby	4,776,366.23
4400-50 · Unrealized Gain/Loss - JMadison	21,166.68
4400-60 · Unrealized Gain/Loss - Arlingto	145,572.89
4400-70 · Unrealized Gain/Loss - Bartlett	186,681.74
4400-80 · Unrealized Gain/Loss - Collierv	86,578.74
4400-90 · Unrealized Gain/Loss - Lakeland	85,274.54
4400-91 · Unrealized Gain/Loss - Millingt	16,269.72
	5,496,668.76
<b>Total 4400-00 · Unrealized Gain/Loss</b>	<b>5,496,668.76</b>
4500-00 · Interest, Dividends&Capital Gn	
4500-10 · Interest, Div., & CG - Hickman	7,294.75
4500-20 · Interest, Div., & CG - Johnson	3,565.72
4500-30 · Interest, Div., & CG - Shelby	288,644.80
4500-50 · Interest, Div., & CG - JMadison	1,300.25
4500-60 · Interest, Div., & CG - Arlingto	9,299.56
4500-70 · Interest, Div., & CG - Bartlett	11,167.12
4500-80 · Interest, Div., & CG - Collierv	4,916.09
4500-90 · Interest, Div., & CG - Lakeland	5,236.50
4500-91 · Interest, Div., & CG - Millingt	995.29
	332,420.08
<b>Total 4500-00 · Interest, Dividends&amp;Capital Gn</b>	<b>332,420.08</b>
4800-00 · Interest Income	0.10
	5,776,677.04
<b>Total Income</b>	<b>5,776,677.04</b>
<b>Expense</b>	
6400-00 · Administrative Fee	
6400-10 · Administrative Fee - Hickman	1,407.59
6400-20 · Administrative Fee - Johnson	679.57
6400-30 · Administrative Fee - Shelby	32,963.18
6400-50 · Administrative Fee - J. Madison	246.76
6400-60 · Administrative Fee - Arlington	1,746.73
6400-70 · Administrative Fee - Bartlett	2,162.90
6400-80 · Administrative Fee - Colliervil	955.78
6400-90 · Administrative Fee - Lakeland	994.82
6400-91 · Administrative Fee - Millington	189.59
	41,346.92
<b>Total 6400-00 · Administrative Fee</b>	<b>41,346.92</b>
6500-00 · Investment Advisor Fees	
6500-10 · Investment Advisor Fees - Hickm	968.97
6500-20 · Investment Advisor Fees - Johns	476.61
6500-30 · Investment Advisor Fees - Shelb	39,057.73
6500-50 · Investment Advisor Fees - JMadi	173.83
6500-60 · Investment Advisor Fees - Arlin	1,172.18
6500-70 · Investment Advisor Fees - Bartl	1,536.06
6500-80 · Investment Advisor Fees - Colli	736.19
6500-90 · Investment Advisor Fees - Lakel	699.99
6500-91 · Investment Advisor Fees - Milli	132.97
	44,954.53
<b>Total 6500-00 · Investment Advisor Fees</b>	<b>44,954.53</b>
<b>Total Expense</b>	<b>86,301.45</b>
<b>Net Income</b>	<b>5,690,375.59</b>

# Tennessee School Boards Association

## OPEB Trust

### Bylaws

#### ARTICLE I—TRUSTEES

**Section 1. Appointment of Trustees.** There shall be seven (7) Trustees. The Executive Director and President of the Tennessee School Boards Association will be voting ex-officio members of the Board of Trustees and shall remain as Trustees so long as they hold their respective positions. The remaining five (5) Trustees shall be from the governing boards of the participating members of the Trust and appointed by the TSBA OPEB Trustees. The term of these five (5) Trustees shall be three (3) years, and they may be reappointed.

**Section 2. Officers of the Trust.** The officers of the Trust shall be Chairman and Vice-Chairman. Officers shall be elected by the Trustees annually from the members of the Board of Trustees. The term of officers shall begin on January 1 of each year and terminate on the following December 31. An officer's term shall also cease upon their termination as a board member. Ex-officio members of the Board of Trustees are ineligible to hold the office of Chairman and Vice-Chairman.

**Section 3. Appointment of Successor Trustees.** Upon the death, resignation, or removal of a Trustee or upon the Trustee becoming ineligible to serve, the Board of Trustees shall appoint a new Trustee to serve the remainder of the term. Trustees and all officers of the Trust shall each continue to serve until their successors are selected except for Trustees who are removed or resign. A Trustee appointed to fill a vacancy shall serve until the expiration of the term of his/her predecessor. ~~Upon the death, resignation or removal of a trustee, the Trustees shall appoint a new Trustee to serve the remainder of the term.~~

**Section 4. Vacancy of Officers.** Upon the death, resignation, or removal of the Chairman, the Vice-Chairman will automatically assume the office of Chairman, and a new Vice-Chairman shall be elected at the next meeting of the Trust. If the vacancy is for the office of Vice-Chairman, a new Vice-Chairman shall be elected at the next meeting of the Trust.

#### ARTICLE II—GENERAL TRUST PROVISIONS

**Section 1. Amendments.** These Bylaws may be amended by a vote of the majority of the Trustees present at any meeting of the Trust, provided that notice of such proposed amendment shall ~~have been~~ be given in writing ten (10) days in advance to all the Trustees. The Administrator shall ~~forthwith~~ notify the participating members of any and all amendments adopted.

The Trustees will review ~~this document~~ **these Bylaws** annually to ensure its continued relevance and to make changes as new conditions dictate.

Section 2. Conflicts. In the event of any conflict between any provision of ~~this Agreement~~ **these Bylaws** and any provision of any applicable law, ~~this Agreement~~ **these Bylaws** shall be deemed modified to the extent necessary to comply with such law.

### ARTICLE III—MEETINGS OF TRUSTEES

**Section 1. Regular Meetings.** The Board of Trustees shall meet biannually. Any item of business may be considered at a regular meeting. The time, date, and location of meetings of the Board shall be determined by the Board. ~~Trustees must attend in person to participate and~~ No proxy votes shall be permitted.

**Section 2. Special Meetings.** A special meeting may be called at any time by the Chairman or by any ~~three (3)~~ four (4) of the Trustees ~~upon giving ten (10) days written notice to all Trustees.~~ An emergency meeting may be called with less than ten (10) days written notice provided that all Trustees agree to such a meeting. An agenda specifying the subject of any special meeting shall accompany such notice, and only business included on that agenda may be transacted.

**Section 3. Notice of Meetings.** All meetings of the Board shall be conducted in a manner required by law. ~~In the event of any conflict between any provision of this Agreement and any provision of any applicable law, this Agreement shall be deemed modified to the extent necessary to comply with such law. In addition to any notices of meetings required to be served under this Agreement,~~ The Administrator shall cause to be published any schedule or notice of meeting of the Board required by law. Such publication requirement shall be deemed met by announcement on the TSBA website.

### ARTICLE IV—NATURE AND USE OF FUNDS

**Section 1. Member Fund Withdrawal.** The Trust is specifically authorized to make payments of legitimate reimbursements to member systems requesting ~~a pro-rata share of their other post-employment benefits (OPEB) obligations.~~ No other withdrawals may be made by member systems.

**Section 2. Investment of Funds.** The Trust may invest ~~and reinvest~~ such portions of the Trust reserve in any manner that is both prudent and permissible under ~~the laws of the state of Tennessee~~ state and federal law. The Trustees shall develop and adopt an investment strategy policy.

**Section 3. Investment Manager Selection.** Investment managers shall be subject to all restrictions and investment guidelines within ~~this document and within other investment strategies developed~~ these Bylaws and the investment policy maintained by the Trustees.

**Section 4. Fees.** The Trust Administrator shall be paid a fee per the following schedule on total assets under management and an administrative fee for the biennial OPEB valuations.

Amount	Fee
0-25MM	0.25%
25MM-50MM	0.15%
50MM-75MM	0.10%
75MM +	0.05%

The Trustees are permitted to compensate the investment managers and/or consultants with such fees as may be reasonable and competitive and are not excessive and detrimental to the Trust's long-term viability. It shall be incumbent upon the investment managers and/or consultants to fully represent all costs and fees associated with the management of the Trust.

**Section 5. Asset Manager Performance Review.** The Trustees will monitor performance of the portfolio using the quarterly statements provided by the Trust's investment consultants. The investment consultants shall provide the Trustees with manager performance numbers and appropriate benchmark data with which to evaluate the managers' performance. While mindful of the specific goals of the Trust, the investment consultants shall provide data on a benchmark comprised of an appropriate mix of indices and such other benchmark data as may be requested or relevant.

A file of the written confirmations of every transaction and the quarterly statements documenting total assets, including gains and/or losses in each security since original purchase date, will be maintained by ~~the staff~~ the Trust Administrator.

The Trustees will continually review the liquidity needs of the Trust and will notify the investment consultants as soon as possible of any significant changes in anticipated needs, ~~as set forth in this document. The Trustees will review this document annually to ensure its continued relevance and to make changes as new conditions dictate.~~

**Section 6. Financial Institution.** All ~~monies~~ funds received by the Trust shall be deposited in such financial institutions as the Trust may designate for that purpose.

**Section 7. Withdrawals.** All withdrawals of ~~monies~~ funds from such financial institutions shall be made only by electronic transfer or by check signed by the Treasurer of the Trust or his/her designee.

**Section 8. Bonding.** Any person, other than third parties retained to invest funds on behalf of the Trust, who is authorized to sign or who may be engaged in handling ~~monies~~ funds or securities held by the Trust shall be bonded at the expense of the Trust by a duly authorized surety company in such amount or amounts as may from time to time be required by the Trustees.

*Adopted 4/16/09*  
*Article VI, Section 5 revised 7/16/09*  
*Article VI, Section 1 revised 11/15/10*  
*Article I, Sections 1, 4, 5, 6, 7, 8, & 9 revised 09/28/12*  
*Article II, Sections 1 & 2 revised 09/28/12*  
*Article V, Section 1 revised 09/28/12*  
*Article VI, Sections 2 & 6 revised 09/28/12*  
*Article I, Sections 1, 2, 3, 5, 6 & 7 revised 11/05/12*  
*Article II, Section 1 revised 11/05/12*  
*Article III, Sections 1 & 2 revised 11/05/12*  
*Article V, Sections 1 & 3 revised 11/05/12*  
*Article VI, Sections 2 & 9 revised 11/05/12*  
*Article I, Section 1 revised 11/10/13*  
*Article IV, Section 4 revised 4/20/16*  
*Article I, Section 1 added 02/20/17*

# TSBA OPEB Trust

Descriptor Term:  <b>Selection and Duties of the Trustees</b>	Descriptor Code:  <b>1000</b>	Revised:  <b>02/18/19</b>
	Rescinds:  <b>1000</b>	Previous Issued:  <b>02/20/17</b>

## 1 APPOINTMENT OF TRUSTEES

2 The Board of Trustees shall consist of seven (7) Trustees: the Executive Director and President  
3 of the Tennessee School Boards Association, serving as ex-officio members; and the remaining  
4 five (5) Trustees, appointed by the TSBA OPEB Trustees from the governing boards of the  
5 participating members of the Trust. The term of these five (5) Trustees shall be three (3) years.

## 6 OFFICERS

7 Officers of the Trust shall consist of a Chairman and Vice-Chairman and such other officers as  
8 are established from time to time by the Trustees. All officers shall be elected annually by the  
9 Board of Trustees with the term beginning on January 1<sup>st</sup> of each year and terminating on  
10 December 31<sup>st</sup>. ~~The Tennessee School Boards Association shall act as the Administrator of the~~  
11 ~~Trust.~~

## 12 LIABILITY OF TRUSTEES

13 The Trustees shall use ordinary care and reasonable diligence in the exercise of their power and  
14 in the performance of their duties. They shall not be liable for any mistake of judgment or other  
15 action made, taken, or omitted by them in good faith; nor for any action taken or omitted by any  
16 agent, employee, or attorney selected with reasonable care; nor for the loss incurred through  
17 investment of Trust money or failure to invest. No Trustee shall be liable for any action taken or  
18 omitted by any other Trustee. They shall not be required to give a bond or other security to  
19 guarantee the faithful performance of their duties ~~hereunder.~~

## 20 RESIGNATION OF A TRUSTEE

21 Any Trustee may resign upon giving notification in writing to the Trust Administrator.

## 1 REMOVAL OF A TRUSTEE

2 Any Trustee, other than the ex-officio members of the Board of Trustees, may be removed at any  
3 time by a ~~two-thirds~~ majority vote of the ~~other members of the Board of Trustees~~ present at the  
4 meeting of the Board. In the event that the entity on whose governing board the Trustee serves  
5 ceases to participate in the Trust, the Trustee's membership on the Board of Trustees shall  
6 terminate immediately. If a Trustee is not present at three (3) Trustee meetings during any term,  
7 the Trustee's membership on the Board of Trustees shall terminate with the adjournment of the  
8 third meeting missed unless a ~~two-thirds~~ majority of the Trustees present at the meeting vote  
9 ~~during the meeting~~ to excuse the third absence. If such Trustee misses a fourth meeting during  
10 one term, the removal of the Trustee shall automatically become effective with the adjournment  
11 of the fourth meeting missed.

## 12 APPOINTMENT OF SUCCESSOR TRUSTEES

13 Upon the death, resignation, or removal of a Trustee or upon the Trustee becoming ineligible to  
14 serve, the Board of ~~Directors of the Tennessee School Boards Association~~ Trustees shall appoint  
15 a new Trustee to serve the remainder of the term.

## 16 AUTHORITY AND DUTIES OF THE TRUSTEES

17 The Board shall carry out the purposes and duties of the Trust ~~through its Administrator~~  
18 including, but not limited to, the following:

- 19 1. Contract for services of ~~agents, independent contractors, investment counsel, accountants,~~  
20 investment management, financial consultants, attorneys, auditors, and such other  
21 persons as may be necessary to administer and accomplish the purposes of the Trust;  
22
- 23 2. Determine the compensation for all such agents and independent contractors;  
24
- 25 3. Obtain annually an audited report of the financial affairs of the Trust;  
26
- 27 4. Receive and hold all payments and contributions paid to it;  
28
- 29 5. Procure fidelity bonds for persons as required by ~~this policy or by law~~ the Bylaws; and  
30
- 31 6. Carry out other activities as necessary ~~to carry out the purpose~~ for the management and  
32 operation of the Trust ~~or the specific activities enumerated in this policy~~.

# TSBA OPEB Trust

Descriptor Term:  <b>Board of Trustees' Meetings</b>	Descriptor Code:  <b>1010</b>	Revised:  <b>02/17/20</b>
	Rescinds:  <b>1010</b>	Previous Issued:  <b>02/18/19</b>

## 1 **REGULAR MEETINGS OF TRUSTEES**

2 Regular meetings of the Board of Trustees shall be held biannually. Any item of business may be  
3 considered at a regular meeting. The time, date, and location of meetings of the Board shall be  
4 determined by the Board.

## 5 **SPECIAL MEETINGS OF TRUSTEES**

6 Special meetings of the Board of Trustees may be called at any time by the Chairman or **by** any  
7 ~~three~~ **four** (34) of the Trustees ~~upon giving ten (10) days written notice to all Trustees.~~ An  
8 emergency meeting may be called with less than ten (10) days written notice provided that all  
9 Trustees agree to such a meeting. An agenda specifying the subject of any special meeting shall  
10 accompany such notice, and only business included on that agenda may be transacted.

## 11 **NOTICE OF MEETINGS**

12 ~~All meetings of the Board shall be conducted in the manner required by law. In the event of any~~  
13 ~~conflict between any provision of this policy and any provision of any applicable law, this policy~~  
14 ~~shall be deemed modified to the extent necessary to comply with such law. In addition to any~~  
15 ~~notices of meetings required to be served under this policy, The Administrator shall cause to be~~  
16 ~~published any schedule or notice of meeting of the Board required by law.<sup>1</sup> Such publication~~  
17 ~~requirement shall be deemed met by announcement on the TSBA website.~~

## 18 **REQUIRED VOTE**

19 Any action by the Trustees ~~may~~ **shall** be taken at a duly constituted meeting. A majority of the  
20 Trustees present at a duly constituted meeting shall be required for action.

## 21 **OPEN MEETINGS**

22 All meetings of the Board of Trustees ~~and its committees~~ will be held in accordance with the  
23 Tennessee Open Meetings Act.<sup>2</sup>

1    **ELECTRONIC ATTENDANCE**<sup>3</sup>

2    Absent Trustees may participate in a regular or special meeting by electronic means of  
3    communication. The following requirements apply to all electronic attendance:

- 4           1. A quorum of the Board shall be physically present at the meeting in order for any Trustee  
5           to attend electronically;  
6  
7           2. The responsibility for the connection lies with the Trustee wishing to participate  
8           electronically. No more than two (2) attempts to connect shall be made unless the Board  
9           chooses to make additional attempts;  
10  
11          3. The Trustee wishing to participate ~~must~~ shall give the Chairman or the Trust  
12          Administrator at least five (5) days' notice prior to the meeting of the Trustee's desire to  
13          participate electronically; and  
14  
15          4. All votes taken during a meeting where a Trustee is attending electronically shall be by  
16          roll call vote.

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Legal References

1. TCA 8-44-103
2. TCA 8-44-101 *et seq.*
3. TCA 8-44-108

# TSBA OPEB Trust

Descriptor Term:  <b>Board of Trustees' Meeting Procedures</b>	Descriptor Code:  <b>1020</b>	Revised:  <b>02/18/19</b>
	Rescinds:  <b>1020</b>	Previous Issued:  <b>11/05/12</b>

## 1 AGENDA PREPARATION

2 The agenda shall be prepared by the Trust Administrator in consultation with the Trust Chairman  
3 and shall be approved by the Board of Trustees as the first item of business at each meeting.

4 Items of business may be suggested by any member ~~board~~ system, any ~~member of the Board of~~  
5 Trustees, or the Trust Administrator. Inclusion of the item on the agenda shall be at the discretion  
6 of the Chairman and Trust Administrator. ~~Matters of business not listed on the agenda may be~~  
7 ~~added to the agenda by the Board.~~

8 Requests to have items placed on the agenda ~~must~~ shall be received twenty (20) days before the  
9 Board is scheduled to convene. The full agenda, including support documents, shall be  
10 distributed two (2) weeks in advance of each board meeting to allow ~~members~~ Trustees adequate  
11 time to study agenda material.

12 At the beginning of each meeting, the Board shall approve the agenda for the meeting, which  
13 may involve the addition or deletion of items previously included on the agenda.

## 14 ORDER OF BUSINESS

15 The structure of a board meeting shall be as follows:

- 16 1. Call to Order;
- 17 2. Adoption of Agenda;
- 18 3. Approval of Minutes;
- 19 4. ~~Report from the Chairman;~~
- 20 5. Report from the Trust Administrator;
- 21 6. Discussion and Action as needed on Agenda Items;
- 22 7. Other Business; and
- 23 8. Adjournment.

## 1 MINUTES

2 The Trust Administrator shall be responsible for recording and maintaining the proceedings of  
3 all board meetings. Draft copies of the previous minutes shall be distributed along with agenda  
4 material for the succeeding meeting. Minutes shall contain the following:

- 5 1. Type of meeting;
- 6 2. Date, time, and place;
- 7 3. Names of those present;
- 8 4. Status of previous minutes;
- 9 5. All motions and their disposition;
- 10 6. All reports; and
- 11 7. Time of adjournment.

# TSBA OPEB Trust

Descriptor Term:  <b>Policy Development and Adoption</b>	Descriptor Code:  <b>1030</b>	Revised:  <b>09/28/12</b>
	Rescinds:  <b>1030</b>	Previous Issued:  <b>11/16/09</b>

1 A proposed policy or policy change shall be submitted to the Board by any member system, of  
2 ~~the Board of Trustees~~ Trustee, or Trust Administrator.

3 Adoption shall require an affirmative vote by a majority of the Trustees present at a duly  
4 constituted meeting, ~~and each vote will contain a future date for reporting the effectiveness of the~~  
5 ~~policy.~~

6 Policies and amendments adopted by the Board shall be made a part of the minutes and shall be  
7 placed in the policy manual. Policies and amendments shall be effective immediately upon  
8 adoption unless a specific effective date is provided and shall supersede any previous board  
9 action on the subject.

## 10 **SUSPENSION OF POLICIES**

11 Any board policy or part thereof may be suspended either by a ~~unanimous~~ majority vote of board  
12 ~~members~~ the Trustees present ~~or by a two-thirds vote of the total membership of the Board.~~

## 13 **ADMINISTRATION IN POLICY ABSENCE**

14 In cases where the Board has provided no guidelines for administrative action, the Trust  
15 Administrator shall have the power to act but report to the Board at its next meeting.

# TSBA OPEB Trust

Descriptor Term:  <b>Indemnification</b>	Descriptor Code:  <b>1040</b>	Revised:  <b>11/16/09</b>
	Rescinds:	Previous Issued:

1 The Trust shall provides legal defense and indemnification to its Trustees, officers, employees,  
2 and agents for claims that arise from activities within the individual's scope of employment or in  
3 the performance of authorized duties. The Trust will not indemnify ~~an~~ a Trustee, officer,  
4 employee, or agent for ~~intentional acts, gross negligence, or recklessness~~ gross negligence,  
5 willful misconduct, lack of good faith, or actions in direct conflict with advice from the Trust's  
6 attorneys. The Trust will also not indemnify ~~an~~ a Trustee, officer, employee, or agent in any  
7 action brought by the Trust against that individual.

8 To be eligible for ~~the~~ legal defense and indemnification, the Trustee, officer, employee, or agent  
9 ~~must~~ shall abide by the following:

10

11 1. Request the indemnification in writing no less than ten (10) business days after receipt of  
12 the summons, warrant, or other official notice of the adverse action;

13

14 2. Sign an approved indemnification agreement; and

15

16 3. Cooperate with the Trust in defending against the adverse action.

17 The ~~i~~Indemnification and legal defense of an individual shall include ~~the provision of~~ legal  
18 counsel, the payment of court costs, necessary case-related expenses, and any judgment or  
19 settlement if the Trust authorizes the settlement in advance.

# TSBA OPEB Trust

Descriptor Term:  <b>Appointment of a Trust Administrator</b>	Descriptor Code:  <b>1050</b>	Revised:  <b>02/18/19</b>
	Rescinds:  <b>1050</b>	Previous Issued:  <b>11/16/09</b>

## 1 APPOINTMENT OF TRUST ADMINISTRATOR

2 The Tennessee School Boards Association Executive Director shall act as the Administrator of  
3 the Trust as well as the Principal Operating Officer of the Trust.

## 4 ~~MANAGEMENT OF THE TRUST~~

5 ~~It is the express intention of the settlors of this Trust that the Trustees herein named and their~~  
6 ~~successors in Trust have the exclusive authority to manage this Trust and to delegate to others, as~~  
7 ~~the Trustees may deem necessary, the performance of any duties required in the administration~~  
8 ~~of this Trust. It is also the express intention of the settlors that no court shall substitute its~~  
9 ~~judgment for that of the Trustees in the making of any decisions relative to the carrying out of~~  
10 ~~the Trust.~~

## 11 TREASURER

12 The Trust Administrator shall serve as Treasurer of the Trust.

## 13 DUTIES OF ADMINISTRATOR

14 ~~The TSBA Executive Director or designee shall be the Trust Administrator/Principal Operating~~  
15 ~~Officer of the Trust and shall supervise and control the operations of the Trust and carry out the~~  
16 ~~purpose of the Trust as directed by the Board of Trustees.~~

17 Among the duties and authority of the Administrator shall be the following:

- 18 1. Sign, on behalf of the Trust, any instrument which the Trust has authorized to be  
19 executed, and in general, to perform duties incidental to the office of the Administrator  
20 and such other duties as may be prescribed by the Board of Trustees, ~~consistent with this~~  
21 ~~policy;~~  
22

- 1        2. ~~At each regular meeting of the Board of Trustees and at such other times as requested to~~  
2        ~~do so by the Board, to p~~ Present a full report of activities and the fiscal condition of the  
3        Trust at each regular meeting of the Board of Trustees and at such other times as  
4        requested to do so by the Board;  
5
- 6        3. ~~To e~~Compile and list annually contributions made to the Trust and all investment income;  
7
- 8        4. Cause an annual audit of all Trust funds in cooperation with the Trustees;  
9
- 10      5. Record and maintain the proceedings of all board meetings; and  
11
- 12      6. Disburse funds held by the Trust as needed to carry out the purposes of the Trust.

# TSBA OPEB Trust

Descriptor Term:  <b><u>Code of Ethics</u></b>	Descriptor Code:  <b>1060</b>	Revised:  <b>DRAFT</b>
	Rescinds:	Previous Issued:

## 1 **DISCLOSURE OF PERSONAL INTERESTS**

### 2 *Voting Matters*<sup>1</sup>

3 A Trustee, with the responsibility to vote on a measure, shall disclose during the meeting at  
4 which the vote takes place, before the vote and to be included in the minutes, any personal  
5 interest that affects or that would lead a reasonable person to infer that it affects the Trustee's  
6 vote on the measure. In addition, the Trustee shall recuse himself/herself from voting on the  
7 measure.

### 8 *Non-Voting Matters*

9 A Trustee who must exercise discretion relative to any matter other than casting a vote and who  
10 has a personal interest in the matter that affects or that would lead a reasonable person to infer  
11 that it affects the exercise of the discretion shall disclose, before the exercise of the discretion  
12 when possible, his/her personal interest. The Trustee shall recuse himself/herself from the  
13 exercise of discretion in the matter.

## 14 **ACCEPTANCE OF GIFTS AND OTHER THINGS OF VALUE**

15 The Board of Trustees, its officers, agents, or employees may not accept, directly or indirectly,  
16 any gift, money, gratuity, or other consideration or favor of any kind from anyone that a  
17 reasonable person would understand was intended to influence the vote, official action, or  
18 judgment of the Board of Trustees, its officers, agents, or employees in executing decision-  
19 making authority affecting the OPEB Trust.

20 It shall not be considered a violation of this policy for the Board of Trustees, its officers, agents,  
21 or employees to receive entertainment, food, refreshments, meals, health screenings, amenities,  
22 or beverages that are provided in connection with a conference sponsored by an established or  
23 recognized statewide association of school board officials or by an umbrella or affiliate  
24 organization of such statewide association of school board officials.

## 25 **ETHICS COMPLAINTS**

26 The Board of Trustees may create an ethics committee consisting of three (3) Trustees who will  
27 be appointed to one-year terms by the Chair with confirmation by the Board of Trustees. The  
28 Ethics Committee shall convene as soon as practicable after its appointment and elect a Chair.  
29 Records of the Ethics Committee shall be maintained and be open to public inspection.

1 Questions and complaints regarding violations of this Code of Ethics or of any violation of state  
2 law governing ethical conduct should be directed to the Chair of the Ethics Committee.  
3 Complaints shall be in writing, signed by the complainant, and contain the facts upon which the  
4 complaint is based.

5 The Ethics Committee may investigate any credible complaint against a Trustee, officer, agent,  
6 or employee charging a violation of this Code of Ethics, may undertake an investigation on its  
7 own initiative when it acquires information indicating a possible violation, or make  
8 recommendations for action to end or seek retribution for any activity that, in the Ethics  
9 Committee's judgment, constitutes a violation of this Code of Ethics. If a member of the Ethics  
10 Committee is the subject of a complaint, such member shall recuse himself/herself from all  
11 proceedings involving such complaint.

12 The Ethics Committee may refer the matter to the Trust attorney for a legal opinion and/or  
13 recommendation for action.

---

Legal References

1. TCA 8-17-102(b)

# TSBA OPEB Trust

Descriptor Term:  <b>Annual Audit Report</b>	Descriptor Code: <b>3010</b>	Revised: <b>09/28/12</b>
	Rescinds: <b>3010</b>	Previous Issued: <b>11/16/09</b>

- 1 The TSBA OPEB Trust shall retain the services of a licensed certified public accountant of
- 2 Tennessee ~~prior to June 30<sup>th</sup> of each year~~ through a Request for Proposal process every three (3)
- 3 years. The Trust shall obtain an engagement letter specifying the cost and the services to be
- 4 provided by the auditor.
  
- 5 The necessary Trust records shall be made available to the auditor as available. The audit report
- 6 shall be distributed to the Board of Trustees.
  
- 7 The following schedules shall be included in the audit report:
  - 8 1. Statement of Assets and Equities;
  - 9
  - 10 2. Statement of Cash Receipts and Disbursements; and
  - 11
  - 12 3. Cash transactions during the year.

# TSBA OPEB Trust

Descriptor Term:  <b>Investment</b>	Descriptor Code:  <b>3060</b>	Revised:  <b>02/12/18</b>
	Rescinds:  <b>3060</b>	Previous Issued:  <b>04/29/15</b>

## 1 OBJECTIVES AND PERFORMANCE GOALS

2 The Trust's overall investment objective is to achieve a favorable total rate of return consistent  
3 with prudent financial management. The goal is to meet stated financial needs of the Trust while  
4 maintaining or increasing the real inflation adjusted value of the permanent funds for which the  
5 Trust has been entrusted.

6 The performance of the Trust's financial assets and its investment managers will be monitored  
7 on a quarterly basis. Portfolio asset allocation shall be reviewed at least annually. Individual  
8 managers will be expected to exceed the performance of relevant market index benchmarks over  
9 full market cycles. Risk-adjusted performance will also be measured against a peer group of  
10 similar managers and evaluated over three (3) and five (5) year annualized time periods.

## 11 BOARD OF TRUSTEES

12 The Board of Trustees is responsible for overseeing the investments assets of the Trust and for  
13 discharging its duties solely in the best interest of the Trust. These duties shall be discharged  
14 with the care, skill, prudence, and diligence under the circumstances then prevailing that a  
15 prudent man acting in a like capacity and familiar with such matters would use in the conduct of  
16 an enterprise of a like character and with like aims. In addition, the Board of Trustees will  
17 conduct a thorough review of any person or entity providing investment services to the Trust to  
18 avoid any potential conflict of interest situations.

## 19 FINANCE COMMITTEE

20 The Board of Trustees will act as the Finance Committee. The duties of the Finance Committee  
21 include, but are not limited to, the following:

- 22 1. Evaluating and selecting an investment consultant;  
23
- 24 2. Developing investment objectives and performance measurement standards which are  
25 consistent with the financial needs of the Trust and individual funds;

- 1 3. Periodically reviewing the policy guidelines, and if needed, making changes after  
2 consideration of the advice and recommendations of the investment consultant and  
3 others;  
4
- 5 4. Determining an asset allocation strategy and investment management structure  
6 designed to meet the Trust's investment objectives;  
7
- 8 5. Evaluating and selecting investment managers;  
9
- 10 6. Communicating investment objectives, portfolio guidelines, and performance  
11 standards to the investment managers;  
12
- 13 7. Holding biannual meetings for the review of performance reports and financial  
14 statements and informational conference calls as needed;  
15
- 16 8. Deploying existing assets and newly contributed funds to the investment managers;  
17
- 18 9. Reviewing and evaluating investment results in the context of predetermined  
19 performance standards;  
20
- 21 10. Ensuring that investment managers are in compliance with all portfolio guidelines  
22 and restrictions and that undo risk is not being undertaken to achieve objectives;  
23
- 24 11. Taking necessary corrective action when investment managers fail to achieve  
25 expected results; and  
26
- 27 12. Engage in RFP process for all contracted services every three (3) years.

## 28 CUSTODIAN

29 Subject to approval by the Board of Trustees, the Finance Committee is authorized to hire a  
30 custodian to safekeep the Trust's assets. The duties of the custodian include, but are not limited  
31 to, the following:

- 32 1. Providing all normal custodial functions including security safekeeping, collection of  
33 income, settlement of trades, collection of proceeds of maturing securities,  
34 distribution of income, and daily investment of uninvested cash;  
35
- 36 2. Providing reports detailing investment holdings and account transitions monthly and

1 an annual report summarizing the following to be submitted to the Finance  
2 Committee within forty-five (45) days following each fiscal year end;

3  
4 a. The reports will include the following:

- 5 1. Statement of all assets on hand;
- 6 2. Statement of all assets received representing contributions to the  
7 account; and
- 8 3. Statement of all sales, redemptions, maturities, and principal  
9 payments;

10  
11  
12 3. Establishing and maintaining directed account relationships with each investment  
13 manager; and

14  
15 4. Preparing accounting reports as requested.

## 16 INVESTMENT MANAGEMENT

17 The Board of Trustees is authorized to engage the services of investment managers, as defined  
18 under the Investment Advisors Act of 1940, and other investment professionals to provide the  
19 specialized management necessary to meet the Trust's investment objectives and guidelines.  
20 Accordingly, the Board of Trustees requires the investment managers to adhere to the "prudent  
21 man rule" under such ~~federal~~ or state laws<sup>1</sup> as may be applicable or which may be applicable in  
22 the future of the investment of Trust assets.

## 23 DELEGATION OF AUTHORITY

24 Investment managers retained by the Board of Trustees will be held responsible for making all  
25 investment decisions regarding the assets under their direction. Each investment manager will be  
26 provided with a copy of these investment policy objectives and guidelines. In addition, each  
27 manager will be provided with any additional specific goals and objectives that are applicable to  
28 the particular managed account that the manager is responsible for. Managers will be required to  
29 observe and operate within all guidelines specified by the Trust.

## 30 CAPITAL REQUIREMENTS

31 The Board of Trustees is directed to maintain an Operating Reserve balance which may be  
32 custodied in one or more accounts and must maintain a balance that is appropriate to meet the  
33 annual distribution needs of the Trust. Such funds may only be invested in insured money market  
34 instruments or in investments whose principal is guaranteed by the full faith and credit of the

1 United States Government or one of its agencies. Irrespective of the type of investment selected,  
 2 funds may not be invested in any security with a maturity greater than one (1) year. The Board of  
 3 Trustees is permitted to maintain all Trust funds in Operating Reserve investments until the Trust  
 4 fund balance reaches a level where it is both economically prudent and fiscally appropriate to  
 5 invest funds pursuant to paragraph 3 of this Section.

6  
 7 The Board of Trustees may establish an account or accounts whose balances are restricted to a  
 8 particular use or program. Such accounts may be invested according to the guidelines established  
 9 in this Investment policy Statement or restricted to more conservative allocations pursuant to the  
 10 timing of the need for the funds. Restricted fund balances may be expended at the direction of  
 11 the Board of Trustees so long as such direction is not in conflict with agreements or restrictions  
 12 attached to the receipt of such funds.

13  
 14 All remaining funds owned or controlled by the Board of Trustees shall be considered Capital  
 15 Reserves. At the end of each operating year, any and all reserves held in accounts designed as  
 16 Operating Reserves which are in excess of the required balance for the upcoming operating year  
 17 shall be reallocated to the Capital Reserves account or accounts. All funds held in Capital  
 18 Reserve accounts shall be invested pursuant to the guidelines established in this document  
 19 [policy](#).

## 20 INVESTMENT GUIDELINES

21 The Trust's investment policy objectives and guidelines will be reviewed and revised as needed  
 22 from time to time by the Finance Committee. In conducting the review, the committee will  
 23 consider applicable advice and recommendations of the Trust's staff, attorneys, accountants,  
 24 investment managers, consultants, or other professionals retained to render advice to the Trust.  
 25 All modifications shall be in writing and shall be approved by the Board of Trustees.

## 26 ASSET ALLOCATION

27 The Trust's investment philosophy is that assets should be allocated with the goal of producing  
 28 the highest total return consistent with prudent financial management. Unless otherwise specified  
 29 by individual fund objectives, this philosophy should be adhered to within the constraints  
 30 of the following asset allocation ranges:

31	<u>Maximum allocation</u>	<u>Minimum allocation</u>
32 Equity Investments	70%	35%
33 Fixed Income Investments	65%	20%
34 Cash & Equivalents	35%	0%

1	Alternative Investments – 40 Act Funds	15%	0%
2	Hedging Strategies		
3	Commodities ETF's		
4	Managed Futures Funds		

5 In cases where individual fund objectives require an exception to the above asset allocation  
6 ranges, written statements detailing the ~~policy~~ reasoning for each specific fund will be provided  
7 as supplements to this Investment Policy.

8 From time to time, the Finance Committee will determine specific asset allocation targets that it  
9 feels are best suited for accomplishing the above total return objective. These specific asset  
10 allocation targets will be communicated to individual investment managers in writing, and within  
11 a reasonable time frame, managers are expected to reallocate assets in order to comply with the  
12 target ranges established by the Committee. In the absence of specific asset allocation targets  
13 from the Trust, individual managers will have the direct responsibility for settling and  
14 maintaining an asset mix that they feel will best accomplish the Trust's total return objective. At  
15 all times and in all cases, ~~however,~~ the above maximum and minimum limits or ~~where~~  
16 ~~applicable,~~ specific individual fund maximum and minimum limits, where applicable, are to be  
17 adhered to.

## 18 **PROXY VOTING**

19 The Board of Trustees recognize that proxy voting is a fiduciary responsibility and require that  
20 proxies be voted based on those factors which would enhance the value of the Trust's  
21 investments. The Board of Trustees delegates their authority to vote proxies to the investment  
22 managers employed by the Trust and instruct the managers to maintain accurate voting records  
23 and to vote proxies for the exclusive benefit of the Trust.

## 24 **TYPES OF ASSETS**

25 In order to provide for adequate investment diversification across a broad range of assets, the  
26 following types of assets are approved for investment:

- 27 U.S. Common Stock
- 28 Non U.S. Common Stock
- 29 U.S. Preferred Stock
- 30 Non U.S. Preferred Stock
- 31 U.S. Government and Agency Securities
- 32 Non U.S. Government and Agency Securities

- 1 Corporate Bonds with a minimum BAA rating or the equivalent Municipal Debt
- 2 Convertible Securities
- 3 Commercial Paper
- 4 Money Market Funds
- 5 Mutual Funds (open and closed-end)
- 6 Exchange Traded Funds
- 7 Passive Index Funds
- 8 Commodities Exchange Traded Funds
- 9 1940 Act Alternative Funds – Hedging Strategies
- 10 1940 Act Managed Futures Funds
- 11 Certificate of Deposits

12 *Additional Criteria*

13 All fixed income and preferred stock issues ~~must~~ shall be investment grade and dollar  
14 denominated. Mutual fund investment ~~must~~ shall have investment objectives, rules, and  
15 regulations that are consistent with the Trust's Investment Policy. All assets selected for the  
16 Trust ~~must~~ shall have a readily ascertainable market value and ~~must~~ be readily marketable.

17 *Prohibited Investments*

18 Investment managers are prohibited from using the following assets and/or transactions:

- 19 Uncovered Options – Puts or Calls
- 20 Short Selling
- 21 Restricted Stock
- 22 Other Derivative Securities not specifically approved above

23 **CASH & CASH EQUIVALENTS**

24 All cash, wherever and whenever possible, should be invested in interest bearing instruments.  
25 These investments should have stable pricing and instant liquidity.

26 **INVESTMENT MARKETS – EQUITY SECURITIES**

27 In order to broaden the investment opportunities for the investment manager(s) to achieve ~~the~~  
28 specific objectives ~~set forth herein~~, the managers are permitted to invest in equity securities listed  
29 on the New York Stock Exchange, the American Stock Exchange, principal regional exchanges,  
30 and in over-the-counter securities for which there is a strong market providing ready liquidity of  
31 the specific security.

1 The Board of Trustees believes it is necessary and desirable that equity securities held by the  
2 Trust represent a diversified portfolio. In this regard, the Finance Committee and Investment  
3 Consultant will select and continue to monitor equity investment managers that have  
4 diversification and risk management strategies that are consistent with this focus.

## 5 **INVESTMENT MARKETS – FIXED INCOME SECURITIES**

6 In order to broaden the investment opportunities for the investment manager(s) to achieve ~~the~~  
7 specific objectives ~~set forth herein~~, the managers are permitted to invest in fixed income issues  
8 offered in both primary and secondary markets. Fixed income securities may include bonds,  
9 notes, and pass-through securities issued or guaranteed by the U.S. Government or its agencies,  
10 corporate bonds, notes, debentures, or asset-backed securities. Should the rating on a debt or  
11 preferred stock security purchased subsequently fall below the minimum BAA (or equivalent)  
12 rating, a sale of the issue shall be required except as warranted by investment considerations.

13 The Board of Trustees believes it is necessary and desirable that fixed income securities held by  
14 the Trust represent a diversified portfolio. In this regard, the Finance Committee and Investment  
15 Consultant will select and continue to monitor fixed income investment managers that have  
16 diversification and risk management strategies that are consistent with this focus.

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### Legal References

1. TCA 35-14-101 *et seq.*

# TSBA OPEB Trust

Descriptor Term:  <b>Reimbursement for Trustees</b>	Descriptor Code:  <b>3080</b>	Revised:  <b>02/17/20</b>
	Rescinds:  <b>3080</b>	Previous Issued:  <b>02/20/17</b>

- 1 Trustees shall be reimbursed for expenses incurred in attending Trust meetings and any special
- 2 meetings called by the Trust Chairman in accordance with Trust travel regulations.
- 3 **EXPENSES OF TRUSTEES**
- 4 ~~No~~ Trustees shall ~~receive any salary~~ serve without compensation ~~for services~~ from the Trust.
- 5 Any Trustee or other officer of the Trust may submit to the Trust for approval and be reimbursed
- 6 for expenses incurred in the pursuit of his/her position. Reimbursement for such expenses shall
- 7 be in accordance with ~~procedures and~~ policies established by the Board of Trustees.

# TSBA OPEB Trust

Descriptor Term:  <b>Conflict of Interest</b>	Descriptor Code:  <b>3090</b>	Revised:  <b>11/16/09</b>
	Rescinds:	Previous Issued:

- 1 In addition to a duty imposed by any state and federal laws governing conflict of interest
- 2 applicable to nonprofit and charitable organizations, ~~no~~ Trustees, officers, ~~director, or committee~~
- 3 ~~member~~ employees, or agents shall not benefit, either directly or indirectly, from his/her position
- 4 with the TSBA OPEB Trust, unless the interest is disclosed and a majority of disinterested ~~board~~
- 5 ~~members~~ Trustees present at the meeting determine that the transaction is in the best interest of
- 6 the Trust.

# TSBA OPEB Trust

Descriptor Term:  <b>Sensitive Information</b>	Descriptor Code:  <b>4000</b>	Revised:  <b>09/28/12</b>
	Rescinds:  <b>4000</b>	Previous Issued:  <b>11/16/09</b>

1 The TSBA OPEB Trust shall maintain the confidentiality of the personal information of its  
2 member systems consistent with ~~the Tennessee Open Records Law~~ state law.<sup>1</sup> Any other use,  
3 misuse, or breach of said information is strictly prohibited ~~and may subject the employee to~~  
4 ~~possible civil or criminal action as well as disciplinary action up to and including termination of~~  
5 ~~employment.~~

6 Personal information includes, but is not limited to:

- 7 • Credit card information;
- 8 • Social security number;
- 9 • Tax identification number;
- 10 • Medical information;
- 11 • Date of birth;
- 12 • Address;
- 13 • Phone numbers;
- 14 • Proprietary information or trade secrets; and
- 15 • Any other information designated as confidential, sensitive, or private.

16 When in doubt as to the status of specific information, ~~employees~~ Trustees should consult ~~their~~  
17 ~~supervisor or TSBA General Counsel~~ the Trust attorney for guidance.

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## Legal References

1. TCA 10-7-504



**TSBA OPEB Trust**

**Communication with  
Board of Trustees**

**September 29, 2020**





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September 29, 2020

To the Board of Trustees  
of the TSBA OPEB Trust

Dear Trustees:

We are pleased to present our Report to the Board of Trustees on the results of our audit of the financial statements of the TSBA OPEB Trust (the "Trust") for the year ended June 30, 2020.

A direct line of communication between our Firm and the Board of Trustees is essential to the proper exercise of our respective responsibilities. Our appointment involves the responsibility on our part to call to your attention any significant matters which we believe require your consideration, either at a regularly scheduled meeting or on a more timely basis, if warranted.

The accompanying report is intended solely for the use of the Board of Trustees and Trust management, and is not intended to be or should not be used by anyone other than these specified parties. It also presents information regarding our audit and certain other information which we believe will be of assistance to you. We appreciate this opportunity to discuss the contents of this report with you and any other matters you wish to address.

We would like to take this opportunity to express our appreciation for the assistance and courtesy extended to us by your employees. We appreciate working with you, and we look forward to a continued relationship with the TSBA OPEB Trust.

Very truly yours,

CROSSLIN, PLLC

A handwritten signature in black ink that reads "Erica D. Saeger". The signature is written in a cursive style.

Erica D. Saeger  
Audit Principal



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## ***Report on Results of the June 30, 2020 Audit***

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We have audited the financial statements of the TSBA OPEB Trust (the “Trust”) as of and for the year ended June 30, 2020, and we have issued an unmodified opinion dated September 29, 2020.

The following discussion contains information related to our audit that is required by professional standards and certain other information which will be of assistance to you.

---

### ***Our Responsibilities under U.S. Generally Accepted Auditing Standards and Government Auditing Standards***

---

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements, prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Trust. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

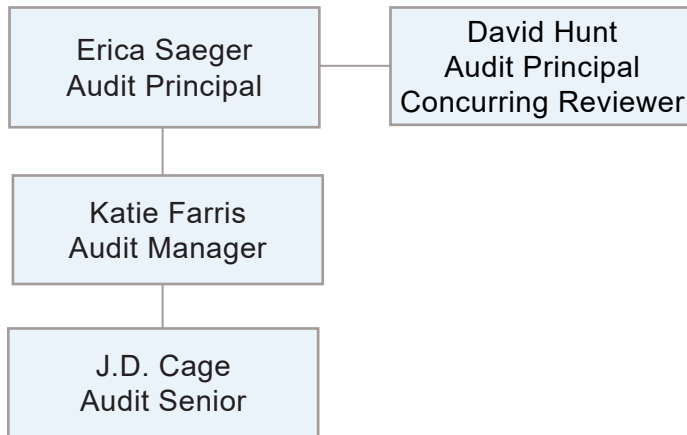
As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement and in conformity with *Government Auditing Standards*, we performed tests of the Trust’s compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.



---

## **Customer Service Team**

---



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## **Areas of Audit Significance**

---

During the audit, we focused on the following account balances and related transaction streams:

- Investments
- Investment income and expenses
- Employer contributions
- Financial reporting

---

## **Planned Scope and Timing of the Audit**

---

We performed the audit according to the planned scope and timing previously communicated to you.

---

## **Significant Accounting Policies**

---

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Trust is included in Note B to the financial statements. There have been no material changes in significant accounting policies or their application during fiscal year 2020. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. We believe the Trust's accounting policies are appropriate and comprehensive under accounting principles generally accepted in the United States of America.



---

## ***Accounting Estimates***

---

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were management's estimate of the fair value of investments. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

---

## ***Difficulties Encountered in Performing the Audit***

---

We encountered no significant difficulties with management in performing and completing our audit.

---

## ***Corrected and Uncorrected Misstatements***

---

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were two significant adjusting entries and two reclass entries made during the course of the audit. The entries are as follows:

- An adjusting entry to record the effect of a prior year audit adjustment that had not been recorded.
- An adjusting entry to create a due to/due from other plans balance to correct a contribution that was erroneously deposited by Morgan Stanley into the Collierville Schools Plan instead of the Arlington Community Schools Plan.
- Two reclassifying entries related to interest and dividends and unrealized gains to match the June 2020 settlement dates.

Additionally, there were no unrecorded entries.

---

## ***Disagreements with Management***

---

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during the course of our audits.



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## ***Management Representations***

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We requested certain representations from management that are included in the management representation letter. This letter has been included for informational purposes as Appendix A.

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## ***Management Letter***

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During the course of our audit, we remain aware for areas of improvement in internal control or areas where the Trust could improve controls or operations. The observation noted and our corresponding recommendation and benefit are included in the management letter as Appendix B.

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## ***Fraud and Illegal Acts***

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We did not identify any material fraudulent or illegal acts during the course of our audit, nor were any disclosed to us by management or the Board.

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## ***Management Consultations with Other Independent Accountants***

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In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion.” If a consultation involves application of an accounting principle to the entity’s financial statements or a determination of the type of auditors’ opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

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## ***Issues Discussed Prior to Our Selection as Independent Auditors***

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We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Trust’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.



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## *Independence*

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We are not aware of any relationships between Crosslin, PLLC, and the Trust that, in our professional judgment, may reasonably be thought to bear on our independence that have occurred during the period from July 1, 2019, through the date of this letter.

We confirm that we are independent with respect to the Trust within the meaning of Rule 101 of the Code of Professional Conduct of the American Institute of Certified Public Accountants and under *Government Audit Standards*.

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## *Changes in Auditing and Accounting Standards*

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The government and standard-setting bodies are issuing guidance at an unprecedented pace. Crosslin, PLLC is constantly receiving, reviewing, and searching for the latest authoritative literature, in part through its involvement with the AICPA's Government Audit Quality Center and the Government Finance Officers Association ("GFOA"), including GFOA's Special Review Committee. We routinely interface with our customers to ensure proper understanding and application of pronouncements, standards, interpretations, and addenda that arise. In addition, we expect to join the Trust personnel in relevant discussions to implement all new standards as they arise.

Recent accounting pronouncements including the following. We will analyze these Statements with Trust management to ensure appropriate implementation, as applicable.

- **GASB Statement No. 84, Fiduciary Activities**  
Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.
- **GASB Statement No. 87, Leases**  
Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.
- **GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period**  
Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.
- **GASB Statement No. 90, Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61**  
Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.
- **GASB Statement No. 91, Conduit Debt Obligations**  
Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.



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## *Changes in Auditing and Accounting Standards - Continued*

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- **The GASB issued Statement No. 92, Omnibus 2020**, which is effective as follows:
  - The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.
  - The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2020.
  - The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021.
  - The requirements related to the measurement of liabilities (and assets, if any) associated with asset retirement obligations in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021.
- **GASB Statement No. 93, Replacement of Interbank Offered Rates** Effective Date: The requirements of this Statement, except for paragraphs 11b, 13, and 14 are effective for reporting periods beginning after June 15, 2020. The requirement in paragraph 11b is effective for reporting periods ending after December 31, 2021. The requirements in paragraphs 13 and 14 are effective for fiscal years periods beginning after June 15, 2021, and all reporting periods thereafter. Earlier application is encouraged.
- **GASB Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements** Effective Date: The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- **GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance** Effective Date: The requirements of this Statement are effective immediately.
- **GASB Statement No. 96, Subscription-Based Information Technology Arrangements** Effective Date: The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.



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## *Changes in Auditing and Accounting Standards*

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- **GASB Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32** Effective Date: The requirements of this Statement are effective as follows:
  - The requirements in (1) paragraph 4 of this Statement as it applies to defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans and (2) paragraph 5 of this Statement are effective immediately.
  - Paragraphs 6–9 of this Statement and the supersession of the remaining requirements of Statement 32 (as detailed in paragraph 3 of this Statement).
  - Questions 4.3 and 4.5 of Implementation Guide 2019-2, as amended, are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged if Statement 84, as amended, has been implemented.



September 29, 2020

Crosslin, PLLC  
 The Astoria  
 3803 Bedford Avenue, Suite 103  
 Nashville, TN 37215

This representation letter is provided in connection with your audit of the financial statements of the TSBA OPEB Trust (the "Trust"), which comprise the statement of net position as of June 30, 2020, and the respective statement of changes in net position for the year then ended, and the disclosures (collectively, the "financial statements"), for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of September 29, 2020, the following representations made to you during your audit.

**Financial Statements**

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated February 1, 2019, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the required supplementary information and other information in accordance with the applicable criteria.
- 2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP.
- 3) We acknowledge our responsibility 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.
- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 5) Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
- 6) Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.

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- 7) No events, except as made known to you, including instances of noncompliance, have occurred subsequent to the date of the statement of net position and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.
- 8) We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements, and we have not consulted external counsel for any material litigation, claims, or assessments through the date of this letter.
- 9) Guarantees, whether written or oral, under which the Trust is contingently liable, if any, have been properly recorded or disclosed.

**Information Provided**

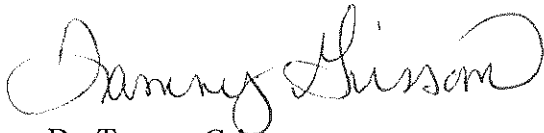
- 10) We have provided you with:
  - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
  - b) Additional information that you have requested from us for the purpose of the audit.
  - c) Unrestricted access to persons within the Trust from whom you determined it necessary to obtain audit evidence.
  - d) Minutes of the meetings of the Board of Trustees or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 11) All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- 12) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 13) We have no knowledge of any fraud or suspected fraud that affects the Trust and involves:
  - Management,
  - Employees who have significant roles in internal control, or
  - Others where the fraud could have a material effect on the financial statements.
- 14) We have no knowledge of any allegations of fraud or suspected fraud affecting the Trust's financial statements communicated by employees, former employees, regulators, or others.
- 15) We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
- 16) We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements, and we have not consulted external counsel for any material litigation, claims, or assessments through the date of this letter.
- 17) We have disclosed to you the names of the Trust's related parties and all the related party relationships and transactions, including any side agreements.

## **Government-specific**

- 18) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 19) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 20) The Trust has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or net position.
- 21) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts, and legal and contractual provisions for reporting specific activities in separate funds.
- 22) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
- 23) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- 24) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
- 25) There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
- 26) As part of your audit, you assisted with preparation of the financial statements and disclosures. We acknowledge our responsibility as it relates to those nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements and disclosures.
- 27) The Trust has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 28) The Trust has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 29) The financial statements properly disclose all joint ventures and other related organizations, if any.
- 30) Components of net position (restricted for other postemployment benefits) are properly classified and, if applicable, approved.
- 31) Investments are properly valued.
- 32) Expenses have been appropriately classified in the statement of changes in net position.
- 33) Revenues are appropriately classified in the statement of changes in net position.

- 34) Interfund balances have been appropriately classified and reported.
- 35) Deposits and investment securities are properly classified as to risk and are properly disclosed.
- 36) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
- 37) We have obtained a copy of the relevant SSAE 18 SOC 1 report that covers the year under audit, related to significant processes and transactions that have been outsourced to those service organizations. In connection with the SSAE 18 SOC 1 report, we have read the report, evaluated the impact of the exceptions to relevant tests, identified the complementary controls listed under the user controls section of the report, and have determined that those user controls have been designed appropriately and have been implemented.

Very truly yours,

A handwritten signature in cursive script that reads "Tammy Grissom". The signature is written in black ink and is positioned above the typed name.

Dr. Tammy Grissom

Trust Administrator



To the Board of Trustees  
TSBA OPEB Trust  
Nashville, Tennessee

In planning and performing our audit of the financial statements of the TSBA OPEB Trust (the “Trust”) as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the Trust’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the Trust’s internal control. Accordingly, we do not express an opinion on the effectiveness of the 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

During our audit, we identified certain matters involving internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated September 29, 2020 on the financial statements of the Trust. We will review the status of these comments during our next audit engagement. Our comments and recommendations are intended to improve internal controls or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:



## CONTRIBUTIONS

### Observation

During our audit, we noted that a contribution to the Arlington Community Schools Plan was erroneously deposited into the Collierville Schools Plan investment account by Morgan Stanley, the investment custodian. After we notified management of the error, they promptly contacted Morgan Stanley and action was taken to correct the error.

### Recommendation and Benefit

We recommend that management's process for review of the monthly investment statements be updated to specifically include procedures to verify that contributions received are posted to the appropriate investment account. This will help ensure that each member system's investments are properly stated and that investment earnings and administrative fees are properly calculated and applied to the proper investment accounts.

### Management's Response

The TSBA Trust Administrator has spoken with the Morgan Stanley representative and they are going to set TSBA up to verify and review our accounts online and are going to begin forwarding a receipt for checks received along with pertinent deposit/account information. In addition, the TSBA Director of Finance will also maintain a spreadsheet for all contributions received from the member systems of the OPEB Trust as a check and balance to what Morgan Stanley shows on a quarterly basis.

\* \* \* \* \*

Management's responses to the observations and recommendations identified in our audit were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, the board of trustees, and others within the Trust, and is not intended to be and should not be used by anyone other than these specified parties.

*Crosslin, PLLC*

Nashville, Tennessee  
September 29, 2020



**TSBA OPEB TRUST**  
**AUDITED FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

TSBA OPEB TRUST

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## **TSBA OPEB TRUST**

### **LETTER OF INTRODUCTION**

The TSBA OPEB Trust (the “Trust”) is pleased to present its Annual Financial Report for the year ended June 30, 2020.

#### **Responsibility and Controls**

The Trust is responsible for the financial statements and related information included in this report. A system of internal accounting controls is maintained to provide reasonable assurance that assets are safeguarded and that the books and records reflect only authorized transactions. Limitations exist in any system of internal controls. However, based on recognition that the cost of the system should not exceed its benefits, management believes its system of internal accounting controls maintains an appropriate cost/benefit relationship.

Management believes that its policies and procedures provide guidance and reasonable assurance that the Trust’s operations are conducted according to management’s intentions and to a high standard of business ethics. In management’s opinion, the financial statements present fairly, in all material respects, the net position of the Trust as of June 30, 2020, and the changes in its net position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

#### **Audit Assurance**

The unmodified opinion of our independent external auditors, Crosslin, PLLC, is included in this report.

**TSBA OPEB TRUST  
BOARD OF TRUSTEES**

Mark Hansen, Chairman

Tammy Grissom, Trust Administrator

Mark Clark

Dale Viox

Scott McCormick

Jim Campbell

Kevin Long



## Independent Auditor's Report

Board of Trustees  
TSBA OPEB Trust  
Nashville, Tennessee

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the TSBA OPEB Trust (the "Trust") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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



### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust as of June 30, 2020, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 8 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*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Trust's basic financial statements. The introductory section as required by the State of Tennessee, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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



### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2020, on our consideration of the 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 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 Trust's internal control over financial reporting and compliance.

*Crosslin, PLLC*

Nashville, Tennessee  
September 29, 2020

TSBA OPEB TRUST  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Management offers the following discussion and analysis as a narrative introduction to the basic financial statements and an analytical overview of the Trust's financial activities for the fiscal year ended June 30, 2020. This narrative is intended as a supplement and should be read in conjunction with the financial statements.

***Overview of the Financial Statements***

The Trust's financial statements include the following components:

- Statement of Net Position
- Statement of Changes in Net Position
- Notes to Financial Statements

The *Statement of Net Position* presents the Trust's assets, liabilities, and the resulting net position, which are held in trust for the other postemployment benefits of contributing members. This statement reflects a year-end snapshot of the Trust's investments, at fair value, along with cash.

The *Statement of Changes in Net Position* presents information showing how the Trust's net position held in trust for other postemployment benefits changed during the period. This statement includes additions for contributions by employers and investment earnings and deductions for administrative expenses.

The *Notes to Financial Statements* are an integral part of the financial statements and provide additional information that is necessary in order to gain a comprehensive understanding of data reported in the financial statements.

***Financial Highlights***

- Net position is restricted for future benefit payments of participating members. Net position at June 30, 2020 totaled approximately \$102.2 million.
- Employer contributions comprised approximately \$6.4 million of the net increase in net position of approximately \$9.8 million during the year.

***Condensed Financial Information***

In order to ensure the participating employers' ability to properly fund the payment of other postemployment benefits to their employees in future years, it is advisable for employers to accumulate funds on a regular and systematic basis. The principal sources from which the Trust derives additions are employer contributions and earnings on investments.

TSBA OPEB TRUST  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Comparative summary financial statements of the Trust are presented as follows:

**NET POSITION  
JUNE 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
Cash	\$ 5,652	\$ 505,651
Due to	200,000	-
Investments	<u>102,218,950</u>	<u>91,889,269</u>
Total assets	<u>102,424,602</u>	<u>92,394,920</u>
<b>LIABILITIES</b>		
Due from	<u>200,000</u>	<u>-</u>
Total liabilities	<u>200,000</u>	<u>-</u>
<b>NET POSITION RESTRICTED FOR OPEB</b>	<u>\$102,224,602</u>	<u>\$92,394,920</u>

**CHANGES IN NET POSITION  
YEARS ENDED JUNE 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<b>ADDITIONS</b>		
Employer contributions	\$ 6,441,354	\$ 6,686,354
Net investment return	<u>3,545,167</u>	<u>3,605,710</u>
Total additions	<u>9,986,521</u>	<u>10,292,064</u>
<b>DEDUCTIONS</b>		
Administrative expenses	<u>156,839</u>	<u>145,996</u>
Total deductions	<u>156,839</u>	<u>145,996</u>
<b>NET CHANGE</b>	<u>9,829,682</u>	<u>10,146,068</u>
<b>NET POSITION RESTRICTED FOR OPEB</b>		
Beginning of year	<u>92,394,920</u>	<u>82,248,852</u>
End of year	<u>\$102,224,602</u>	<u>\$92,394,920</u>

TSBA OPEB TRUST  
MANAGEMENT'S DISCUSSION AND ANALYSIS

***Analysis of Financial Position and Results of Operations***

The Trust's net position was approximately \$102.2 million at June 30, 2020. During fiscal year 2020, contributions were made to seven of the nine active participant accounts.

Current Trust participants and the fiscal year in which they joined the Trust are as follows:

Hickman County Board of Education (Active)	2008 - 2009
Johnson County Board of Education (Active)	2008 - 2009
Shelby County Board of Education (Active)	2008 - 2009
Claiborne County Board of Education (Non-active)	2009 - 2010
Jackson/Madison County Board of Education (Active)	2012 - 2013
Arlington Community Schools Board of Education (Active)	2014 - 2015
Bartlett City Schools Board of Education (Active)	2014 - 2015
Collierville Schools Board of Education (Active)	2014 - 2015
Lakeland City Board of Education (Active)	2014 - 2015
Millington Municipal Schools Board of Education (Active)	2015 - 2016

***Requests for Information***

This financial report is designed to provide a general overview of the Trust's finances. If you have any questions concerning any of the information provided in this report or would like to request additional financial information, contact the Tennessee School Boards Association's Finance Department at 525 Brick Church Park Drive, Nashville, Tennessee 37207.

TSBA OPEB TRUST  
STATEMENT OF NET POSITION  
JUNE 30, 2020

	Arlington Community Schools Plan	Bartlett City Schools Plan	Collierville Schools Plan	Hickman County Schools Plan	Jackson- Madison Schools Plan	Johnson County Schools Plan	Lakeland Schools System Plan	Millington Municipal Schools Plan	Shelby County Schools Plan	TSBA OPEB Trust Account	Total
<b>ASSETS</b>											
Cash	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,652	\$ 5,652
Due from other Plans	200,000	-	-	-	-	-	-	-	-	-	200,000
Investments, at fair value	2,597,388	3,463,856	1,730,950	2,254,414	395,213	1,088,410	1,593,322	303,648	88,791,749	-	102,218,950
<b>Total assets</b>	<b>2,797,388</b>	<b>3,463,856</b>	<b>1,730,950</b>	<b>2,254,414</b>	<b>395,213</b>	<b>1,088,410</b>	<b>1,593,322</b>	<b>303,648</b>	<b>88,791,749</b>	<b>5,652</b>	<b>102,424,602</b>
<b>LIABILITIES</b>											
Due to other Plans	-	-	200,000	-	-	-	-	-	-	-	200,000
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>200,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>200,000</b>
<b>NET POSITION</b>											
<b>RESTRICTED FOR OTHER POSTEMPLOYMENT BENEFITS</b>	<b>\$ 2,797,388</b>	<b>\$ 3,463,856</b>	<b>\$ 1,530,950</b>	<b>\$ 2,254,414</b>	<b>\$ 395,213</b>	<b>\$ 1,088,410</b>	<b>\$ 1,593,322</b>	<b>\$ 303,648</b>	<b>\$ 88,791,749</b>	<b>\$ 5,652</b>	<b>\$ 102,224,602</b>

See accompanying notes to financial statements.

TSBA OPEB TRUST  
STATEMENT OF CHANGES IN NET POSITION  
YEAR ENDED JUNE 30, 2020

	Arlington Community Schools Plan	Bartlett City Schools Plan	Collierville Schools Plan	Hickman County Schools Plan	Jackson- Madison Schools Plan	Johnson County Schools Plan	Lakeland Schools System Plan	Millington Municipal Schools Plan	Shelby County Schools Plan	TSBA OPEB Trust Account	Total
<b>ADDITIONS</b>											
Employer contributions	\$ 200,000	\$ 500,000	\$ 125,000	\$ -	\$ 25,000	\$ 25,000	\$ 475,000	\$ -	\$ 5,091,354	\$ -	\$ 6,441,354
Net investment return:											
Net appreciation (depreciation)											
fair value of investments	3,820	(3,287)	(616)	1,825	940	776	(14,292)	338	381,731	-	371,235
Interest and dividends	90,483	103,232	49,592	78,290	13,735	37,622	43,809	10,543	2,909,899	1	3,337,206
Less investment expenses	(4,413)	(5,037)	(2,385)	(3,818)	(663)	(1,842)	(2,339)	(514)	(142,263)	-	(163,274)
Net investment return	89,890	94,908	46,591	76,297	14,012	36,556	27,178	10,367	3,149,367	1	3,545,167
Total additions, net	289,890	594,908	171,591	76,297	39,012	61,556	502,178	10,367	8,240,721	1	9,986,521
<b>DEDUCTIONS</b>											
Administrative expenses	6,217	6,793	3,369	5,398	931	2,592	3,255	727	127,557	-	156,839
Total deductions	6,217	6,793	3,369	5,398	931	2,592	3,255	727	127,557	-	156,839
NET INCREASE IN NET POSITION	283,673	588,115	168,222	70,899	38,081	58,964	498,923	9,640	8,113,164	1	9,829,682
<b>NET POSITION RESTRICTED FOR OTHER POSTEMPLOYMENT BENEFITS:</b>											
BEGINNING OF YEAR	2,513,715	2,875,741	1,362,728	2,183,515	357,132	1,029,446	1,094,399	294,008	80,678,585	5,651	92,394,920
END OF YEAR	\$ 2,797,388	\$ 3,463,856	\$ 1,530,950	\$ 2,254,414	\$ 395,213	\$ 1,088,410	\$ 1,593,322	\$ 303,648	\$ 88,791,749	\$ 5,652	\$ 102,224,602

See accompanying notes to financial statements.

TSBA OPEB TRUST  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020

A. DESCRIPTION OF THE TRUST

The TSBA GASB 45 Trust was established on April 16, 2009 pursuant to the provisions of the Tennessee Interlocal Cooperation Act (Tenn. Code Ann. § 12-9-101, et seq.) and the policies and bylaws from time to time promulgated by the Board of Trustees (the “Board”). Effective February 15, 2016, the name of the Trust was changed to the TSBA OPEB Trust (the “Trust”). Membership in the Trust shall be open to all members of the Tennessee School Boards Association. Non-members and other governmental entities will be considered by the Trustees on a case by case basis. The purpose of the Trust is to establish a fund through the Trust, which will allow members to pre-fund the liability associated with other postemployment benefits other than pensions. The Trust is not a component unit of another governmental entity.

The Trust’s Board of Trustees has fiduciary responsibility for the investment of monies and administration of the Trust pursuant to the Trust Agreement. The Board of Trustees is currently composed of seven members. Five of the Trustees are appointed from the governing boards of the participating members of the Trust for three-year terms and they may be reappointed. Additionally, the Executive Director and President of the Tennessee School Boards Association (“TSBA”) are ex-officio members of the Board of Trustees. All seven Trustees are voting members.

For the year ended June 30, 2020, the Trust administered Plan assets for nine defined benefit postemployment plans - Arlington Community Schools Plan, Bartlett City Schools Plan, Collierville Schools Plan, Hickman County Schools Plan, Jackson-Madison Schools Plan, Johnson County Schools Plan, Lakeland Schools Systems Plan, Millington Municipal Schools Plan, and Shelby County Schools Plan, (collectively the “Plans”). Although the assets of the Plans are commingled for investment purposes, each of the Plan’s assets are held in an irrevocable trust and may be used only for the payment of benefits to the members of the respective Plan in accordance with the terms of the Plans. The TSBA OPEB Trust Account reflects the activity related to the administration of the Trust.

The Trust does not purport to present the financial status of each of the participating employer’s postemployment benefit plans, nor do these statements contain information on accumulated plan benefits and other disclosures necessary for a fair presentation of the individual plans in accordance with accounting principles generally accepted in the United States of America.

TSBA OPEB TRUST  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting

The financial statements of the Trust are presented as a fiduciary fund type. The economic resources measurement focus and the accrual basis of accounting are used in the preparation of the financial statements. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each employer's Plan.

Investments

Investments are reported at fair value. Net investment return consists of realized and unrealized appreciation in the fair value of investments, interest and dividends earned, and investment expenses. In order to account for each participating member's activities, separate accounts are maintained by the Trust.

Fair Value of Financial Instruments

Assets and liabilities recorded at fair value in the statement of financial position are categorized based on the level of judgment associated with the inputs used to measure their fair value. Level inputs, are as follows:

Level 1 - Values are unadjusted quoted prices for identical assets in active markets accessible at the measurement date.

Level 2 - Inputs include quoted prices for similar assets in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

The Trust's financial instruments consist of cash and investments. Cash is recorded at fair value using Level 1 inputs. Investments are recorded at fair value using Level 1 and Level 3 inputs. See Note D.

Administrative Expenses

Each Plan is responsible for its administrative expenses.

TSBA OPEB TRUST  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Taxes

The Trust is exempt from taxation under Section 115 of the Internal Revenue Code. Accordingly, the accompanying financial statements do not include a provision for federal or state income taxes.

Use of Estimates

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

C. INVESTMENTS

The Trust's investments, at June 30, 2020, consist of the following:

	<u>Fair Value/ Carrying Amount</u>	<u>Cost</u>
Cash and cash equivalents	\$ 7,754,836	\$ 7,754,836
Exchange-traded and closed-end funds	22,883,513	20,929,077
Mutual funds	65,722,639	63,810,675
Structured investments	<u>5,857,962</u>	<u>5,953,000</u>
Total	<u>\$102,218,950</u>	<u>\$98,447,588</u>

TSBA OPEB TRUST  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020

D. FAIR VALUE MEASUREMENTS

The Trust categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Trust has the following recurring fair value measurements as of June 30, 2020:

	Measured at Fair Value	Fair Value Measurements at Reporting Date Using		
		<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Investments:				
Cash and cash equivalents	\$ 7,754,836	\$ 7,754,836	\$ -	\$ -
Exchange-traded and closed-end funds	22,883,513	22,883,513	-	-
Mutual funds	65,722,639	65,722,639	-	-
Structured investments	<u>5,857,962</u>	<u>-</u>	<u>-</u>	<u>5,857,962</u>
	<u>\$102,218,950</u>	<u>\$96,360,988</u>	<u>\$ -</u>	<u>\$5,857,962</u>

In determining fair value, the Trust uses various valuation approaches. The following is a description of the valuation methodologies used for instruments measured at fair value and their classification within the valuation hierarchy:

Cash and Cash Equivalents

Cash and cash equivalents are in active markets and classified within Level 1 of the valuation hierarchy.

Exchange-Traded and Closed-End Funds

Investments in exchange-traded and closed-end funds represent securities which are traded on national markets or exchanges. These investments are classified within Level 1 of the valuation hierarchy.

Mutual Funds

Investments in mutual funds represent fixed income mutual funds which are listed on national markets or exchanges. These investments are classified within Level 1 of the valuation hierarchy.

Structured Investments

Structured investments may be linked to a wide variety of underlying asset classes including equities, interest rates, commodities, and currencies. Each underlying asset will have its own unique set of risks and uncertainties. These structured investments are valued by the custodian using a proprietary pricing model and are classified within Level 3 of the valuation hierarchy.

TSBA OPEB TRUST  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020

E. RISKS AND UNCERTAINTIES

The Trust's investments include various types of investment funds, which in turn invest in any combination of stock, bonds and other investments exposed to various risks, such as interest rate, credit, and market risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Trust's financial statements.

F. RELATED PARTY TRANSACTIONS

The Trust is administered by the Tennessee School Boards Association ("TSBA"). TSBA receives a quarterly administrative fee calculated individually for each participant on a sliding scale as a percentage of invested assets. The fee covers all administrative costs including personnel, office expense, legal, accounting, and promotion. The quarterly administrative fee during fiscal year 2020 totaled \$156,839.

G. DUE TO/FROM OTHER PLANS

On June 3, 2020, a \$200,000 contribution to the Arlington Community Schools Plan was erroneously deposited into the Collierville Schools Plan investment account by the investment custodian. As of June 30, 2020, the error had not been corrected. Accordingly, the \$200,000 is presented as a due from Collierville Schools Plan and due to Arlington Community Schools Plan in the statement of net position as of June 30, 2020.

On August 5, 2020, the investment custodian corrected the deposit amount and subsequent investment purchases in the investment accounts for the Arlington Community Schools Plan and Collierville Schools Plan.

H. COVID-19 PANDEMIC

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus (the "COVID-19 outbreak"). In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. This pandemic has adversely affected global economic activity and greatly contributed to significant deterioration and instability in financial markets. Because the values of the Trust's investments have and will fluctuate in response to changing market conditions, the amount of losses that will be recognized in subsequent periods, if any, and related impact on the Trust's liquidity cannot be determined at this time.

TSBA OPEB TRUST  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020

H. COVID-19 PANDEMIC - Continued

While expected to be temporary, the Trust cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time. If the pandemic continues, it may have an adverse effect on the Trust's fair value of investments in fiscal year 2021.

I. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 29, 2020, the date the financial statements were available for issuance, and has determined there were no subsequent events requiring disclosure, except as discussed in Note G.



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

Board of Trustees  
TSBA OPEB Trust  
Nashville, 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 TSBA OPEB Trust (the "Trust") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements, as listed in the table of contents, and have issued our report thereon dated September 29, 2020.

### **Internal Control Over Financial Reporting**

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

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

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



## **Compliance and Other Matters**

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

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 Trust's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Crosslin, PLLC*

Nashville, Tennessee  
September 29, 2020

TSBA OPEB TRUST  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2020

The Trust had no prior audit findings.

## Performance Review - October 2020

Prepared on October 19, 2020 for:  
**TSBA OPEB TRUST**

TAMMY GRISSOM TTEE  
TSBA OPEB TRUST U/T/A DTD  
11/05/2012  
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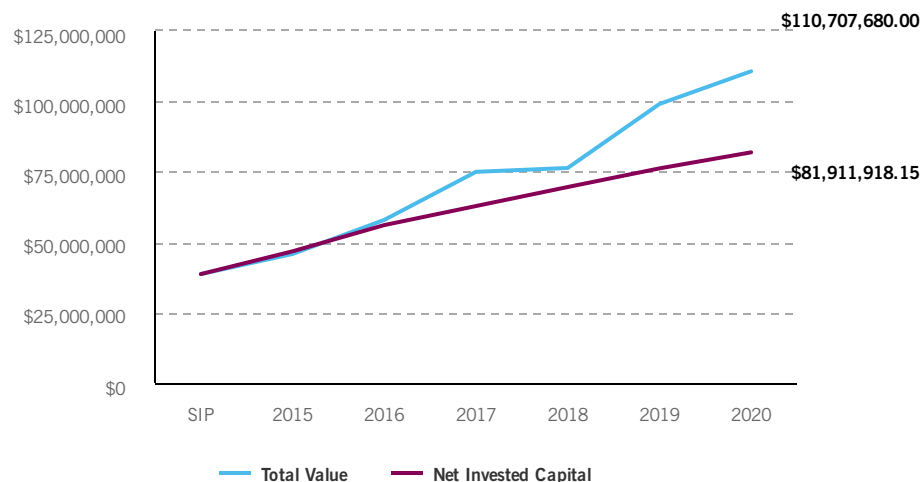
3102 WEST END AVE STE 200  
NASHVILLE, TN 37203

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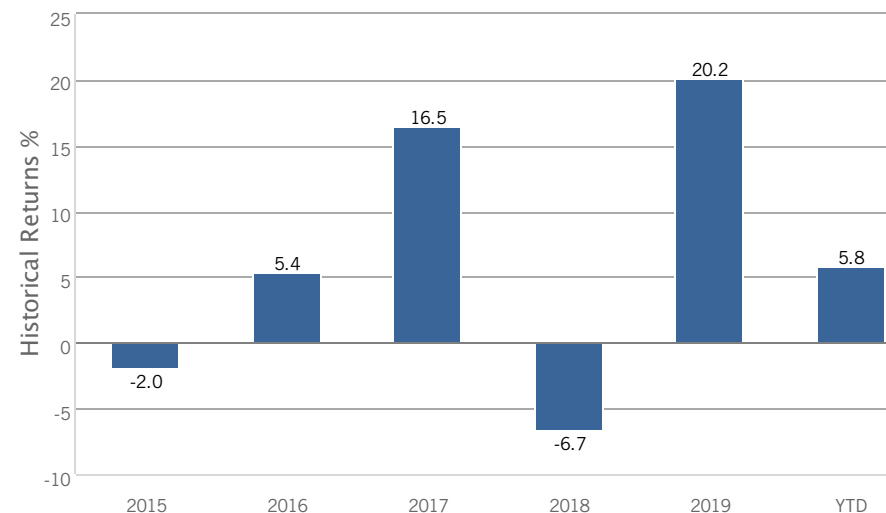
Please review the disclosures and definitions throughout this Document.  
Various sub-sections of this Document may not contain information on all accounts/positions covered in this Document.

## TOTAL VALUE VS. NET INVESTED CAPITAL



Does not include Performance Ineligible Assets.

## DOLLAR-WEIGHTED PERIOD RETURN % (NET OF FEES)

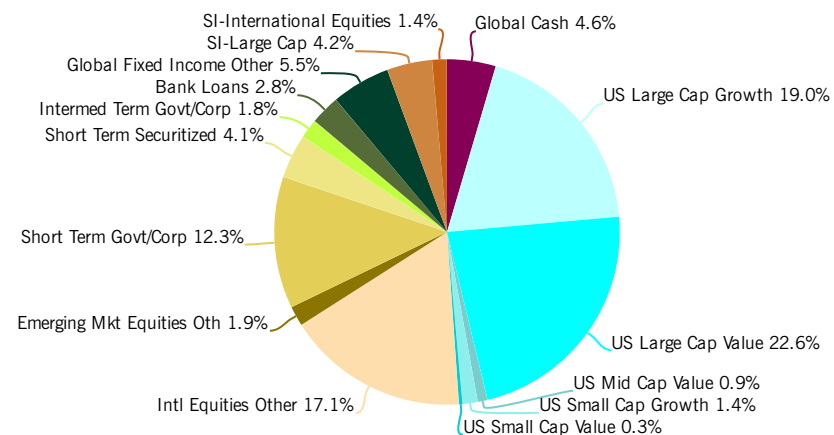


Does not include Performance Ineligible Assets.

## DOLLAR-WEIGHTED RETURN % (NET OF FEES)

	Quarter to Date (\$) 09/30/20-10/16/20	Year to Date (\$) 12/31/19-10/16/20	Performance Inception (\$) 06/09/15-10/16/20
<b>Beginning Total Value</b>	<b>108,017,888</b>	<b>99,077,485</b>	<b>38,680,482</b>
Net Contributions/Withdrawals	-42,426	5,701,586	43,231,436
Investment Earnings	2,732,218	5,928,609	28,795,762
<b>Ending Total Value</b>	<b>110,707,680</b>	<b>110,707,680</b>	<b>110,707,680</b>
<b>DOLLAR WEIGHTED RATE OF RETURN (%)</b> (Annualized for periods over 12 months)			
Return % (Net of Fees)	2.53	5.81	7.32
90-Day T-Bills	0.00	0.56	1.08

## ASSET ALLOCATION



# Bull Market Intact, but Need Consolidation Followed by Rotation & Higher Rates

As of October 14, 2020

- **4 Reasons to Remain Bullish:** (1) New bull markets begin with a recession and have typically run for years. (2) The health crisis that triggered this recession has brought unprecedented monetary and fiscal stimulus that is likely to become structural in nature. (3) Economic data surprises and earnings revisions support our V-Shaped recovery. (4) Sentiment and positioning have remained remarkably skeptical considering the size and persistence of the equity rally.
- **4 Reasons for a Likely Correction:** (1) Breadth of the rally and economic data surprises have deteriorated. (2) Congressional gridlock on CARES 2 fiscal stimulus package creates doubt about whether this bill can get passed in a timely fashion. and (3) Fed's new inflation targeting scheme in the absence of yield caps opens the door for potentially much higher back-end rates than markets are expecting if CARES 2 passes. (4) Election uncertainty.
- **V-Shaped Recovery Happening Even Faster than We Expected.** The Fed's unprecedented response, in conjunction with Congress, has driven a strong recovery from the depths of this recession. While there is a long way to go to get back to prior output levels, the economic data surprises and earnings revisions suggest we are well on our way.
- **Barbell of Growth and Cyclical with a Skew Toward Small/Mid Caps.** In line with our recession playbook, we continue to recommend a mix of high-quality growth stocks with the biggest potential beneficiaries of a continued recovery—i.e. cyclicals. Focus on companies that are likely to deliver the most operating leverage as business returns. This is likely to include some lower-quality stocks that would be survivors on the recession and in position to take share and leverage their lower cost structures.
- **Our US style and sector recommendations reflect this view.** Overweight small/mid over large, Financials, Consumer Cyclical, Materials, Industrials, and Healthcare. Underweight Tech, Utilities, and Consumer Staples.
- **Inflation is the Key to the Secular Bull Market for Stocks and Secular Bear Market for Bonds.** The shift in policy from monetary to fiscal dominance is something we have been waiting for to make a more aggressive call on inflation and equities. A US recession was always a necessary condition for this outcome, and now we have it. The health crisis nature of this event further supports this potential outcome. Finally, don't forget the other inflationary trends that were well established before this recession began—populism, nationalism, de-globalization, and a sign that the US dollar may either lose or have to share its reserve currency status.
- **We Recommend Being Overweight to Equities and Credit, Underweight Interest Rate Risk—i.e., Duration.** We also recommend owning some commodities as another inflation hedge. Avoid profitless growth stocks and pure bond proxies/defensives. Cash is not king with front-end rates at zero and rising inflation risks. There will be moments of doubt and uncertainty about the recovery if a second wave of the virus returns, US/China trade relations flare up, and uncertainty around the US election persists. We would use any pullbacks around this doubt as buying opportunities for stocks, led by US cyclicals, international and small/mid caps.

Source: Morgan Stanley & Co. Research

Past performance is no guarantee of future results. Estimates of future performance are based on assumptions that may not be realized. This material is not a solicitation of any offer to buy or sell any security or other financial instrument or to participate in any trading strategy. Please refer to important information, disclosures and qualifications at the end of this material.

## Investment Policy Range

**General Policy:** The Trust's investment philosophy is that assets should be allocated with the goal of producing the highest total return consistent with prudent financial management. Unless otherwise specified by individual fund objectives, this philosophy should be adhered to within the constraints of the following asset allocation ranges:

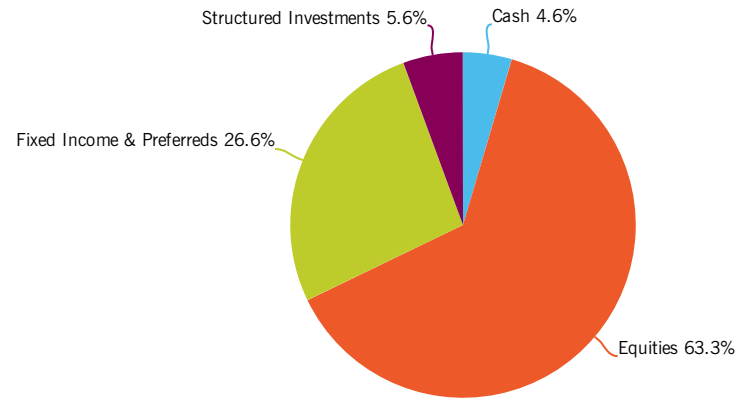
	<u>Maximum Allocation</u>	<u>Minimum Allocation</u>
Equity Investments	70%	35%
Fixed Income Investments	65%	20%
Cash & Equivalents	35%	0%
Alternative Investments – 40 Act Funds	15%	0%
Hedging Strategies		
Commodities ETF's		
Managed Futures Funds		

**Exceptions for Individual Funds:** In cases where individual fund objectives require an exception to the above asset allocation ranges, written statements detailing the policy for each specific fund will be provided as Supplements to this Investment Policy.

**Asset Allocation Targets:** From time to time the Finance Committee will determine specific asset allocation targets that it feels are best suited for accomplishing the above total return objective. These specific asset allocation targets will be communicated to individual investment managers in writing, and within a reasonable time frame, managers are expected to reallocate assets in order to comply with the target ranges established by the Committee. In the absence of specific asset allocation targets from the Trust, individual managers will have the direct responsibility for setting and maintaining an asset mix that they feel will best accomplish the Trust's total return objective. At all times, and in all cases, however, the above maximum and minimum limits, or where applicable, specific individual fund maximum and minimum limits, are to be adhered to.

The information in this report is based on data supplied by you and is intended to be used as a guide for your financial strategy. The information and data were obtained from sources deemed reliable. Their accuracy or completeness is not guaranteed and is subject to change with current market conditions. There is no guarantee that the figures presented will be attainable in the future. Morgan Stanley Smith Barney LLC, its affiliates and Morgan Stanley Financial Advisors or Private Wealth Advisors do not offer tax advice. Individuals should consult their personal tax advisor before many any tax-related investment decisions.

ASSET ALLOCATION - ASSET CLASS



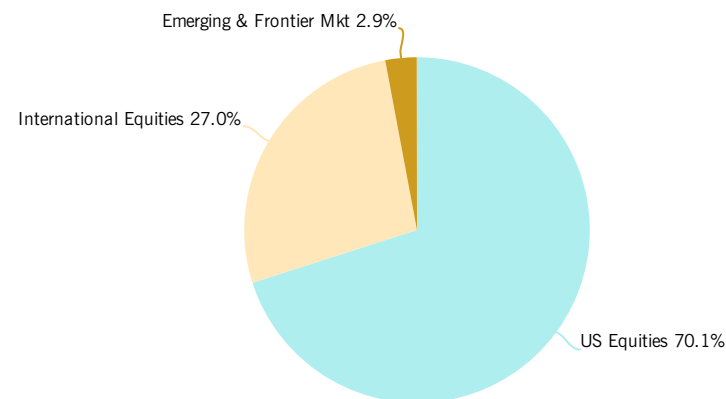
ASSET ALLOCATION

	Total Value (\$) 10/16/2020	% of Portfolio 10/16/2020
Cash	5,044,517.36	4.6
Equities	70,056,008.11	63.3
Fixed Income & Preferreds	29,403,035.62	26.6
Structured Investments	6,204,153.50	5.6
<b>TOTAL PORTFOLIO</b>	<b>110,707,714.59</b>	<b>100.0</b>

TOP EQUITY POSITIONS BASED ON TOTAL VALUE

SECURITY DESCRIPTION	Total Value (\$) 10/16/2020	% of Equities 10/16/2020
OAKMARK FUND ADVISOR	8,277,688.10	11.8
JOHN HANCOCK DISPLND VAL INST	8,204,423.15	11.7
PGIM JENNISON GROWTH Z	7,973,413.99	11.4
AMERICAN EUROPACIFIC GRW F2	7,436,254.05	10.6
ISHARES CORE S&P U.S. GROWTH	6,345,414.70	9.1
ISHARES CORE S&P U.S. VALUE	6,065,269.76	8.7
ISHARES CORE MSCI EAFE ETF	6,012,242.08	8.6
THORNBURG INTL GROWTH I	5,449,185.89	7.8
VANGUARD INDEX FDS S&P 500 ETF	5,225,056.20	7.5
BLACKROCK HIGH EQ INCOME INST	4,041,470.07	5.8
<b>Top Equity Positions</b>	<b>65,030,417.99</b>	<b>92.8</b>
<b>Other Equity Positions</b>	<b>5,025,590.12</b>	<b>7.2</b>
<b>Total Equities</b>	<b>70,056,008.11</b>	<b>100.0</b>

ASSET ALLOCATION - EQUITIES



ASSET ALLOCATION - EQUITIES

	% of Equities 10/16/2020	Total Value (\$) 10/16/2020	% of Portfolio 10/16/2020
<b>US Equities</b>	<b>70.1</b>	<b>49,094,297.20</b>	<b>44.3</b>
US Large Cap Growth	30.1	21,070,200.84	19.0
US Large Cap Value	35.8	25,062,535.13	22.6
US Mid Cap Value	1.5	1,021,565.30	0.9
US Small Cap Growth	2.2	1,570,006.48	1.4
US Small Cap Value	0.5	369,989.46	0.3
<b>International Equities</b>	<b>27.0</b>	<b>18,897,682.02</b>	<b>17.1</b>
Intl Equities Other	27.0	18,897,682.02	17.1
<b>Emerging &amp; Frontier Mkt</b>	<b>2.9</b>	<b>2,064,028.89</b>	<b>1.9</b>
Emerging Mkt Equities Oth	2.9	2,064,028.89	1.9
<b>TOTAL EQUITIES</b>	<b>100.0</b>	<b>70,056,008.11</b>	<b>63.3</b>

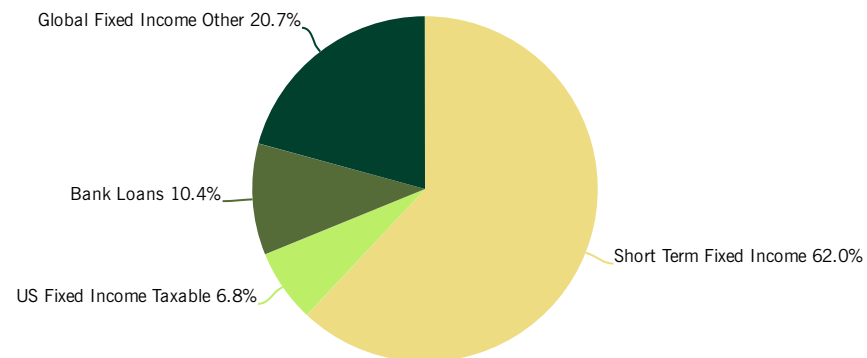
TSBA OPEB TRUST

As of October 16, 2020 | Reporting Currency: USD

## TOP FIXED INCOME &amp; PREFERRED POSITIONS BASED ON TOTAL VALUE

SECURITY DESCRIPTION	Total Value (\$) 10/16/2020	% of Fixed Income & Preferreds 10/16/2020
PGIM SHORT-TERM CORP BOND Z	18,227,778.69	62.0
NUVEEN STRATEGIC INCOME INST	6,099,131.27	20.7
PUTNAM FLOATING RATE INC Y	3,064,403.88	10.4
ISHARES GNMA BOND ETF	2,011,721.78	6.8
<b>Top Fixed Income &amp; Preferred Positions</b>	<b>29,403,035.62</b>	<b>100.0</b>
<b>Other Fixed Income &amp; Preferred Positions</b>	<b>-</b>	<b>-</b>
<b>Total Fixed Income &amp; Preferred</b>	<b>29,403,035.62</b>	<b>100.0</b>

## ASSET ALLOCATION - FIXED INCOME &amp; PREFERRED



## ASSET ALLOCATION - FIXED INCOME &amp; PREFERREDS

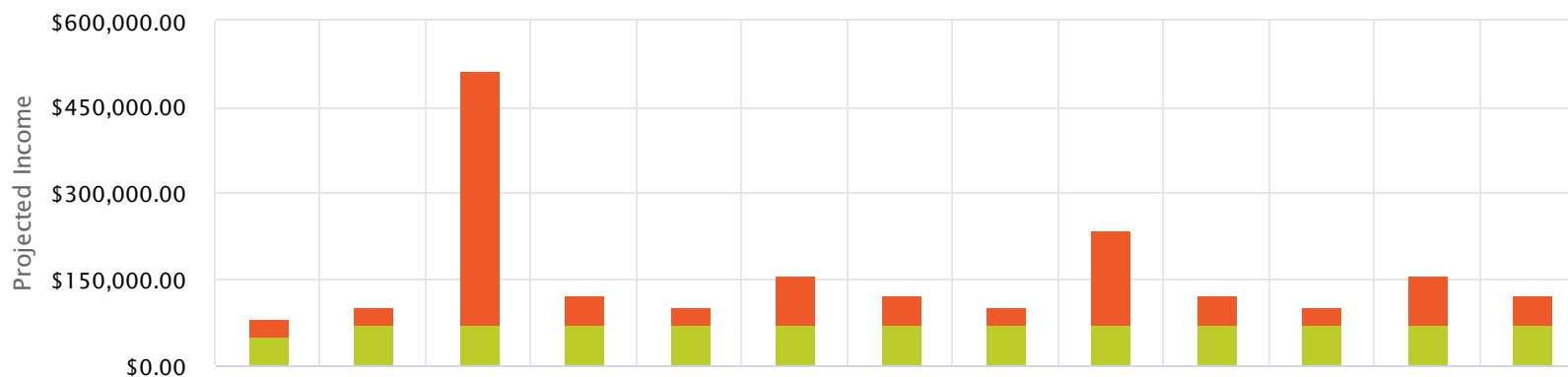
	% of Fixed Income & Preferreds 10/16/2020	Total Value (\$) 10/16/2020	% of Portfolio 10/16/2020
Short Term Fixed Income	62.0	18,227,778.69	16.5
US Fixed Income Taxable	6.8	2,011,721.78	1.8
Bank Loans	10.4	3,064,403.88	2.8
Global Fixed Income Other	20.7	6,099,131.27	5.5
<b>TOTAL FIXED INCOME &amp; PREFERREDS</b>	<b>100.0</b>	<b>29,403,035.62</b>	<b>26.6</b>

## PROJECTED 12 MONTH INCOME SUMMARY

TSBA OPEB TRUST

As of October 16, 2020 | Reporting Currency: USD

## PROJECTED 12 MONTH INCOME SUMMARY



Asset Class	Total Value (\$) 10/16/2020	10/17/20 to 10/31/20 (\$)	12 Month Projected Income (\$) (11/01/20 - 10/31/21)												% Yield	
			Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct		Total
Cash	5,044,517	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equities	70,056,008	31,016	31,016	443,810	52,917	31,016	86,751	52,917	31,016	164,259	52,917	31,016	86,751	52,917	1,197,403	1.71
Fixed Income & Preferreds	29,403,036	49,778	72,142	72,142	72,142	72,142	72,142	72,142	72,142	72,142	72,142	72,142	72,142	72,142	865,704	2.94
Structured Investments	6,204,154	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>110,707,715</b>	<b>80,794</b>	<b>103,158</b>	<b>515,952</b>	<b>125,059</b>	<b>103,158</b>	<b>158,893</b>	<b>125,059</b>	<b>103,158</b>	<b>236,401</b>	<b>125,059</b>	<b>103,158</b>	<b>158,893</b>	<b>125,059</b>	<b>2,063,107</b>	<b>1.86</b>

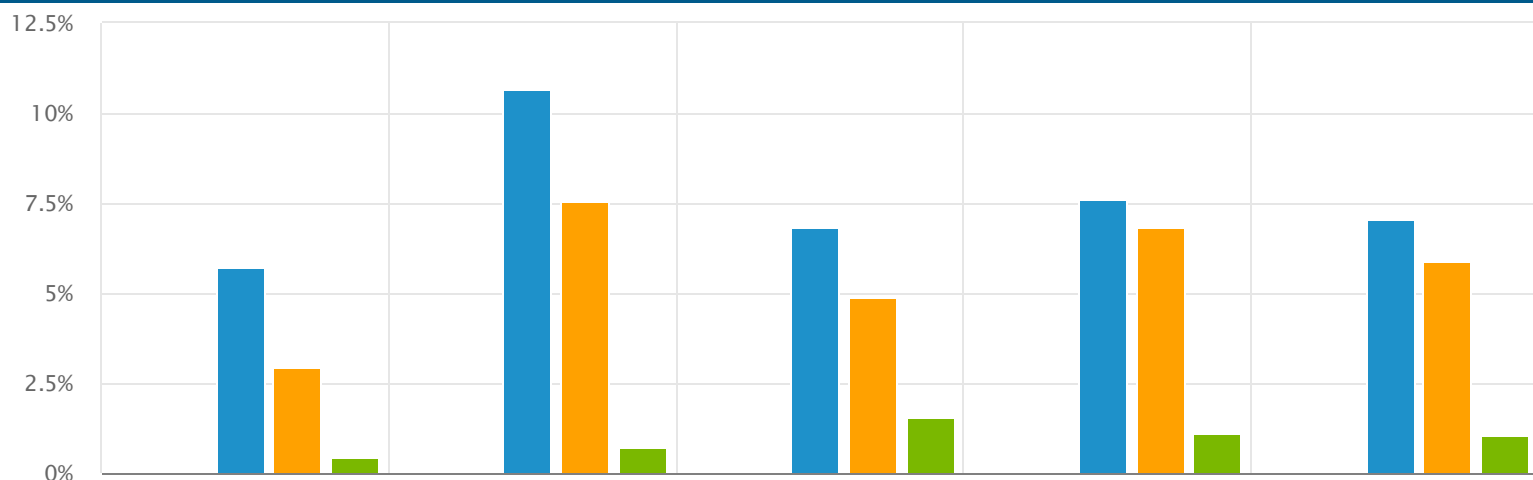
Projected Income is calculated only for securities where data is available.

In instances whereby payment frequency and/or last payment date is not available, income is based on the current dividend or coupon rate, and will be displayed in the Total column only.

TSBA OPEB TRUST

As of October 16, 2020 | Reporting Currency: USD

## RETURN % (NET OF FEES) VS. BENCHMARKS (ANNUALIZED)

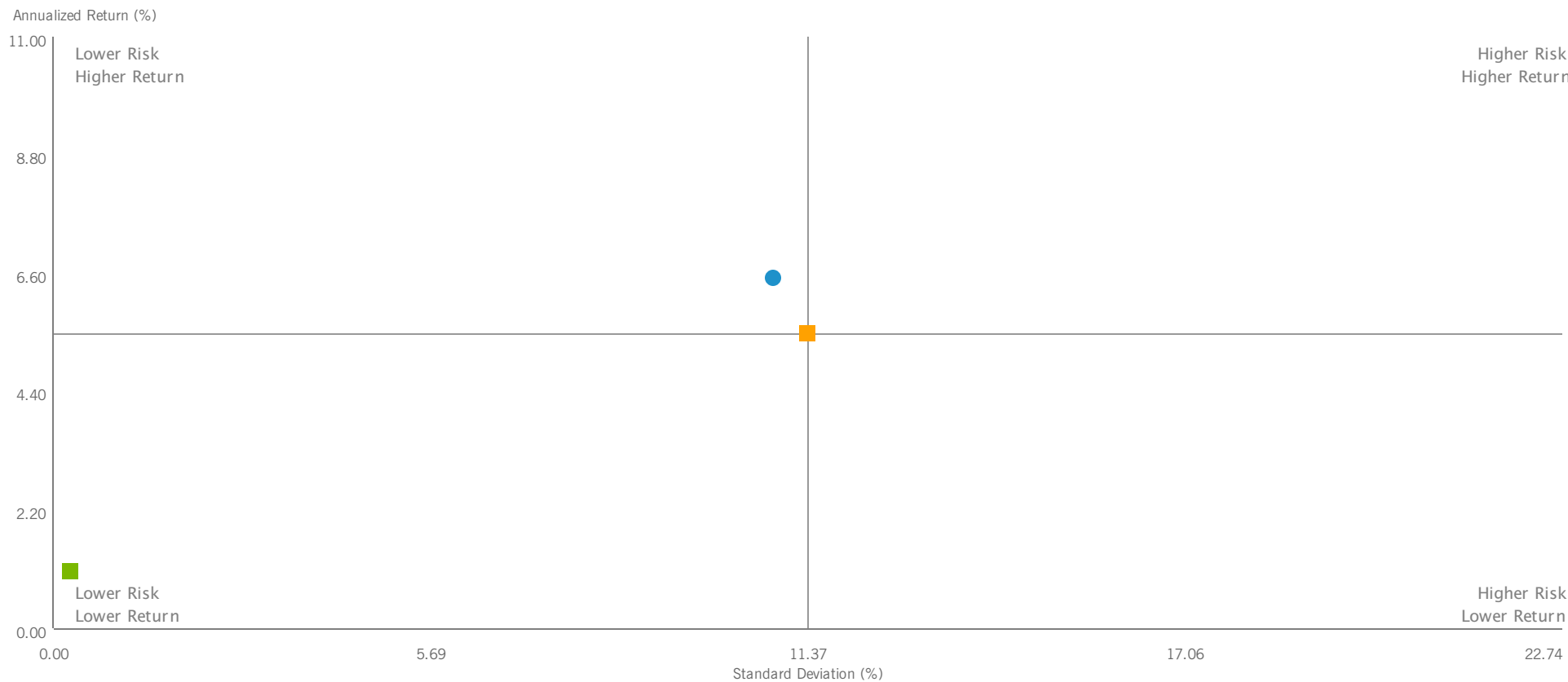


	Year to Date 12/31/19 - 10/16/20	Last 12 Months 10/31/19 - 10/16/20	Last 3 Years 10/31/17 - 10/16/20	Last 5 Years 10/31/15 - 10/16/20	Performance Inception 07/13/15 - 10/16/20
Beginning Total Value (\$)	98,302,039.81	93,477,938.06	73,202,124.18	46,338,005.37	0.00
Net Contributions/Withdrawals (\$)	-251,414.32	223,585.68	12,631,255.35	28,482,347.56	75,142,545.41
Investment Earnings (\$)	5,712,693.46	10,061,795.20	17,929,939.41	28,942,966.02	28,620,773.54
Ending Total Value (\$)	103,763,318.94	103,763,318.94	103,763,318.94	103,763,318.94	103,763,318.94
Return % (Net of Fees)	5.73	10.65	6.81	7.62	7.03
TN TSBA Composite (%)	2.93	7.58	4.91	6.81	5.89
FTSE T-Bills 30 Day (%)	0.43	0.70	1.56	1.10	1.04

Inception dates for advisory account(s) reflect the most recent advisory program or discretion change.

The investment returns shown on this page are time-weighted measurements which exclude the effect of the timing and amount of your contributions and withdrawals.

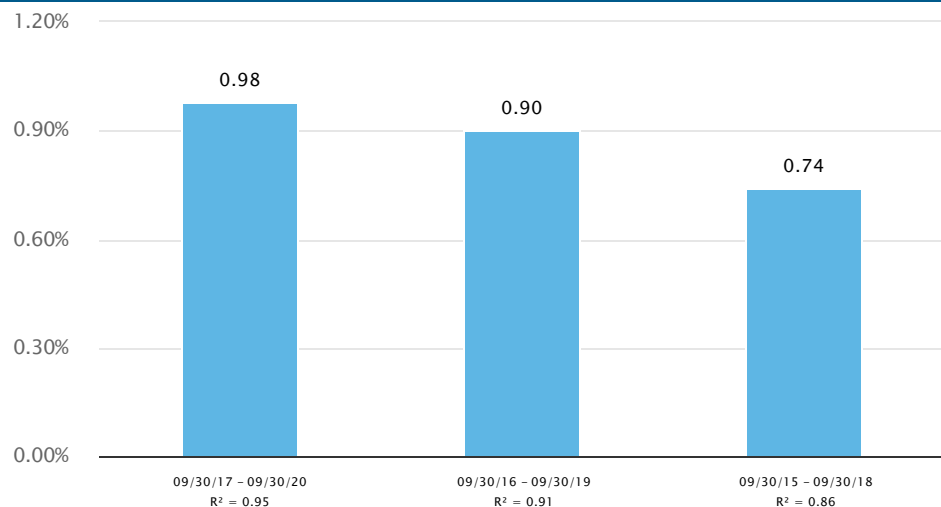
RETURN % (NET OF FEES) AND VOLATILITY VS. BENCHMARKS



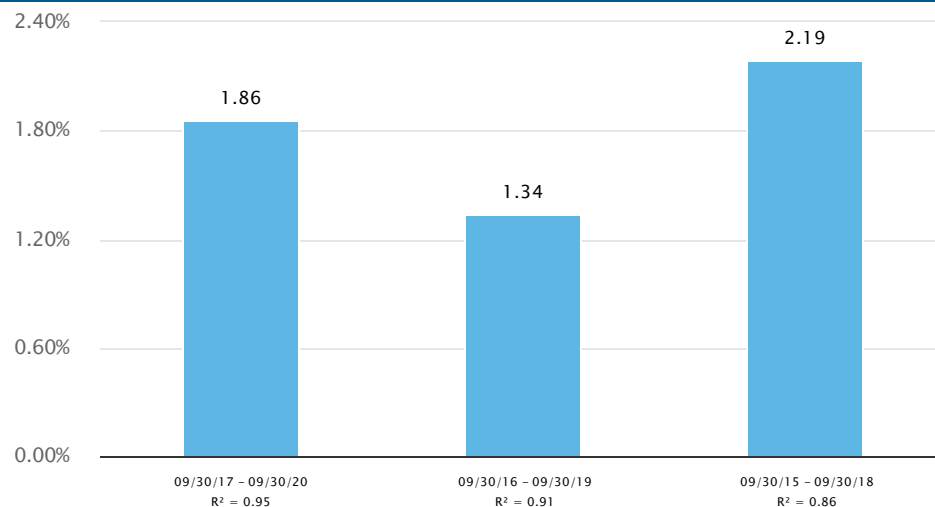
	Return % (Net of Fees) 07/31/15-09/30/20	Standard Deviation (%) 07/31/15-09/30/20
● Portfolio	6.52	10.86
■ TN TSBA Composite	5.50	11.37
■ FTSE T-Bills 30 Day	1.06	0.25

Inception dates for advisory account(s) reflect the most recent advisory program or discretion change.  
The investment returns shown on this page are time-weighted measurements which exclude the effect of the timing and amount of your contributions and withdrawals.

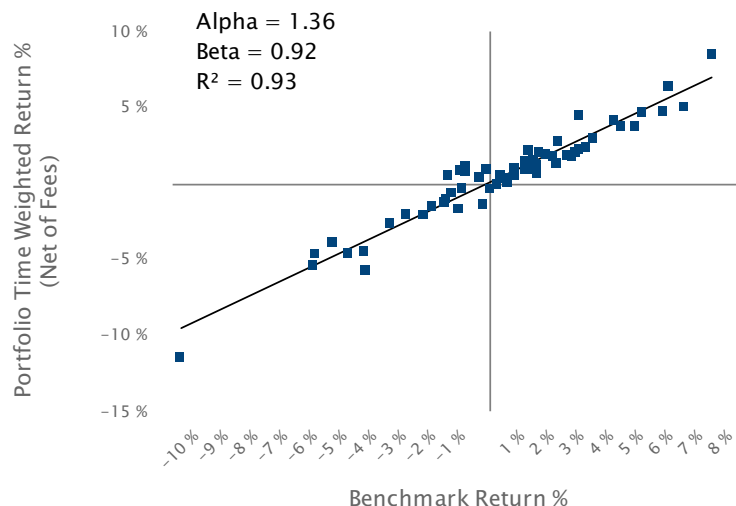
BETA - ROLLING PERIODS - TIME WEIGHTED RETURN %(NET OF FEES)



ALPHA - ROLLING PERIODS - TIME WEIGHTED RETURN %(NET OF FEES)



MONTHLY OBSERVATIONS SINCE 07/31/15 WITH SIMPLE REGRESSION LINE - TIME WEIGHTED RETURN %(NET OF FEES)



**Alpha:** Is a measure of a portfolio's time weighted net of fees return in excess of the market return, both adjusted for risk. A positive alpha indicates that the portfolio outperformed the market on a risk-adjusted basis, and a negative alpha indicates the portfolio did worse than the market.

**Beta:** Is a measure of the sensitivity of a portfolio's time weighted net of fees return against that of the market. A beta greater than 1.00 indicates volatility greater than the market.

**Modern Portfolio Theory:** Seeks to quantify the relationship between risk and return and operates under the assumption that an investor must be compensated for assuming risk.

**R<sup>2</sup>:** Is a measure that indicates the extent to which fluctuations in a portfolio's time weighted net of fees return is correlated with the return of the general market. An R<sup>2</sup> of 0.80 implies that 80% of the fluctuation of a portfolio's return is explained by the fluctuation in the market.

**Graph Notes:** Both the benchmark and portfolio returns are adjusted by the return of the 90-day Treasury Bills to illustrate the excess return above the Risk Free Rate for each period.

Inception dates for advisory account(s) reflect the most recent advisory program or discretion change.

The investment returns shown on this page are time-weighted measurements which exclude the effect of the timing and amount of your contributions and withdrawals.

## ACCOUNT(S) INCLUDED IN THIS REPORT

TSBA OPEB TRUST

Reporting Currency: USD

## MORGAN STANLEY WEALTH MANAGEMENT

Account Name and Address	Account Type/ Manager Name	Advisory/ Brokerage	Account Number	Date Opened	Date Closed	Performance (%) Inception - 10/16/20	Total Value (\$) 10/16/20	% of Portfolio 10/16/20
ARLINGTON CITY - Alternative Investment 525 BRICK CHURCH PARK DR NASHVILLE	AAA	Brokerage	471-XXX385	02/18/20	-	2.86	165,616.64	0.15
ARLINGTON CITY BOE 525 BRICK CHURCH PARK DRIVE NASHVILLE	Consulting Group Advisor	Advisory	471-XXX901	06/17/15	-	6.86	2,859,228.92	2.58
BARTLETT CITY - Alternative Investment 525 BRICK CHURCH PARK DR NASHVILLE	AAA	Brokerage	471-XXX383	02/18/20	-	2.88	189,677.00	0.17
BARTLETT CITY BOE 525 BRICK CHURCH PARK DRIVE NASHVILLE	Consulting Group Advisor	Advisory	471-XXX902	06/17/15	-	6.93	3,562,157.36	3.22
Collierville City - Alternative Invest. 525 BRICK CHURCH PARK DR NASHVILLE	AAA	Brokerage	471-XXX396	02/18/20	-	2.90	92,929.35	0.08
COLLIERVILLE CITY BOE 525 BRICK CHURCH PARK DRIVE NASHVILLE	Consulting Group Advisor	Advisory	471-XXX903	06/17/15	-	6.68	1,569,537.70	1.42
HICKMAN CO. 525 BRICK CHURCH PARK DRIVE NASHVILLE	Consulting Group Advisor	Advisory	471-XXX866	06/03/15	-	6.86	2,237,334.19	2.02
Hickman Co. - Alternative Investment 525 BRICK CHURCH PARK DR NASHVILLE	AAA	Brokerage	471-XXX388	02/18/20	-	2.86	144,770.87	0.13
JACKSON-MADISON 525 BRICK CHURCH PARK DRIVE NASHVILLE	Consulting Group Advisor	Advisory	471-XXX864	06/03/15	-	6.85	407,590.54	0.37
JACKSON-MADISON - Alternative Investment 525 BRICK CHURCH PARK DR NASHVILLE	AAA	Brokerage	471-XXX403	02/18/20	-	2.88	25,521.45	0.02

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## ACCOUNT(S) INCLUDED IN THIS REPORT

TSBA OPEB TRUST

Reporting Currency: USD

## MORGAN STANLEY WEALTH MANAGEMENT (Continued)

Account Name and Address	Account Type/ Manager Name	Advisory/ Brokerage	Account Number	Date Opened	Date Closed	Performance (%) Inception - 10/16/20	Total Value (\$) 10/16/20	% of Portfolio 10/16/20
JOHNSON CO. 525 BRICK CHURCH PARK DRIVE NASHVILLE	Consulting Group Advisor	Advisory	471-XXX869	06/03/15	-	6.86	1,108,917.33	1.00
JOHNSON CO. - Alternative Investment 525 BRICK CHURCH PARK DR NASHVILLE	AAA	Brokerage	471-XXX398	02/18/20	-	2.87	69,823.57	0.06
Lakeland City - Alternative Investment 525 BRICK CHURCH PARK DR NASHVILLE	AAA	Brokerage	471-XXX393	02/18/20	-	2.87	103,196.29	0.09
LAKELAND CITY BOE 525 BRICK CHURCH PARK DRIVE NASHVILLE	Consulting Group Advisor	Advisory	471-XXX900	06/17/15	-	6.68	1,621,875.36	1.47
MILLINGTON 525 BRICK CHURCH PARK DRIVE NASHVILLE	Consulting Group Advisor	Advisory	471-XXX583	07/05/16	-	8.50	309,602.35	0.28
MILLINGTON - Alternative Investment 525 BRICK CHURCH PARK DR NASHVILLE	AAA	Brokerage	471-XXX409	02/18/20	-	2.83	19,248.22	0.02
SHELBY CO. 525 BRICK CHURCH PARK DRIVE NASHVILLE	Consulting Group Advisor	Advisory	471-XXX863	06/03/15	-	6.83	90,827,088.70	82.04
SHELBY CO. - Alternative Investment 525 BRICK CHURCH PARK DR NASHVILLE	AAA	Brokerage	471-XXX380	02/18/20	-	2.88	5,393,598.75	4.87
TSBA GASB 45 TRUST 525 BRICK CHURCH PARK DRIVE NASHVILLE	AAA	Brokerage	471-XXX865	06/03/15	07/20/15	-	0.00	0.00
TSBA GASB 45 TRUST 525 BRICK CHURCH PARK DRIVE NASHVILLE	AAA	Brokerage	471-XXX925	06/23/15	07/20/15	-	0.00	0.00

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## ACCOUNT(S) INCLUDED IN THIS REPORT

TSBA OPEB TRUST

Reporting Currency: USD

## MORGAN STANLEY WEALTH MANAGEMENT (Continued)

Account Name and Address	Account Type/ Manager Name	Advisory/ Brokerage	Account Number	Date Opened	Date Closed	Performance (%) Inception - 10/16/20	Total Value (\$) 10/16/20	% of Portfolio 10/16/20
<b>Morgan Stanley Wealth Management Total</b>							<b>110,707,714.59</b>	<b>100.00</b>
<b>Total Portfolio</b>							<b>110,707,714.59</b>	<b>100.00</b>

Investment, insurance and annuity products offered through Morgan Stanley Smith Barney LLC are: NOT FDIC INSURED | MAY LOSE VALUE | NOT BANK GUARANTEED | NOT A BANK DEPOSIT | NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY. All content within this Document applies to the accounts listed above or a subset thereof, unless otherwise indicated. Closed Accounts listed above are included for historical performance. The investment returns shown on this page are time-weighted measurements which exclude the effect of the timing and amount of your contributions and withdrawals.

## DISCLOSURES

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**Important Regulation Best Interest Information:** This report is being provided as a courtesy. By providing this report, we do not represent or agree that we will monitor the investments in your brokerage account(s) or deliver future reports.

**Additional information about your Floating Rate Notes:** For floating rate securities, the estimated accrued interest and estimated annual income are based on the current floating coupon rate and may not reflect historic rates within the accrual period.

**Important Information About Auction Rate Securities:** For certain Auction Rate Securities there is no or limited liquidity. Therefore, the price(s) for these Auction Rate Securities are indicated as not available by a dash "-". There can be no assurance that a successful auction will occur or that a secondary market exists or will develop for a particular security.

**Important Pricing Information:** Prices of securities not actively traded may not be available, and are indicated by a dash "-".

**Asset Classification:** We classify assets based on general characteristics such as: income generation, underlying capital structure, or exposure to certain market sectors. As many assets contain characteristics of more than one asset class, allocations may be under or over inclusive. These classifications do not constitute a recommendation and may differ from the classification of instruments for regulatory or tax purposes. In addition, the Other asset class contains securities that are not included in the various asset class classifications. This can include, but is not limited to, non-traditional investments such as some Equity Unit Trusts, Index Options and Structured Investments issued outside of Morgan Stanley. Additionally, investments for which we are unable to procure market data to properly classify them will appear in the Other category.

**Morgan Stanley Wealth Management:** Morgan Stanley Wealth Management (custodian type "Morgan Stanley Wealth Management") is a registered trade name of Morgan Stanley Smith Barney LLC.

**Additional information about your Structured Products:** Structured Investments are complex products and may be subject to special risks, which may include, but are not limited to: loss of initial investment; issuer credit risk and price volatility resulting from any actual or anticipated changes to issuer's and/or guarantor's credit ratings or credit spreads; limited or no appreciation and limits on participation in any appreciation of underlying asset(s); risks associated with the underlying reference asset(s); no periodic payments; call prior to maturity; early redemption fees for market linked deposits; lower interest rates and/or yield compared to conventional debt with comparable maturity; unique tax implications; limited or no secondary market; and conflicts of interest due to affiliation, compensation or other factors which could adversely affect market value or payout to investors. Investors also should consider the concentration risk of owning the related security and their total exposure to any underlying asset.

**Morgan Stanley & Co.:** Morgan Stanley & Co. LLC ("Morgan Stanley & Co.") is an affiliate of Morgan Stanley Smith Barney LLC ("Morgan Stanley Wealth Management") and both are subsidiaries of Morgan Stanley, the financial holding company. Morgan Stanley & Co. values shown on your Morgan Stanley Wealth Management statement may differ from the values shown in your official Morgan Stanley & Co. statement due to, among other things, different reporting methods, delays, market conditions and interruptions. The information shown is approximate and subject to updating, correction and other changes. Information being reported by Morgan Stanley Wealth Management on assets held by other custodians, which are related to Income, Performance, Tax Lots, Total Cost, Target Asset Allocation, Asset Classification and Gain/Loss may differ from that information provided by the custodian. In performance calculations, the inception date will align with the first date on which Morgan Stanley Wealth Management received account information from the custodian. If there are discrepancies between your official Morgan Stanley & Co. account statement and your Morgan Stanley Wealth Management supplemental client report, rely on the official Morgan Stanley & Co. account statement.

**External Accounts:** "External" generally refers to accounts, assets, and/or liabilities that you hold with other financial institutions and/or which may be custodied outside of Morgan Stanley (whose subsidiaries include Morgan Stanley Smith Barney LLC and Morgan Stanley & Co.) ("External Accounts"). External Accounts are not under administration or management at Morgan Stanley and are not reflected in your Morgan Stanley account statements. Information related to External Accounts is provided solely as a service to you and your Financial Advisor/Private Wealth Advisor. The information reference is based upon information provided by external sources which we believe to be reliable. However, we do not independently verify this information. As such, we do not warrant or guarantee that such information is accurate or timely, and any such information may be incomplete or condensed.

Information related to Income, Performance, Tax Lots, Total Cost, Target Asset Allocation, Asset Classification and Gain/Loss may differ from the information provided by your custodian. External information presented herein is subject to, and does not supersede, the confirmations and account statements provided by your custodian. Values shown in an account statement from your custodian may differ from the values shown here due to, among other things, different reporting methods, delays, market conditions and interruptions. If there are discrepancies between your custodian's official account statement and this material, rely on the custodian's official account statement. We are not obligated to notify you or your Financial Advisor/Private Wealth Advisor if information changes. In performance calculations, the inception date referenced will reflect the first date on which Morgan Stanley received account information from the custodian. If information on an External Account cannot be reported, it will be noted.

Assets not custodied with Morgan Stanley are not covered by SIPC protection at Morgan Stanley or by additional protection under Morgan Stanley's excess insurance coverage plans. However, these assets may be subject to SIPC coverage at the entity at which they are custodied.

**Timing of Feeds:** Account and Position data for Morgan Stanley & Co. and External Accounts is obtained from sources that we believe to be reliable. However, Morgan Stanley Wealth management does not guarantee its accuracy or timeliness as such information may be incomplete, condensed, or based on differing points of time. Please refer to the "Last Update Date" for information regarding when the data was last refreshed. You should not take any action relying upon this information without confirming its accuracy and completeness.

**Manually Added assets:** "Manually Added" generally refers to accounts, assets, and/or liabilities, as applicable, that you hold with other financial institutions and/or which may be custodied outside of Morgan Stanley (whose subsidiaries include Morgan Stanley Smith Barney LLC and Morgan Stanley & Co.) ("Manually Added External Accounts"). The Manually Added External Accounts referenced are generally not held with Morgan Stanley and are not under administration or management at Morgan Stanley. Information about such Manually Added External Accounts is manually inputted, updated and maintained solely by you and/or your Financial Advisor/Private Wealth Advisor. Morgan Stanley may include information about these Manually Added External Accounts solely as a service to you and your Financial Advisor/Private Wealth Advisor. We do not independently verify any information related to your Manually Added External Accounts. As such, we do not warrant or guarantee that such information is accurate or timely, and any such information may be incomplete or condensed. Valuations and other information about these assets may be provided by you and/or your Financial Advisor/Private Wealth Advisor and are generally based upon estimates. The information is used for position, asset allocation, and product allocation reporting purposes but is not, however, reflected in your Morgan Stanley account statements. Income values, including Estimated Annual Income and Projected Income, are not calculated for Manually Added External Accounts. The information being reported by Morgan Stanley on Manually Added External Accounts related to Performance, Tax Lots, Total Cost, Target Asset Allocation, Asset Classification and Gain/Loss may differ from the information provided to you by the custodian of those assets. If there are discrepancies between your custodian's official account statement and this material, rely on the custodian's official account statement. The inception date referenced in this view will reflect the date on which information about the Manually Added External Accounts was input by you and/or your Financial Advisor/Private Wealth Advisor. If information on a Manually Added asset cannot be reported, it will be noted.

Assets not custodied with Morgan Stanley are not covered by SIPC protection at Morgan Stanley or by additional protection under Morgan Stanley's excess insurance coverage plans. However, these assets may be subject to SIPC coverage at the entity at which they are custodied.

**Performance:** Performance results are annualized for time periods greater than one year and include all cash and cash equivalents, realized and unrealized capital gains and losses, dividends, interest and income. Depending on the opening or closing date of the account or position, the performance referenced may be for a portion of the time period identified. The investment results depicted herein represent historical performance. As a result of recent market activity, current performance may vary from the figures shown. Please contact your Financial Advisor for up-to-date performance information. Past performance is not a guarantee of future results. Quotations of performance appearing in this report may include performance experienced in legacy accounts which have been closed and purged, and as such are not included on the Accounts Included in This Report page.

Market values used for performance calculation do not include Performance Ineligible Assets and thus may differ from asset allocation market values. Common examples of Performance Ineligible Assets include life insurance and annuities as well as Manually Added and External accounts, assets and liabilities.

Unless otherwise indicated, performance is a composite calculation of the entire portfolio and may include brokerage and investment advisory accounts as well as assets for different accounts included in this report. The accounts included in the composite may have (or have had) different investment objectives and strategies, been subject to different restrictions, and incurred different types of fees, markups, commissions and other charges. Accordingly, performance results may blend the performance of assets and strategies that may not have been available in all of the accounts at all times during the reporting period. In addition, accounts in the composite may have changed from brokerage to advisory or vice versa. Accounts may also have moved from one advisory program to another (including from a discretionary program to a non-discretionary program).

For Morgan Stanley Smith Barney LLC accounts, performance information may cover the full history of the account(s) or just the performance of an account(s) since the inception of the current program(s). Performance results on individual accounts will vary and may differ from the composite returns. Your Financial Advisor can provide you with individual account portfolio composition and performance information. For investment advisory accounts, please see the Morgan Stanley Smith Barney LLC Form ADV Part 2 or applicable disclosure brochure and any applicable brokerage commission and/or fee schedule for a full disclosure of fees and expenses. Your Financial Advisor will provide those documents to you upon request. For brokerage accounts, please speak to your Financial Advisor for more information on commissions and other account fees and expenses.

Performance inception date does not necessarily correspond to the account opening date. Where multiple accounts are included in performance calculations, the inception date is the oldest performance inception. Performance data may not be available for all periods as some accounts included in performance may have more recent performance inception dates. Consequently, the actual performance for a group of accounts may differ from reported performance. Please ask your Financial Advisor for the performance inception date for each account.

**Indices:** Benchmark indices and blends included in this material are for informational purposes only, are provided solely as a comparison tool and may not reflect the underlying composition and/or investment objective(s) associated with the account(s). In some circumstances, the benchmark index may not be an appropriate benchmark for use with the specific composite portfolio. For instance, an index may not take into consideration certain changes that may have occurred in the portfolio since the inception of the account(s), (e.g., changes from a brokerage to an advisory account or from one advisory program to another, asset class changes, or index changes for individual managers). The volatility of the index used for comparison may be materially different from that of the performance shown. Indices are unmanaged and not available for direct investment. Index returns do not take into account fees or other charges. Such fees and charges would reduce performance. Please see the Benchmark Definitions section of this material for additional information on the indices used for comparison.

**Performance Inception Month End:** Performance Inception Month End refers to performance calculated from the end of the month in which the accounts became eligible for performance. Calculating performance from the Performance Inception Month End allows for a comparison to be made to appropriate benchmarks. Performance Inception Month End does not necessarily correspond to the account opening date.

**Projected 12 Month:** Projected 12 Month Income is based upon cash income from interest, cash dividends, and partnership distributions. It is a hypothetical projection calculated using current yields. The projected income referenced is based upon certain market projections effective as at today's date only and can change at any time. Such projected income is hypothetical, do not reflect actual investment results, and is not a guarantee of future results. The projected income is referenced for illustrative purposes only. Morgan Stanley does not represent or guarantee that the projected income referenced will or can be attained. The actual income may be lower or higher than the projections based upon a variety of factors and assumptions. The projected income shown may under or over compensate for the impact of actual market conditions and other factors. We make no representation or warranty as to the reasonableness of the assumptions made, or that all assumptions used to construct this projected income information have been stated or fully considered. To the extent that the assumptions made do not reflect actual conditions, the illustrative value of the hypothetical projected income will decrease. The projected income referenced may include income from Morgan Stanley & Co. and External Accounts, where data is available. Such information was obtained from third party sources which Morgan Stanley believes to be reliable. However, we make no representation or guarantee that the information is accurate or complete. You should not rely upon this information to make any investment decision. Please refer to the official account statements and performance reports you received from your custodian and/or financial institution for information about projected income in your External Accounts. The projected income referenced does not include income from assets in Manually Added External Accounts.

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Morgan Stanley's investment advisory programs may require a minimum asset level and, depending on your specific investment objectives and financial position, may not be appropriate for you. Please see the Morgan Stanley Smith Barney LLC program disclosure brochure (the "Morgan Stanley ADV") for more information in the investment advisory programs available. The Morgan Stanley ADV is available at [www.morganstanley.com/ADV](http://www.morganstanley.com/ADV) (unsafe: <http://www.morganstanley.com/ADV>). **Sources of Data.** Information in this material in this report has been obtained from sources that we believe to be reliable, but we do not guarantee its accuracy, completeness or timeliness. Third-party data providers make no warranties or representations relating to the accuracy, completeness or timeliness of the data they provide and are not liable for any damages relating to this data. All opinions included in this material constitute the Firm's judgment as of the date of this material and are subject to change without notice. This material was not prepared by the research departments of Morgan Stanley & Co. LLC or Morgan Stanley Smith Barney LLC. Some historical figures may be revised due to newly identified programs, firm restatements, etc.

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The **Global Investment Committee** is a group of seasoned investment professionals who meet regularly to discuss the global economy and markets. The committee determines the investment outlook that guides our advice to clients. They continually monitor developing economic and market conditions, review tactical outlooks and recommend model portfolio weightings, as well as produce a suite of strategy, analysis, commentary, portfolio positioning suggestions and other reports and broadcasts.

The GIC Asset Allocation Models are not available to be directly implemented as part of an investment advisory service and should not be regarded as a recommendation of any Morgan Stanley investment advisory service. The GIC Asset Allocation Models do not represent actual trading or any type of account or any type of investment strategies and none of the fees or other expenses (e.g. commissions, mark-ups, mark-downs, advisory fees, fund expenses) associated with actual trading or accounts are reflected in the GIC Asset Allocation Models which, when compounded over a period of years, would decrease returns.

**Adverse Active Alpha<sup>SM</sup> 2.0** is a patented screening and scoring process designed to help identify high-quality equity and fixed income managers with characteristics that may lead to future outperformance relative to index and peers. While highly ranked managers performed well as a group in our Adverse Active Alpha model back tests, not all of the managers will outperform. Please note that this data may be derived from back-testing, which has the benefit of hindsight. In addition, highly ranked managers can have differing risk profiles that might not be appropriate for all investors. Our view is that Adverse Active Alpha is a good starting point and should be used in conjunction with other information. Morgan Stanley Wealth Management's qualitative and quantitative investment manager due diligence process are equally important factors for investors when considering managers for use through an investment advisory program. Factors including, but not limited to, manager turnover and changes to investment process can partially or fully negate a positive Adverse Active Alpha ranking. Additionally, highly ranked managers can have differing risk profiles that might not be appropriate for all investors.

The proprietary **Value Score** methodology considers an active investment strategies' value proposition relative to its costs. From a historical quantitative study of several quantitative markers, Value Score measures perceived forward-looking benefit and computes (1) "fair value" expense ratios for most traditional investment managers across 40 categories and (2) managers' perceived "excess value" by comparing the fair value expense ratios to actual expense ratios. Managers are then ranked within each category by their excess value to assign a Value Score. Our analysis suggests that greater levels of

excess value have historically corresponded to attractive subsequent performance.

For more information on the ranking models, please see *Adverse Active Alpha<sup>SM</sup> 2.0: Scoring Active Managers According to Potential Alpha and Value Score: Scoring Fee Efficiency by Comparing Managers' Fair Value and Actual Expense Ratios*. The whitepapers are available from your Financial Advisor or Private Wealth Advisor. ADVERSE ACTIVE ALPHA is a registered service mark of Morgan Stanley and/or its affiliates. U.S. Pat. No. 8,756,098 applies to the Adverse Active Alpha system and/or methodology.

Additionally, highly ranked managers can have differing risk profiles that might not be appropriate for all investors. For more information on AAA, please see the Adverse Active Alpha Ranking Model and Selecting Managers with Adverse Active Alpha whitepapers. The whitepaper are available from your Financial Advisor or Private Wealth Advisor. ADVERSE ACTIVE ALPHA is a registered service mark of Morgan Stanley and/or its affiliates. U.S. Pat. No. 8,756,098 applies to the Adverse Active Alpha system and/or methodology.

**The Global Investment Manager Analysis (GIMA) Services Only Apply to Certain Investment Advisory Programs** GIMA evaluates certain investment products for the purposes of some – but not all – of Morgan Stanley Smith Barney LLC's investment advisory programs (as described in more detail in the applicable Form ADV Disclosure Document for Morgan Stanley Wealth Management). If you do not invest through one of these investment advisory programs, Morgan Stanley Wealth Management is not obligated to provide you notice of any GIMA Status changes even though it may give notice to clients in other programs.

**Strategy May Be Available as a Separately Managed Account or Mutual Fund** Strategies are sometimes available in Morgan Stanley Wealth Management investment advisory programs both in the form of a separately managed account ("SMA") and a mutual fund. These may have different expenses and investment minimums. Your Financial Advisor or Private Wealth Advisor can provide more information on whether any particular strategy is available in more than one form in a particular investment advisory program. In most Morgan Stanley Wealth Management investment advisory accounts, fees are deducted quarterly and have a compounding effect on performance. For example, on an advisory account with a 3% annual fee, if the gross annual performance is 6.00%, the compounding effect of the fees will result in a net performance of approximately 3.93% after one year, 1 after three years, and 21.23% after five years. **Conflicts of Interest:** GIMA's goal is to provide professional, objective evaluations in support of the Morgan Stanley Wealth Management investment advisory programs. We have policies and procedures to help us meet this goal. However, our business is subject to various conflicts of interest. For example, ideas and suggestions for which investment products should be evaluated by GIMA come from a variety of sources, including our Morgan Stanley Wealth Management Financial Advisors and their direct or indirect managers, and other business persons within Morgan Stanley Wealth Management or its affiliates. Such persons may have an ongoing business relationship with certain investment managers or mutual fund companies whereby they, Morgan Stanley Wealth Management or its affiliates receive compensation from, or otherwise related to, those investment managers or mutual funds. For example, a Financial Advisor may suggest that GIMA evaluates an investment manager or fund in which a portion of his or her clients' assets are already invested. While such a recommendation is permissible, GIMA is responsible for the opinions expressed by GIMA. See the conflicts of interest section in the applicable Form ADV Disclosure Document for Morgan Stanley Wealth Management for a discussion of other types of conflicts that may be relevant to GIMA's evaluation of managers and funds. In addition, Morgan Stanley Wealth Management, MS & Co., managers and their affiliates provide a variety of services (including research, brokerage, asset management, trading, lending and investment banking services) for each other and for various clients, including issuers of securities that may be recommended for purchase or sale by clients or are otherwise held in client accounts, and managers in various advisory programs. Morgan Stanley Wealth Management, managers, MS & Co., and their affiliates receive compensation and fees in connection with these services. Morgan Stanley Wealth Management believes that the nature and range of clients to which such services are rendered is such that it would be inadvisable to exclude categorically all of these companies from an account.

Morgan Stanley charges each fund family we offer a mutual fund support fee, also called a "revenue-sharing payment," on client account holdings in fund families according to a tiered rate that increases along with the management fee of the fund so that lower management fee funds pay lower rates than those with higher management fees.

Overlay Managers or Executing Sub-Managers ("managers") in some of Morgan Stanley's Separately Managed Account ("SMA") programs may affect transactions through broker-dealers other than Morgan Stanley or our affiliates. If your manager trades with another firm, you may be assessed costs by the other firm in addition to Morgan Stanley's fees. Those costs will be included in the net price of the security, not separately reported on trade confirmations or account statements. Certain managers have historically directed most, if not all, of their trades to outside firms. Information provided by managers concerning trade execution away from Morgan Stanley is summarized at: [www.morganstanley.com/wealth/investmentsolutions/pdfs/adv/sotresponse.pdf](http://www.morganstanley.com/wealth/investmentsolutions/pdfs/adv/sotresponse.pdf) (unsafe: <span class=link>http://</span><span class=link>www.morganstanley.com/wealth/investmentsolutions/pdfs/adv/sotresponse.pdf). For more information on trading and costs, please refer to the ADV Brochure for your program(s), available at [www.morganstanley.com/ADV](http://www.morganstanley.com/ADV) (unsafe: <span class=link>http://</span><span class=link>www.morganstanley.com/ADV), or contact your Financial Advisor/Private Wealth Advisor.

**Consider Your Own Investment Needs:** The model portfolios and strategies discussed in the material are formulated based on general client characteristics including risk tolerance. This material is not intended to be an analysis of whether particular investments or strategies are appropriate for you or a recommendation, or an offer to participate in any investment. Therefore, clients should not use this profile as the sole basis for investment decisions. They should consider all relevant information, including their existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon. Such a determination may lead to asset allocation results that are materially different from the asset allocation shown in this profile. Talk to your Financial Advisor about what would be an appropriate asset allocation for you, whether CGCM is an appropriate program for you.

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***An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the Fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund.***

The type of mutual funds and ETFs discussed in this presentation utilizes nontraditional or complex investment strategies and/or derivatives. Examples of these types of funds include those that utilize one or more of the below noted investment strategies or categories or which seek exposure to the following markets: (1) commodities (e.g., agricultural, energy and metals), currency, precious metals; (2) managed futures; (3) leveraged, inverse or inverse leveraged; (4) bear market, hedging, long-short equity, market neutral; (5) real estate; (6) volatility (seeking exposure to the CBOE VIX Index). Investors should keep in mind that while mutual funds and ETFs may, at times, utilize nontraditional investment options and strategies, they should not be equated with unregistered privately offered alternative investments. Because of regulatory limitations, mutual funds and ETFs that seek alternative-like investment exposure must utilize a more limited investment universe. As a result, investment returns and portfolio characteristics of alternative mutual funds and ETFs may vary from traditional hedge funds pursuing similar investment objectives. Moreover, traditional hedge funds have limited liquidity with long “lock-up” periods allowing them to pursue investment strategies without having to factor in the need to meet client redemptions and ETFs trade on an exchange. On the other hand, mutual funds typically must meet daily client redemptions. This differing liquidity profile can have a material impact on the investment returns generated by a mutual fund or ETF pursuing an alternative investing strategy compared with a traditional hedge fund pursuing the same strategy.

Nontraditional investment options and strategies are often employed by a portfolio manager to further a fund’s investment objective and to help offset market risks. However, these features may be complex, making it more difficult to understand the fund’s essential characteristics and risks, and how it will perform in different market environments and over various periods of time. They may also expose the fund to increased volatility and unanticipated risks particularly when used in complex combinations and/or accompanied by the use of borrowing or “leverage.”

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### KEY ASSET CLASS CONSIDERATIONS AND OTHER RISKS

Investing in the markets entails the risk of market volatility. The value of all types of investments, including stocks, mutual funds, exchange-traded funds ("ETFs"), closed-end funds, and unit investment trusts, may increase or decrease over varying time periods. To the extent the investments depicted herein represent **international securities**, you should be aware that there may be additional risks associated with international investing, including foreign economic, political, monetary and/or legal factors, changing currency exchange rates, foreign taxes, and differences in financial and accounting standards. These risks may be magnified in **emerging markets and frontier markets**. **Small- and mid-capitalization companies** may lack the financial resources, product diversification and competitive strengths of larger companies. In addition, the securities of small- and mid-capitalization companies may not trade as readily as, and be subject to higher volatility than, those of larger, more established companies. The value of **fixed income securities** will fluctuate and, upon a sale, may be worth more or less than their original cost or maturity value. Bonds are subject to interest rate risk, call risk, reinvestment risk, liquidity risk, and credit risk of the issuer. **High yield bonds** are subject to additional risks such as increased risk of default and greater volatility because of the lower credit quality of the issues. In the case of **municipal bonds**, income is generally exempt from federal income taxes. Some income may be subject to state and local taxes and to the federal alternative minimum tax. Capital gains, if any, are subject to tax. **Treasury Inflation Protection Securities' (TIPS)** coupon payments and underlying principal are automatically increased to compensate for inflation by tracking the consumer price index (CPI). While the real rate of return is guaranteed, TIPS tend to offer a low return. Because the return of TIPS is linked to inflation, TIPS may significantly underperform versus conventional U.S. Treasuries in times of low inflation. There is no guarantee that investors will receive par if TIPS are sold prior to maturity. The returns on a portfolio consisting primarily of **environmental, social, and governance-aware investments ("ESG")** may be lower or higher than a portfolio that is more diversified or where decisions are based solely on investment considerations. Because ESG criteria exclude some investments, investors may not be able to take advantage of the same opportunities or market trends as investors that do not use such criteria. The companies identified and investment examples are for illustrative purposes only and should not be deemed a recommendation to purchase, hold or sell any securities or investment products. They are intended to demonstrate the approaches taken by managers who focus on ESG criteria in their investment strategy. There can be no guarantee that a client's account will be managed as described herein. **Options** and margin trading involve substantial risk and are not appropriate for all investors. Besides the general investment risk of holding securities that may decline in value and the possible loss of principal invested, **closed-end funds** may have additional risks related to declining market prices relative to net asset values (NAVs), active manager underperformance and potential leverage. Closed-end funds, unlike open-end funds, are not continuously offered. There is a one-time public offering and once issued, shares of closed-end funds are sold in the open market through a stock exchange. NAV is total assets less total liabilities divided by the number of shares outstanding. At the time an investor purchases shares of a closed-end fund, shares may have a market price that is above or below NAV. Portfolios that invest a large percentage of assets in only one industry **sector** (or in only a few sectors) are more vulnerable to price fluctuation than those that diversify among a broad range of sectors.

**Alternative investments** often are speculative and include a high degree of risk. Investors could lose all or a substantial amount of their investment. Alternative investments are appropriate only for eligible, long-term investors who are willing to forgo liquidity and put capital at risk for an indefinite period of time. They may be highly illiquid and can engage in leverage and other speculative practices that may increase the volatility and risk of loss. Alternative Investments typically have higher fees than traditional investments. Investors should carefully review and consider potential risks before investing. Certain of these risks may include but are not limited to: Loss of all or a substantial portion of the investment due to leveraging, short-selling, or other speculative practices; Lack of liquidity in that there may be no secondary market for a fund; Volatility of returns; Restrictions on transferring interests in a fund; Potential lack of diversification and resulting higher risk due to concentration of trading authority when a single advisor is utilized; Absence of information regarding valuations and pricing; Complex tax structures and delays in tax reporting; Less regulation and higher fees than mutual funds; Risks associated with the operations, personnel, and processes of the manager; and Risks associated with cybersecurity. As a diversified global financial services firm, Morgan Stanley Wealth Management engages in a broad spectrum of activities including financial advisory services, investment management activities, sponsoring and managing private investment funds, engaging in broker-dealer

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These limitations include survivorship bias (the returns of the indices may not be representative of all the hedge funds in the universe because of the tendency of lower performing funds to leave the index); heterogeneity (not all hedge funds are alike or comparable to one another, and the index may not accurately reflect the performance of a described style); and limited data (many hedge funds do not report to indices, and the index may omit funds, the inclusion of which might significantly affect the performance shown). The HFRI indices are based on information self-reported by hedge fund managers that decide on their own, at any time, whether or not they want to provide, or continue to provide, information to HFR Asset Management, L.L.C. Results for funds that go out of business are included in the index until the date that they cease operations. Therefore, these indices may not be complete or accurate representations of the hedge fund universe, and may be biased in several ways. Composite index results are shown for illustrative purposes and do not represent the performance of a specific investment. Individual funds have specific tax risks related to their investment programs that will vary from fund to fund. Clients should consult their own tax and legal advisors as Morgan Stanley Wealth Management does not provide tax or legal advice. Interests in alternative investment products are offered pursuant to the terms of the applicable offering memorandum, are distributed by Morgan Stanley Wealth Management and certain of its affiliates, and (1) are not FDIC-insured, (2) are not deposits or other obligations of Morgan Stanley Wealth Management or any of its affiliates, (3) are not guaranteed by Morgan Stanley Wealth Management and its affiliates, and (4) involve investment risks, including possible loss of principal. Morgan Stanley Wealth Management is a registered broker-dealer, not a bank. 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Investment products in this category may employ various investment strategies and techniques for both hedging and more speculative purposes such as short-selling, leverage, derivatives and options, which can increase volatility and the risk of investment loss. Alternative investments are not appropriate for all investors. As a diversified global financial services firm, Morgan Stanley Wealth Management engages in a broad spectrum of activities including financial advisory services, investment management activities, sponsoring and managing private investment funds, engaging in broker-dealer transactions and principal securities, commodities and foreign exchange transactions, research publication, and other activities. In the ordinary course of its business, Morgan Stanley Wealth Management therefore engages in activities where Morgan Stanley Wealth Management's interests may conflict with the interests of its clients, including the private investment funds it manages. Morgan Stanley Wealth Management can give no assurance that conflicts of interest will be resolved in favor of its clients or any such fund. Alternative investments involve complex tax structures, tax inefficient investing, and delays in distributing important tax information. Individual funds have specific risks related to their investment programs that will vary from fund to fund. Clients should consult their own tax and legal advisors as Morgan Stanley Wealth Management does not provide tax or legal advice.

A majority of Alternative Investment managers reviewed and selected by GIMA pay or cause to be paid an ongoing fee for distribution from their management fees to Morgan Stanley Wealth Management in connection with Morgan Stanley Wealth Management clients that purchase an interest in an Alternative Investment and in some instances pay these fees on the investments held by advisory clients. Morgan Stanley Wealth Management rebates such fees that are received and attributable to an investment held by an advisory client and retains the fees paid in connection with investments held by brokerage clients. Morgan Stanley Wealth Management has a conflict of interest in offering alternative investments because Morgan Stanley Wealth Management or our affiliates, in most instances, earn more money in your account from your investments in alternative investments than from other investment options.

It should be noted that the majority of hedge fund indexes are comprised of hedge fund manager returns. This is in contrast to traditional indexes, which are comprised of individual securities in the various market segments they represent and offer complete transparency as to membership and construction methodology. As such, some believe that hedge fund index returns have certain biases that are not present in traditional indexes. Some of these biases inflate index performance, while others may skew performance negatively. However, many studies indicate that overall hedge fund index performance has been biased to the upside. Some studies suggest performance has been inflated by up to 260 basis points or more annually depending on the types of biases included and the time period studied. Although there are numerous potential biases that could affect hedge fund returns, we identify some of the more common ones throughout this paper.

## TSBA OPEB TRUST

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Self-selection bias results when certain manager returns are not included in the index returns and may result in performance being skewed up or down. Because hedge funds are private placements, hedge fund managers are able to decide which fund returns they want to report and are able to opt out of reporting to the various databases. Certain hedge fund managers may choose only to report returns for funds with strong returns and opt out of reporting returns for weak performers. Other hedge funds that close may decide to stop reporting in order to retain secrecy, which may cause a downward bias in returns.

Survivorship bias results when certain constituents are removed from an index. This often results from the closure of funds due to poor performance, “blow ups,” or other such events. As such, this bias typically results in performance being skewed higher. As noted, hedge fund index performance biases can result in positive or negative skew. However, it would appear that the skew is more often positive. While it is difficult to quantify the effects precisely, investors should be aware that idiosyncratic factors may be giving hedge fund index returns an artificial “lift” or upwards bias.

**Hedge Funds of Funds** and many funds of funds are private investment vehicles restricted to certain qualified private and institutional investors. They are often speculative and include a high degree of risk. Investors can lose all or a substantial amount of their investment. They may be highly illiquid, can engage in leverage and other speculative practices that may increase volatility and the risk of loss, and may be subject to large investment minimums and initial lockups. They involve complex tax structures, tax-inefficient investing and delays in distributing important tax information. Categorically, hedge funds and funds of funds have higher fees and expenses than traditional investments, and such fees and expenses can lower the returns achieved by investors. Funds of funds have an additional layer of fees over and above hedge fund fees that will offset returns. An investment in an **exchange-traded fund** involves risks similar to those of investing in a broadly based portfolio of equity securities traded on an exchange in the relevant securities market, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in stock and bond prices. An investment in a **target date portfolio** is subject to the risks attendant to the underlying funds in which it invests, in these portfolios the funds are the Consulting Group Capital Market funds. A target date portfolio is geared to investors who will retire and/or require income at an approximate year. The portfolio is managed to meet the investor’s goals by the pre-established year or “target date.” A target date portfolio will transition its invested assets from a more aggressive portfolio to a more conservative portfolio as the target date draws closer. An investment in the target date portfolio is not guaranteed at any time, including, before or after the target date is reached. **Managed futures** investments are speculative, involve a high degree of risk, use significant leverage, are generally illiquid, have substantial charges, subject investors to conflicts of interest, and are appropriate only for the risk capital portion of an investor’s portfolio. Managed futures investments do not replace equities or bonds but rather may act as a complement in a well diversified portfolio. Managed Futures are complex and not appropriate for all investors. **Rebalancing** does not protect against a loss in declining financial markets. There may be a potential tax implication with a rebalancing strategy.

**Asset allocation and diversification** do not assure a profit or protect against loss in declining financial markets. Past performance is no guarantee of future results. Actual results may vary.

**Tax laws are complex and subject to change. Morgan Stanley Smith Barney LLC (“Morgan Stanley”), its affiliates and Morgan Stanley Financial Advisors and Private Wealth Advisors do not provide tax or legal advice and are not “fiduciaries” (under ERISA, the Internal Revenue Code or otherwise) with respect to the services or activities described herein except as otherwise provided in writing by Morgan Stanley and/or as described at [www.morganstanley.com/disclosures/dol](http://www.morganstanley.com/disclosures/dol) (unsafe:<span class=“[www.morganstanley.com/disclosures/dol](http://www.morganstanley.com/disclosures/dol)”</span>)]. Individuals are encouraged to consult their tax and legal advisors (a) before establishing a retirement plan or account, and (b) regarding any potential tax, ERISA and related consequences of any investments made under such plan or account.**

Annuities and insurance products are offered in conjunction with Morgan Stanley Smith Barney LLC’s licensed insurance agency affiliates.

Indices are unmanaged and investors cannot directly invest in them. They are not subject to expenses or fees and are often comprised of securities and other investment instruments the liquidity of which is not restricted. A particular investment product may consist of securities significantly different than those in any index referred to herein. Composite index results are shown for illustrative purposes only, generally do not represent the performance of a specific investment, may not, for a variety of reasons, be an appropriate comparison or benchmark for a particular investment and may not necessarily reflect the actual investment strategy or objective of a particular investment. Consequently, comparing an investment to a particular index may be of limited use.

This material is not a financial plan and does not create an investment advisory relationship between you and your Morgan Stanley Financial Advisor. We are not your fiduciary either under the Employee Retirement Income Security Act of 1974 (ERISA) or the Internal Revenue Code of 1986, and any information in this report is not intended to form the primary basis for any investment decision by you, or an investment advice or recommendation for either ERISA or Internal Revenue Code purposes. Morgan Stanley Private Wealth Management will only prepare a financial plan at your specific request using Private Wealth Management approved financial planning signature.

We may act in the capacity of a broker or that of an advisor. As your broker, we are not your fiduciary and our interests may not always be identical to yours. Please consult with your Private Wealth Advisor to discuss our obligations to disclose to you any conflicts we may from time to time have and our duty to act in your best interest. We may be paid both by you and by others who compensate us based on what you buy. Our compensation, including that of your Private Wealth Advisor, may vary by product and over time.

Investment and services offered through Morgan Stanley Private Wealth Management, a division of Morgan Stanley Smith Barney LLC, Member SIPC.

*For index, indicator and survey definitions referenced in this report please visit the following: <https://www.morganstanley.com/wealth-investmentsolutions/wmir-definitions> (unsafe: [www.morganstanley.com/wealth-investmentsolutions/wmir-definitions](https://www.morganstanley.com/wealth-investmentsolutions/wmir-definitions))*

**GLOBAL INVESTMENT COMMITTEE (GIC) ASSET ALLOCATION MODELS:** The Asset Allocation Models are created by Morgan Stanley Wealth Management's GIC.

**HYPOTHETICAL MODEL PERFORMANCE (GROSS):** Hypothetical model performance results do not reflect the investment or performance of an actual portfolio following a GIC Strategy, but simply reflect actual historical performance of selected indices on a real-time basis over the specified period of time representing the GIC's strategic and tactical allocations as of the date of this report. The past performance shown here is simulated performance based on benchmark indices, not investment results from an actual portfolio or actual trading. There can be large differences between hypothetical and actual performance results achieved by a particular asset allocation or trading strategy. Hypothetical performance results do not represent actual trading and are generally designed with the benefit of hindsight. Actual performance results of accounts vary due to, for example, market factors (such as liquidity) and client-specific factors (such as investment vehicle selection, timing of contributions and withdrawals, restrictions and rebalancing schedules). Clients would not necessarily have obtained the performance results shown here if they had invested in accordance with any GIC Asset Allocation Model for the periods indicated. Despite the limitations of hypothetical performance, these hypothetical performance results allow clients and Financial Advisors to obtain a sense of the risk/return trade-off of different asset allocation constructs. The hypothetical performance results in this report are calculated using the returns of benchmark indices for the asset classes, and not the returns of securities, fund or other investment products. Models may contain allocations to Hedge Funds, Private Equity and Private Real Estate. The benchmark indices for these asset classes are not issued on a daily basis. When calculating model performance on a day for which no benchmark index data is issued, we have assumed straight line growth between the index levels issued before and after that date.

**FEES REDUCE THE PERFORMANCE OF ACTUAL ACCOUNTS:** None of the fees or other expenses (e.g. commissions, mark-ups, mark-downs, fees) associated with actual trading or accounts are reflected in the GIC Asset Allocation Models. The GIC Asset Allocation Models and any model performance included in this presentation are intended as educational materials. Were a client to use these models in connection with investing, any investment decisions made would be subject to transaction and other costs which, when compounded over a period of years, would decrease returns. Information regarding Morgan Stanley's standard advisory fees is available in the Form ADV Part 2, which is available at [www.morganstanley.com/adv](http://www.morganstanley.com/adv). The following hypothetical illustrates the compound effect fees have on investment returns: For example, if a portfolio's annual rate of return is 15% for 5 years and the account pays 50 basis points in fees per annum, the gross cumulative five-year return would be 101.1% and the five-year return net of fees would be 96.8%. Fees and/or expenses would apply to clients who invest in investments in an account based on these asset allocations, and would reduce clients' returns. The impact of fees and/or expenses can be material.

**Variable annuities** are long-term investments designed for retirement purposes and may be subject to market fluctuations, investment risk, and possible loss of principal. All guarantees, including optional benefits, are based on the financial strength and claims-paying ability of the issuing insurance company and do not apply to the underlying investment options. Optional riders may not be able to be purchased in combination and are available at an additional cost. Some optional riders must be elected at time of purchase. Optional riders may be subject to specific limitations, restrictions, holding periods, costs, and expenses as specified by the insurance company in the annuity contract. If you are investing in a **variable annuity** through a tax-advantaged retirement plan such as an IRA, you will get no additional tax advantage from the variable annuity. Under these circumstances, you should only consider buying a variable annuity because of its other features, such as lifetime income payments and death benefits protection. Taxable distributions (and certain deemed distributions) are subject to ordinary income tax and, if taken prior to age 59½, may be subject to a 10% federal income tax penalty. Early withdrawals will reduce the death benefit and cash surrender value.

**Equity securities** may fluctuate in response to news on companies, industries, market conditions and general economic environment. **Ultrashort-term fixed income** asset class is comprised of fixed income securities with high quality, very short maturities. They are therefore subject to the risks associated with debt securities such as credit and interest rate risk.

**Master Limited Partnerships (MLPs)** are limited partnerships or limited liability companies that are taxed as partnerships and whose interests (limited partnership units or limited liability company units) are traded on securities exchanges like shares of common stock. Currently, most MLPs operate in the energy, natural resources or real estate sectors. Investments in MLP interests are subject to the risks generally applicable to companies in the energy and natural resources sectors, including commodity pricing risk, supply and demand risk, depletion risk and exploration risk. Individual MLPs are publicly traded partnerships that have unique risks related to their structure. These include, but are not limited to, their reliance on the capital markets to fund growth, adverse ruling on the current tax treatment of distributions (typically mostly tax deferred), and commodity volume risk. The potential tax benefits from investing in MLPs depend on their being treated as partnerships for federal income tax purposes

and, if the MLP is deemed to be a corporation, then its income would be subject to federal taxation at the entity level, reducing the amount of cash available for distribution to the fund which could result in a reduction of the fund's value. MLPs carry interest rate risk and may underperform in a rising interest rate environment. MLP funds accrue deferred income taxes for future tax liabilities associated with the portion of MLP distributions considered to be a tax-deferred return of capital and for any net operating gains as well as capital appreciation of its investments; this deferred tax liability is reflected in the daily NAV, and, as a result, the MLP fund's after-tax performance could differ significantly from the underlying assets even if the pre-tax performance is closely tracked.

**Investing in commodities** entails significant risks. Commodity prices may be affected by a variety of factors at any time, including but not limited to, (i) changes in supply and demand relationships, (ii) governmental programs and policies, (iii) national and international political and economic events, war and terrorist events, (iv) changes in interest and exchange rates, (v) trading activities in commodities and related contracts, (vi) pestilence, technological change and weather, and (vii) the price volatility of a commodity. In addition, the commodities markets are subject to temporary distortions or other disruptions due to various factors, including lack of liquidity, participation of speculators and government intervention. **Physical precious metals** are non-regulated products. Precious metals are speculative investments, which may experience short-term and long term price volatility. The value of precious metals investments may fluctuate and may appreciate or decline, depending on market conditions. Unlike bonds and stocks, precious metals do not make interest or dividend payments. Therefore, precious metals may not be appropriate for investors who require current income. Precious metals are commodities that should be safely stored, which may impose additional costs on the investor.

**REITs** investing risks are similar to those associated with direct investments in real estate: property value fluctuations, lack of liquidity, limited diversification and sensitivity to economic factors such as interest rate changes and market recessions. Risks of **private real estate** include: illiquidity; a long-term investment horizon with a limited or nonexistent secondary market; lack of transparency; volatility (risk of loss); and leverage. Principal is returned on a monthly basis over the life of a **mortgage-backed security**. Principal prepayment can significantly affect the monthly income stream and the maturity of any type of MBS, including standard MBS, CMOs and Lottery Bonds. **Asset-backed securities** generally decrease in value as a result of interest rate increases, but may benefit less than other fixed-income securities from declining interest rates, principally because of prepayments.

**Yields** are subject to change with economic conditions. Yield is only one factor that should be considered when making an investment decision. **Credit ratings** are subject to change. **Duration**, the most commonly used measure of bond risk, quantifies the effect of changes in interest rates on the price of a bond or bond portfolio. The longer the duration, the more sensitive the bond or portfolio would be to changes in interest rates. The majority of \$25 and \$1000 par **preferred securities** are "callable" meaning that the issuer may retire the securities at specific prices and dates prior to maturity. Interest/dividend payments on certain preferred issues may be deferred by the issuer for periods of up to 5 to 10 years, depending on the particular issue. The investor would still have income tax liability even though payments would not have been received. Price quoted is per \$25 or \$1,000 share, unless otherwise specified. Current yield is calculated by multiplying the coupon by par value divided by the market price. The initial interest rate on a **floating-rate security** may be lower than that of a fixed-rate security of the same maturity because investors expect to receive additional income due to future increases in the floating security's underlying reference rate. The reference rate could be an index or an interest rate. However, there can be no assurance that the reference rate will increase. Some floating-rate securities may be subject to call risk. The market value of **convertible bonds** and the underlying common stock(s) will fluctuate and after purchase may be worth more or less than original cost. If sold prior to maturity, investors may receive more or less than their original purchase price or maturity value, depending on market conditions. Callable bonds may be redeemed by the issuer prior to maturity. Additional call features may exist that could affect yield. Some \$25 or \$1000 par **preferred securities** are QDI (Qualified Dividend Income) eligible. Information on QDI eligibility is obtained from third party sources. The dividend income on QDI eligible preferreds qualifies for a reduced tax rate. Many traditional 'dividend paying' perpetual preferred securities (traditional preferreds with no maturity date) are QDI eligible. In order to qualify for the preferential tax treatment all qualifying preferred securities must be held by investors for a minimum period – 91 days during a 180 day window period, beginning 90 days before the ex-dividend date.

Companies paying **dividends** can reduce or cut payouts at any time.

**Nondiversification:** For a portfolio that holds a concentrated or limited number of securities, a decline in the value of these investments would cause the portfolio's overall value to decline to a greater degree than a less concentrated portfolio. The **indices selected by Morgan Stanley Wealth Management** to measure performance are representative of broad asset classes. Morgan Stanley Wealth Management retains the right to change representative indices at any time. Because of their narrow focus, **sector investments** tend to be more volatile than investments that diversify across many sectors and companies.

**Growth investing** does not guarantee a profit or eliminate risk. The stocks of these companies can have relatively high valuations. Because of these high valuations, an investment in a growth stock can be more risky than an investment in a company with more modest growth expectations. **Value investing** does not guarantee a profit or eliminate risk. Not all companies whose stocks are considered to be value stocks are able to turn their business around or successfully employ corrective strategies which would result in stock prices that do not rise as initially expected.

Any type of **continuous or periodic investment plan** does not assure a profit and does not protect against loss in declining markets. Since such a plan involves continuous investment in securities regardless of fluctuating price levels of such securities, the investor should consider his financial ability to continue his purchases through periods of low price levels.

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## GENERAL DEFINITIONS

**Alpha:** Is a measure of a portfolio's time weighted net of fees return in excess of the market return, both adjusted for risk. A positive alpha indicates that the portfolio outperformed the market on a risk-adjusted basis, and a negative alpha indicates the portfolio did worse than the market.

**Annualized Standard Deviation:** A statistical calculation that measures the volatility of returns over time; the larger the standard deviation, the greater the volatility.

**Beta:** Is a measure of the sensitivity of a portfolio's time weighted net of fees return against that of the market. A beta greater than 1.00 indicates volatility greater than the market.

**Dollar-Weighted Return (Internal Rate of Return):** A return calculation that measures the actual performance of a portfolio over the reporting period. Since dollar weighted returns include the impact of client contributions and withdrawals, they should not be compared to market indices or used to evaluate the performance of a manager, but can be used to evaluate progress toward investment goals.

**Graph Notes:** Both the benchmark and portfolio returns are adjusted by the return of the go-day Treasury Bills to illustrate the excess return above the Risk Free Rate for each period.

**Investment Earnings:** A combination of the income received and total portfolio value increase or decrease, excluding net contributions and withdrawals, over the reporting period.

**Modern Portfolio Theory:** Seeks to quantify the relationship between risk and return and operates under the assumption that an investor must be compensated for assuming risk.

**Net Contributions/Withdrawals:** The net value of cash and securities contributed to or withdrawn from the account(s) during the reporting period. Net contributions and withdrawals may include advisory fees for advisory accounts.

**Net of Fees:** Performance results depicted as "net" of fees shall mean that any wrap fee, investment management fees, trade commissions, and/or other account fees have been deducted. Any other fees or expenses associated with the account, such as third party custodian fees, may not have been deducted. Please see the Morgan Stanley Smith Barney LLC Form ADV Part 2 Brochure for advisory accounts and/or any applicable brokerage account trade confirmation statements for a full disclosure of the applicable charges, fees and expenses. Your Financial Advisor will provide those documents to you upon request.

**Performance ineligible assets:** Performance returns are not calculated for certain assets because accurate valuations and transactions for these assets are not processed or maintained by Morgan Stanley Smith Barney LLC. Common examples include life insurance and annuities as well as Manually Added and External accounts, assets and liabilities.

**R<sup>2</sup>:** Is a measure that indicates the extent to which fluctuations in a portfolio's time weighted net of fees return is correlated with the return of the general market. An R<sup>2</sup> of 0.80 implies that 80% of the fluctuation of a portfolio's return is explained by the fluctuation in the market.

**Tax-Qualified Account(s):** Accounts that qualify for favorable tax treatment under US federal tax law and may benefit from favorable tax treatment under applicable state tax law. Typically, these accounts benefit from tax deferred growth potential, meaning investment earnings (such as capital gains, dividends, and interest) are generally not subject to federal income tax while the earnings remain in the account. Capital gains rates generally do not apply. Distributions of taxable amounts are generally subject to ordinary income tax and, if made before age 59 1/2, may be subject to a 10% (25% for certain SIMPLE IRA distributions) penalty tax. Some tax-qualified accounts, such as traditional Individual Retirement Accounts ("IRA") and employer sponsored retirement plan accounts, may allow tax deductible and/or pre-tax contributions (subject to certain limitations and restrictions). Other tax-qualified accounts, such as Roth IRAs and Coverdell Education Savings Accounts, may allow income tax free distributions, but only if certain conditions are satisfied.

**Taxable Account(s):** Accounts that are not Tax-Qualified Account(s), meaning investment earnings (such as capital gains, dividends, and interest) are generally subject to current US federal income taxation when held by US taxable investors. Note, however, that this category may include specific assets that are generally not subject to US federal income tax such as municipal bonds.

**Time-Weighted Return:** A return calculation that measures the investment performance of a portfolio over the reporting period. Time weighted returns do not include the impact of client contributions and withdrawals and therefore, may not reflect the actual rate of return the client received. Time weighted returns isolate investment actions and can be compared to benchmarks and used to evaluate the performance of a manager.

**Total Value:** "Total Value" represents the Market Value of the portfolio or Asset Class referenced and includes the accrual of interest and dividends. Total Value in the Asset Allocation view prior to January

## TSBA OPEB TRUST

Prepared on October 19, 2020 | Reporting Currency: USD

2014, does not reflect the accrual of interest and dividends. Total Value for Morgan Stanley & Co. and External accounts also does not include accrued interest and dividends.

## BENCHMARK DEFINITIONS

**TN TSBA Composite:** The current allocation is comprised of 25.00% BC Global Agg 1-3 YR, 50.00% MSCI AC World Net, 15.00% MSCI EAFE Net, 10.00% MSCI EM Net.

**FTSE T-Bills 30 Day:** A measure of monthly returns equivalent of yield averages that are not marked to market. A measure of short term rates.

**MSCI AC World Net:** The MSCI ACWI Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 46 country indexes comprising 23 developed and 23 emerging market country indexes. The developed market country indexes included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indexes included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey, and United Arab Emirates (as of June 2014). Net total return indices reinvest dividends after the deduction of withholding taxes, using (for international indices) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

**MSCI EAFE Net:** The MSCI EAFE Index -Europe, Australasia, Far East - is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US and Canada. The MSCI EAFE Index consists of the following 21 developed market country indexes: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom (as of June 2014). Net total return indices reinvest dividends after the deduction of withholding taxes, using (for international indices) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

**MSCI EM Net:** The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index consists of the following 23 emerging market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey, and United Arab Emirates (as of June 2014). Net total return indices reinvest dividends after the deduction of withholding taxes, using (for international indices) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

**BC Global Agg 1-3 YR:** The Barclays Global Aggregate Index provides a broad-based measure of the global investment-grade fixed income markets. The three major components of this index are the U.S. Aggregate, the Pan-European Aggregate, and the Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government, agency and corporate securities, and USD investment grade 144A securities. This index is the 1-3 Yr component of the Global Aggregate index.

**90-Day T-Bills:** Equal dollar amounts of three-month Treasury bills are purchased at the beginning of each of three consecutive months. As each bill matures, all proceeds are rolled over or reinvested in a new three-month bill. The income used to calculate the monthly return is derived by subtracting the original amount invested from the maturity value. The yield curve average is the basis for calculating the return on the index. The index is rebalanced monthly by market capitalization. The 90-Day Treasury Bill is a short-term obligation issued by the United States government. T-bills are purchased at a discount to the full face value, and the investor receives the full value when they mature. The difference of discount is the interest earned. T-bills are issued in denominations of \$10,000 auction and \$1,000 increments thereafter.



**OPEB Trust Meeting  
October 21, 2020**

**AGENDA**

11:00 a.m.	Call to Order*	Mark Hansen, Chairman
11:01 a.m.	Approval of Agenda	
11:02 a.m.	Approval of February 17, 2020 Minutes (Tab 1)	
11:03 a.m.	Acceptance of 3-month Financial Statements – September 30, 2020 (Tab 2)	Dr. Tammy Grissom, Trust Administrator
11:05 a.m.	Report of Activities and Fiscal Condition of the Trust	
11:10 a.m.	Review and Approve Proposed Changes to OPEB Trust Bylaws (Tab 3)	
11:15 a.m.	Review and Approve Proposed Changes to the Following Policies (Tab 4): <ul style="list-style-type: none"><li>• Section 1: 1000, 1010, 1020, 1030, 1040, 1050, 1060 (New)</li><li>• Section 3: 3010, 3060, 3080, 3090</li><li>• Section 4: 4000</li></ul>	
11:20 a.m.	Approval of June 30, 2020 Audit (Tab 5)	Erica Saeger, Audit Director Crosslin CPA
11:35 a.m.	Investment Report (Tab 6)	Chris Sigmund, Morgan Stanley
11:50 a.m.	Appointment of the Following New Trustees: <ul style="list-style-type: none"><li>• Wright Cox, Collierville Term: 12/01/20 – 12/31/21</li><li>• A.J. Massey, Jackson-Madison County Term: 10/21/20 – 12/31/21</li><li>• Kevin Woods, Shelby County Term: 10/21/20 – 12/31/21</li></ul>	Dr. Tammy Grissom, Trust Administrator
11:53 a.m.	Election of 2021 Trust Officers (Chairman and Vice-Chairman)	
11:56 a.m.	Other Business	
12:00 p.m.	Adjourn	

**\*In order to protect the health, safety, and welfare of Tennesseans in light of the COVID-19 outbreak, this meeting will be held electronically in accordance with Governor Lee's Executive Order 60.**

**Tennessee School Boards Association  
OPEB Trust Meeting  
Doubletree Downtown Nashville Hotel  
Robertson Room  
February 17, 2020**

The TSBA OPEB Trustees met on Monday, February 17, 2020. The following members were present: **Mark Hansen**, Collierville; **Scott McCormick**, Shelby County; **Dale Viox**, Arlington; **Mark Clark**, Fayetteville; and **Tammy Grissom**, Trust Administrator. Absent were **Kevin Long**, Johnson County and **Jim Campbell**, Jackson-Madison County. TSBA staff member present was **Emily Warren**. Also in attendance was **Chris Sigmund** with Morgan Stanley.

Mark Hansen called the meeting to order at 1:31 p.m. and welcomed everyone.

**MCCORMICK/VIOX:** Motion to approve the agenda. MOTION CARRIED.

**VIOX/MCCORMICK:** Motion to approve November 16, 2019 Minutes. MOTION CARRIED.

**MCCORMICK/ VIOX:** Motion to accept the 6-month Financial Statements (December 31, 2019). MOTION CARRIED.

Discussion was held as to whether any changes needed to be made to Investment policy 3060. Chris Sigmund with Morgan Stanley advised that the investment policy had zero short-comings and is a moderately-conservative policy that fits the needs of the Trust. Sigmund recommended that we kept the policy as is and that no changes were needed as this time.

**VIOX/MCCORMICK:** Motion to approve proposed changes to policy 1010. MOTION CARRIED.

**VIOX/MCCORMICK:** Motion to approve proposed changes to policy 3080. MOTION CARRIED.

Chris Sigmund with Morgan Stanley reported on the financial stability of the OPEB Trust and the performance of the Trust's investments in the current economy. He stated that the Trust is making money and is performing within the fiduciary guidelines as set forth by the investment policy. He stated that the rate of return for the Trust is extremely good – being at 20% for last year. He went into detail as to how the economy is still in a good spot and discussed the current trend of the market with special emphasis as to the epidemic occurring in China.

The meeting adjourned at 2:02 p.m.

**Respectfully submitted,**

\_\_\_\_\_

**Mark Hansen, Chairman**

**Tammy Grissom, OPEB Trust Administrator**

**TSBA OPEB Trust**  
**Balance Sheet**  
As of September 30, 2020

	<u>Sep 30, 20</u>
<b>ASSETS</b>	
<b>Current Assets</b>	
<b>Checking/Savings</b>	
1000-00 · Suntrust Operating Account	5,652.53
<b>Total Checking/Savings</b>	<u>5,652.53</u>
<b>Other Current Assets</b>	
1300-00 · Investments	
1300-10 · Hickman County Investments	2,322,312.93
1300-20 · Johnson County Investments	1,149,185.32
1300-30 · Shelby County Investments	93,784,738.81
1300-50 · Jackson-Madison Investments	422,259.61
1300-60 · Arlington Investments	2,949,341.40
1300-70 · Bartlett Investments	3,658,006.22
1300-80 · Collierville Investments	1,620,752.86
1300-90 · Lakeland Investments	1,682,138.09
1300-91 · Millington Investments	320,590.68
<b>Total 1300-00 · Investments</b>	<u>107,909,325.92</u>
<b>Total Other Current Assets</b>	<u>107,909,325.92</u>
<b>Total Current Assets</b>	<u>107,914,978.45</u>
<b>TOTAL ASSETS</b>	<b><u>107,914,978.45</u></b>
<b>LIABILITIES &amp; EQUITY</b>	
<b>Equity</b>	
3200-00 · Unrestricted Net Assets	102,224,602.86
Net Income	5,690,375.59
<b>Total Equity</b>	<u>107,914,978.45</u>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b><u>107,914,978.45</u></b>

**TSBA OPEB Trust**  
**Profit & Loss**  
 July through September 2020

	Jul - Sep 20
<b>Income</b>	
<b>4300-00 · Contributions</b>	
4300-10 · Contributions - Hickman County	-57,411.90
4300-50 · Contributions - Jackson-Madison	5,000.00
<b>Total 4300-00 · Contributions</b>	-52,411.90
<b>4400-00 · Unrealized Gain/Loss</b>	
4400-10 · Unrealized Gain/Loss - Hickman	120,392.79
4400-20 · Unrealized Gain/Loss - Johnson	58,365.43
4400-30 · Unrealized Gain/Loss - Shelby	4,776,366.23
4400-50 · Unrealized Gain/Loss - JMadison	21,166.68
4400-60 · Unrealized Gain/Loss - Arlingto	145,572.89
4400-70 · Unrealized Gain/Loss - Bartlett	186,681.74
4400-80 · Unrealized Gain/Loss - Collierv	86,578.74
4400-90 · Unrealized Gain/Loss - Lakeland	85,274.54
4400-91 · Unrealized Gain/Loss - Millingt	16,269.72
<b>Total 4400-00 · Unrealized Gain/Loss</b>	5,496,668.76
<b>4500-00 · Interest, Dividends&amp;Capital Gn</b>	
4500-10 · Interest, Div., & CG - Hickman	7,294.75
4500-20 · Interest, Div., & CG - Johnson	3,565.72
4500-30 · Interest, Div., & CG - Shelby	288,644.80
4500-50 · Interest, Div., & CG - JMadison	1,300.25
4500-60 · Interest, Div., & CG - Arlingto	9,299.56
4500-70 · Interest, Div., & CG - Bartlett	11,167.12
4500-80 · Interest, Div., & CG - Collierv	4,916.09
4500-90 · Interest, Div., & CG - Lakeland	5,236.50
4500-91 · Interest, Div., & CG - Millingt	995.29
<b>Total 4500-00 · Interest, Dividends&amp;Capital Gn</b>	332,420.08
<b>4800-00 · Interest Income</b>	0.10
<b>Total Income</b>	5,776,677.04
<b>Expense</b>	
<b>6400-00 · Administrative Fee</b>	
6400-10 · Administrative Fee - Hickman	1,407.59
6400-20 · Administrative Fee - Johnson	679.57
6400-30 · Administrative Fee - Shelby	32,963.18
6400-50 · Administrative Fee - J. Madison	246.76
6400-60 · Administrative Fee - Arlington	1,746.73
6400-70 · Administrative Fee - Bartlett	2,162.90
6400-80 · Administrative Fee - Colliervil	955.78
6400-90 · Administrative Fee - Lakeland	994.82
6400-91 · Administrative Fee - Millington	189.59
<b>Total 6400-00 · Administrative Fee</b>	41,346.92
<b>6500-00 · Investment Advisor Fees</b>	
6500-10 · Investment Advisor Fees - Hickm	968.97
6500-20 · Investment Advisor Fees - Johns	476.61
6500-30 · Investment Advisor Fees - Shelb	39,057.73
6500-50 · Investment Advisor Fees - JMadi	173.83
6500-60 · Investment Advisor Fees - Arlin	1,172.18
6500-70 · Investment Advisor Fees - Bartl	1,536.06
6500-80 · Investment Advisor Fees - Colli	736.19
6500-90 · Investment Advisor Fees - Lakel	699.99
6500-91 · Investment Advisor Fees - Milli	132.97
<b>Total 6500-00 · Investment Advisor Fees</b>	44,954.53
<b>Total Expense</b>	86,301.45
<b>Net Income</b>	5,690,375.59

# Tennessee School Boards Association

## OPEB Trust

### Bylaws

#### ARTICLE I—TRUSTEES

**Section 1. Appointment of Trustees.** There shall be seven (7) Trustees. The Executive Director and President of the Tennessee School Boards Association will be voting ex-officio members of the Board of Trustees and shall remain as Trustees so long as they hold their respective positions. The remaining five (5) Trustees shall be from the governing boards of the participating members of the Trust and appointed by the TSBA OPEB Trustees. The term of these five (5) Trustees shall be three (3) years, and they may be reappointed.

**Section 2. Officers of the Trust.** The officers of the Trust shall be Chairman and Vice-Chairman. Officers shall be elected by the Trustees annually from the members of the Board of Trustees. The term of officers shall begin on January 1 of each year and terminate on the following December 31. An officer's term shall also cease upon their termination as a board member. Ex-officio members of the Board of Trustees are ineligible to hold the office of Chairman and Vice-Chairman.

**Section 3. Appointment of Successor Trustees.** Upon the death, resignation, or removal of a Trustee or upon the Trustee becoming ineligible to serve, the Board of Trustees shall appoint a new Trustee to serve the remainder of the term. Trustees and all officers of the Trust shall each continue to serve until their successors are selected except for Trustees who are removed or resign. A Trustee appointed to fill a vacancy shall serve until the expiration of the term of his/her predecessor. ~~Upon the death, resignation or removal of a trustee, the Trustees shall appoint a new Trustee to serve the remainder of the term.~~

**Section 4. Vacancy of Officers.** Upon the death, resignation, or removal of the Chairman, the Vice-Chairman will automatically assume the office of Chairman, and a new Vice-Chairman shall be elected at the next meeting of the Trust. If the vacancy is for the office of Vice-Chairman, a new Vice-Chairman shall be elected at the next meeting of the Trust.

#### ARTICLE II—GENERAL TRUST PROVISIONS

**Section 1. Amendments.** These Bylaws may be amended by a vote of the majority of the Trustees present at any meeting of the Trust, provided that notice of such proposed amendment shall ~~have been~~ be given in writing ten (10) days in advance to all the Trustees. The Administrator shall ~~forthwith~~ notify the participating members of any and all amendments adopted.

The Trustees will review ~~this document~~ **these Bylaws** annually to ensure its continued relevance and to make changes as new conditions dictate.

Section 2. Conflicts. In the event of any conflict between any provision of ~~this Agreement~~ **these Bylaws** and any provision of any applicable law, ~~this Agreement~~ **these Bylaws** shall be deemed modified to the extent necessary to comply with such law.

### ARTICLE III—MEETINGS OF TRUSTEES

**Section 1. Regular Meetings.** The Board of Trustees shall meet biannually. Any item of business may be considered at a regular meeting. The time, date, and location of meetings of the Board shall be determined by the Board. ~~Trustees must attend in person to participate and~~ No proxy votes shall be permitted.

**Section 2. Special Meetings.** A special meeting may be called at any time by the Chairman or by any ~~three (3)~~ four (4) of the Trustees ~~upon giving ten (10) days written notice to all Trustees.~~ An emergency meeting may be called with less than ten (10) days written notice provided that all Trustees agree to such a meeting. An agenda specifying the subject of any special meeting shall accompany such notice, and only business included on that agenda may be transacted.

**Section 3. Notice of Meetings.** All meetings of the Board shall be conducted in a manner required by law. ~~In the event of any conflict between any provision of this Agreement and any provision of any applicable law, this Agreement shall be deemed modified to the extent necessary to comply with such law. In addition to any notices of meetings required to be served under this Agreement,~~ The Administrator shall cause to be published any schedule or notice of meeting of the Board required by law. Such publication requirement shall be deemed met by announcement on the TSBA website.

### ARTICLE IV—NATURE AND USE OF FUNDS

**Section 1. Member Fund Withdrawal.** The Trust is specifically authorized to make payments of legitimate reimbursements to member systems requesting a ~~pro-rata share~~ of their other post-employment benefits (OPEB) obligations. No other withdrawals may be made by member systems.

**Section 2. Investment of Funds.** The Trust may invest and ~~reinvest~~ such portions of the Trust reserve in any manner that is both prudent and permissible under ~~the laws of the state of Tennessee~~ state and federal law. The Trustees shall develop and adopt an investment strategy policy.

**Section 3. Investment Manager Selection.** Investment managers shall be subject to all restrictions and investment guidelines within ~~this document and within other investment strategies developed~~ these Bylaws and the investment policy maintained by the Trustees.

**Section 4. Fees.** The Trust Administrator shall be paid a fee per the following schedule on total assets under management and an administrative fee for the biennial OPEB valuations.

Amount	Fee
0-25MM	0.25%
25MM-50MM	0.15%
50MM-75MM	0.10%
75MM +	0.05%

The Trustees are permitted to compensate the investment managers and/or consultants with such fees as may be reasonable and competitive and are not excessive and detrimental to the Trust's long-term viability. It shall be incumbent upon the investment managers and/or consultants to fully represent all costs and fees associated with the management of the Trust.

**Section 5. Asset Manager Performance Review.** The Trustees will monitor performance of the portfolio using the quarterly statements provided by the Trust's investment consultants. The investment consultants shall provide the Trustees with manager performance numbers and appropriate benchmark data with which to evaluate the managers' performance. While mindful of the specific goals of the Trust, the investment consultants shall provide data on a benchmark comprised of an appropriate mix of indices and such other benchmark data as may be requested or relevant.

A file of the written confirmations of every transaction and the quarterly statements documenting total assets, including gains and/or losses in each security since original purchase date, will be maintained by ~~the staff~~ the Trust Administrator.

The Trustees will continually review the liquidity needs of the Trust and will notify the investment consultants as soon as possible of any significant changes in anticipated needs, ~~as set forth in this document. The Trustees will review this document annually to ensure its continued relevance and to make changes as new conditions dictate.~~

**Section 6. Financial Institution.** All ~~monies~~ funds received by the Trust shall be deposited in such financial institutions as the Trust may designate for that purpose.

**Section 7. Withdrawals.** All withdrawals of ~~monies~~ funds from such financial institutions shall be made only by electronic transfer or by check signed by the Treasurer of the Trust or his/her designee.

**Section 8. Bonding.** Any person, other than third parties retained to invest funds on behalf of the Trust, who is authorized to sign or who may be engaged in handling ~~monies~~ funds or securities held by the Trust shall be bonded at the expense of the Trust by a duly authorized surety company in such amount or amounts as may from time to time be required by the Trustees.

*Adopted 4/16/09*  
*Article VI, Section 5 revised 7/16/09*  
*Article VI, Section 1 revised 11/15/10*  
*Article I, Sections 1, 4, 5, 6, 7, 8, & 9 revised 09/28/12*  
*Article II, Sections 1 & 2 revised 09/28/12*  
*Article V, Section 1 revised 09/28/12*  
*Article VI, Sections 2 & 6 revised 09/28/12*  
*Article I, Sections 1, 2, 3, 5, 6 & 7 revised 11/05/12*  
*Article II, Section 1 revised 11/05/12*  
*Article III, Sections 1 & 2 revised 11/05/12*  
*Article V, Sections 1 & 3 revised 11/05/12*  
*Article VI, Sections 2 & 9 revised 11/05/12*  
*Article I, Section 1 revised 11/10/13*  
*Article IV, Section 4 revised 4/20/16*  
*Article I, Section 1 added 02/20/17*

# TSBA OPEB Trust

Descriptor Term:  <b>Selection and Duties of the Trustees</b>	Descriptor Code:  <b>1000</b>	Revised:  <b>02/18/19</b>
	Rescinds:  <b>1000</b>	Previous Issued:  <b>02/20/17</b>

## 1 **APPOINTMENT OF TRUSTEES**

2 The Board of Trustees shall consist of seven (7) Trustees: the Executive Director and President  
3 of the Tennessee School Boards Association, serving as ex-officio members; and the remaining  
4 five (5) Trustees, appointed by the TSBA OPEB Trustees from the governing boards of the  
5 participating members of the Trust. The term of these five (5) Trustees shall be three (3) years.

## 6 **OFFICERS**

7 Officers of the Trust shall consist of a Chairman and Vice-Chairman and such other officers as  
8 are established from time to time by the Trustees. All officers shall be elected annually by the  
9 Board of Trustees with the term beginning on January 1<sup>st</sup> of each year and terminating on  
10 December 31<sup>st</sup>. ~~The Tennessee School Boards Association shall act as the Administrator of the~~  
11 ~~Trust.~~

## 12 **LIABILITY OF TRUSTEES**

13 The Trustees shall use ordinary care and reasonable diligence in the exercise of their power and  
14 in the performance of their duties. They shall not be liable for any mistake of judgment or other  
15 action made, taken, or omitted by them in good faith; nor for any action taken or omitted by any  
16 agent, employee, or attorney selected with reasonable care; nor for the loss incurred through  
17 investment of Trust money or failure to invest. No Trustee shall be liable for any action taken or  
18 omitted by any other Trustee. They shall not be required to give a bond or other security to  
19 guarantee the faithful performance of their duties ~~hereunder.~~

## 20 **RESIGNATION OF A TRUSTEE**

21 Any Trustee may resign upon giving notification in writing to the Trust Administrator.

## 1    **REMOVAL OF A TRUSTEE**

2    Any Trustee, other than the ex-officio members of the Board of Trustees, may be removed at any  
3    time by a ~~two-thirds~~ majority vote of the ~~other members of the Board of Trustees~~ present at the  
4    meeting of the Board. In the event that the entity on whose governing board the Trustee serves  
5    ceases to participate in the Trust, the Trustee's membership on the Board of Trustees shall  
6    terminate immediately. If a Trustee is not present at three (3) Trustee meetings during any term,  
7    the Trustee's membership on the Board of Trustees shall terminate with the adjournment of the  
8    third meeting missed unless a ~~two-thirds~~ majority of the Trustees present at the meeting vote  
9    ~~during the meeting~~ to excuse the third absence. If such Trustee misses a fourth meeting during  
10   one term, the removal of the Trustee shall automatically become effective with the adjournment  
11   of the fourth meeting missed.

## 12   **APPOINTMENT OF SUCCESSOR TRUSTEES**

13   Upon the death, resignation, or removal of a Trustee or upon the Trustee becoming ineligible to  
14   serve, the Board of ~~Directors of the Tennessee School Boards Association~~ Trustees shall appoint  
15   a new Trustee to serve the remainder of the term.

## 16   **AUTHORITY AND DUTIES OF THE TRUSTEES**

17   The Board shall carry out the purposes and duties of the Trust ~~through its Administrator~~  
18   including, but not limited to, the following:

- 19       1. Contract for services of ~~agents, independent contractors, investment counsel, accountants,~~  
20         investment management, financial consultants, attorneys, auditors, and such other  
21         persons as may be necessary to administer and accomplish the purposes of the Trust;  
22
- 23       2. Determine the compensation for all such agents and independent contractors;  
24
- 25       3. Obtain annually an audited report of the financial affairs of the Trust;  
26
- 27       4. Receive and hold all payments and contributions paid to it;  
28
- 29       5. Procure fidelity bonds for persons as required by ~~this policy or by law~~ the Bylaws; and  
30
- 31       6. Carry out other activities as necessary ~~to carry out the purpose~~ for the management and  
32         operation of the Trust ~~or the specific activities enumerated in this policy~~.

# TSBA OPEB Trust

Descriptor Term:  <b>Board of Trustees' Meetings</b>	Descriptor Code:  <b>1010</b>	Revised:  <b>02/17/20</b>
	Rescinds:  <b>1010</b>	Previous Issued:  <b>02/18/19</b>

## 1 **REGULAR MEETINGS OF TRUSTEES**

2 Regular meetings of the Board of Trustees shall be held biannually. Any item of business may be  
3 considered at a regular meeting. The time, date, and location of meetings of the Board shall be  
4 determined by the Board.

## 5 **SPECIAL MEETINGS OF TRUSTEES**

6 Special meetings of the Board of Trustees may be called at any time by the Chairman or **by** any  
7 ~~three~~ **four** (34) of the Trustees ~~upon giving ten (10) days written notice to all Trustees.~~ An  
8 emergency meeting may be called with less than ten (10) days written notice provided that all  
9 Trustees agree to such a meeting. An agenda specifying the subject of any special meeting shall  
10 accompany such notice, and only business included on that agenda may be transacted.

## 11 **NOTICE OF MEETINGS**

12 ~~All meetings of the Board shall be conducted in the manner required by law. In the event of any~~  
13 ~~conflict between any provision of this policy and any provision of any applicable law, this policy~~  
14 ~~shall be deemed modified to the extent necessary to comply with such law. In addition to any~~  
15 ~~notices of meetings required to be served under this policy, The Administrator shall cause to be~~  
16 ~~published any schedule or notice of meeting of the Board required by law.<sup>1</sup> Such publication~~  
17 ~~requirement shall be deemed met by announcement on the TSBA website.~~

## 18 **REQUIRED VOTE**

19 Any action by the Trustees ~~may~~ **shall** be taken at a duly constituted meeting. A majority of the  
20 Trustees present at a duly constituted meeting shall be required for action.

## 21 **OPEN MEETINGS**

22 All meetings of the Board of Trustees ~~and its committees~~ will be held in accordance with the  
23 Tennessee Open Meetings Act.<sup>2</sup>

1   **ELECTRONIC ATTENDANCE**<sup>3</sup>

2   Absent Trustees may participate in a regular or special meeting by electronic means of  
3   communication. The following requirements apply to all electronic attendance:

- 4       1. A quorum of the Board shall be physically present at the meeting in order for any Trustee  
5       to attend electronically;  
6  
7       2. The responsibility for the connection lies with the Trustee wishing to participate  
8       electronically. No more than two (2) attempts to connect shall be made unless the Board  
9       chooses to make additional attempts;  
10  
11      3. The Trustee wishing to participate ~~must~~ shall give the Chairman or the Trust  
12      Administrator at least five (5) days' notice prior to the meeting of the Trustee's desire to  
13      participate electronically; and  
14  
15      4. All votes taken during a meeting where a Trustee is attending electronically shall be by  
16      roll call vote.

---

Legal References

1. TCA 8-44-103
2. TCA 8-44-101 *et seq.*
3. TCA 8-44-108

# TSBA OPEB Trust

Descriptor Term:  <b>Board of Trustees' Meeting Procedures</b>	Descriptor Code:  <b>1020</b>	Revised:  <b>02/18/19</b>
	Rescinds:  <b>1020</b>	Previous Issued:  <b>11/05/12</b>

## 1 AGENDA PREPARATION

2 The agenda shall be prepared by the Trust Administrator in consultation with the Trust Chairman  
3 and shall be approved by the Board of Trustees as the first item of business at each meeting.

4 Items of business may be suggested by any member ~~board~~ system, any ~~member of the Board of~~  
5 Trustees, or the Trust Administrator. Inclusion of the item on the agenda shall be at the discretion  
6 of the Chairman and Trust Administrator. ~~Matters of business not listed on the agenda may be~~  
7 ~~added to the agenda by the Board.~~

8 Requests to have items placed on the agenda ~~must~~ shall be received twenty (20) days before the  
9 Board is scheduled to convene. The full agenda, including support documents, shall be  
10 distributed two (2) weeks in advance of each board meeting to allow ~~members~~ Trustees adequate  
11 time to study agenda material.

12 At the beginning of each meeting, the Board shall approve the agenda for the meeting, which  
13 may involve the addition or deletion of items previously included on the agenda.

## 14 ORDER OF BUSINESS

15 The structure of a board meeting shall be as follows:

- 16 1. Call to Order;
- 17 2. Adoption of Agenda;
- 18 3. Approval of Minutes;
- 19 4. ~~Report from the Chairman;~~
- 20 5. Report from the Trust Administrator;
- 21 6. Discussion and Action as needed on Agenda Items;
- 22 7. Other Business; and
- 23 8. Adjournment.

## 1 MINUTES

2 The Trust Administrator shall be responsible for recording and maintaining the proceedings of  
3 all board meetings. Draft copies of the previous minutes shall be distributed along with agenda  
4 material for the succeeding meeting. Minutes shall contain the following:

- 5 1. Type of meeting;
- 6 2. Date, time, and place;
- 7 3. Names of those present;
- 8 4. Status of previous minutes;
- 9 5. All motions and their disposition;
- 10 6. All reports; and
- 11 7. Time of adjournment.

# TSBA OPEB Trust

Descriptor Term:  <b>Policy Development and Adoption</b>	Descriptor Code:  <b>1030</b>	Revised:  <b>09/28/12</b>
	Rescinds:  <b>1030</b>	Previous Issued:  <b>11/16/09</b>

1 A proposed policy or policy change shall be submitted to the Board by any member system, of  
2 ~~the Board of Trustees~~ Trustee, or Trust Administrator.

3 Adoption shall require an affirmative vote by a majority of the Trustees present at a duly  
4 constituted meeting, ~~and each vote will contain a future date for reporting the effectiveness of the~~  
5 ~~policy.~~

6 Policies and amendments adopted by the Board shall be made a part of the minutes and shall be  
7 placed in the policy manual. Policies and amendments shall be effective immediately upon  
8 adoption unless a specific effective date is provided and shall supersede any previous board  
9 action on the subject.

## 10 **SUSPENSION OF POLICIES**

11 Any board policy or part thereof may be suspended either by a ~~unanimous~~ majority vote of board  
12 ~~members~~ the Trustees present ~~or by a two-thirds vote of the total membership of the Board.~~

## 13 **ADMINISTRATION IN POLICY ABSENCE**

14 In cases where the Board has provided no guidelines for administrative action, the Trust  
15 Administrator shall have the power to act but report to the Board at its next meeting.

# TSBA OPEB Trust

Descriptor Term:  <b>Indemnification</b>	Descriptor Code:  <b>1040</b>	Revised:  <b>11/16/09</b>
	Rescinds:	Previous Issued:

1 The Trust shall provides legal defense and indemnification to its Trustees, officers, employees,  
2 and agents for claims that arise from activities within the individual's scope of employment or in  
3 the performance of authorized duties. The Trust will not indemnify ~~an~~ a Trustee, officer,  
4 employee, or agent for ~~intentional acts, gross negligence, or recklessness~~ gross negligence,  
5 willful misconduct, lack of good faith, or actions in direct conflict with advice from the Trust's  
6 attorneys. The Trust will also not indemnify ~~an~~ a Trustee, officer, employee, or agent in any  
7 action brought by the Trust against that individual.

8 To be eligible for ~~the~~ legal defense and indemnification, the Trustee, officer, employee, or agent  
9 ~~must~~ shall abide by the following:

10

11 1. Request the indemnification in writing no less than ten (10) business days after receipt of  
12 the summons, warrant, or other official notice of the adverse action;

13

14 2. Sign an approved indemnification agreement; and

15

16 3. Cooperate with the Trust in defending against the adverse action.

17 The ~~i~~Indemnification and legal defense of an individual shall include ~~the provision of~~ legal  
18 counsel, the payment of court costs, necessary case-related expenses, and any judgment or  
19 settlement if the Trust authorizes the settlement in advance.

# TSBA OPEB Trust

Descriptor Term:  <b>Appointment of a Trust Administrator</b>	Descriptor Code:  <b>1050</b>	Revised:  <b>02/18/19</b>
	Rescinds:  <b>1050</b>	Previous Issued:  <b>11/16/09</b>

## 1 APPOINTMENT OF TRUST ADMINISTRATOR

2 The Tennessee School Boards Association Executive Director shall act as the Administrator of  
3 the Trust as well as the Principal Operating Officer of the Trust.

## 4 ~~MANAGEMENT OF THE TRUST~~

5 ~~It is the express intention of the settlors of this Trust that the Trustees herein named and their~~  
6 ~~successors in Trust have the exclusive authority to manage this Trust and to delegate to others, as~~  
7 ~~the Trustees may deem necessary, the performance of any duties required in the administration~~  
8 ~~of this Trust. It is also the express intention of the settlors that no court shall substitute its~~  
9 ~~judgment for that of the Trustees in the making of any decisions relative to the carrying out of~~  
10 ~~the Trust.~~

## 11 TREASURER

12 The Trust Administrator shall serve as Treasurer of the Trust.

## 13 DUTIES OF ADMINISTRATOR

14 ~~The TSBA Executive Director or designee shall be the Trust Administrator/Principal Operating~~  
15 ~~Officer of the Trust and shall supervise and control the operations of the Trust and carry out the~~  
16 ~~purpose of the Trust as directed by the Board of Trustees.~~

17 Among the duties and authority of the Administrator shall be the following:

- 18 1. Sign, on behalf of the Trust, any instrument which the Trust has authorized to be  
19 executed, and in general, to perform duties incidental to the office of the Administrator  
20 and such other duties as may be prescribed by the Board of Trustees, ~~consistent with this~~  
21 ~~policy;~~  
22

- 1        2. ~~At each regular meeting of the Board of Trustees and at such other times as requested to~~  
2        ~~do so by the Board, to p~~ Present a full report of activities and the fiscal condition of the  
3        Trust at each regular meeting of the Board of Trustees and at such other times as  
4        requested to do so by the Board;  
5
- 6        3. ~~To e~~Compile and list annually contributions made to the Trust and all investment income;  
7
- 8        4. Cause an annual audit of all Trust funds in cooperation with the Trustees;  
9
- 10       5. Record and maintain the proceedings of all board meetings; and  
11
- 12       6. Disburse funds held by the Trust as needed to carry out the purposes of the Trust.

# TSBA OPEB Trust

Descriptor Term:  <b><u>Code of Ethics</u></b>	Descriptor Code:  <b>1060</b>	Revised:  <b>DRAFT</b>
	Rescinds:	Previous Issued:

## 1 **DISCLOSURE OF PERSONAL INTERESTS**

### 2 *Voting Matters*<sup>1</sup>

3 A Trustee, with the responsibility to vote on a measure, shall disclose during the meeting at  
4 which the vote takes place, before the vote and to be included in the minutes, any personal  
5 interest that affects or that would lead a reasonable person to infer that it affects the Trustee's  
6 vote on the measure. In addition, the Trustee shall recuse himself/herself from voting on the  
7 measure.

### 8 *Non-Voting Matters*

9 A Trustee who must exercise discretion relative to any matter other than casting a vote and who  
10 has a personal interest in the matter that affects or that would lead a reasonable person to infer  
11 that it affects the exercise of the discretion shall disclose, before the exercise of the discretion  
12 when possible, his/her personal interest. The Trustee shall recuse himself/herself from the  
13 exercise of discretion in the matter.

## 14 **ACCEPTANCE OF GIFTS AND OTHER THINGS OF VALUE**

15 The Board of Trustees, its officers, agents, or employees may not accept, directly or indirectly,  
16 any gift, money, gratuity, or other consideration or favor of any kind from anyone that a  
17 reasonable person would understand was intended to influence the vote, official action, or  
18 judgment of the Board of Trustees, its officers, agents, or employees in executing decision-  
19 making authority affecting the OPEB Trust.

20 It shall not be considered a violation of this policy for the Board of Trustees, its officers, agents,  
21 or employees to receive entertainment, food, refreshments, meals, health screenings, amenities,  
22 or beverages that are provided in connection with a conference sponsored by an established or  
23 recognized statewide association of school board officials or by an umbrella or affiliate  
24 organization of such statewide association of school board officials.

## 25 **ETHICS COMPLAINTS**

26 The Board of Trustees may create an ethics committee consisting of three (3) Trustees who will  
27 be appointed to one-year terms by the Chair with confirmation by the Board of Trustees. The  
28 Ethics Committee shall convene as soon as practicable after its appointment and elect a Chair.  
29 Records of the Ethics Committee shall be maintained and be open to public inspection.

1 Questions and complaints regarding violations of this Code of Ethics or of any violation of state  
2 law governing ethical conduct should be directed to the Chair of the Ethics Committee.  
3 Complaints shall be in writing, signed by the complainant, and contain the facts upon which the  
4 complaint is based.

5 The Ethics Committee may investigate any credible complaint against a Trustee, officer, agent,  
6 or employee charging a violation of this Code of Ethics, may undertake an investigation on its  
7 own initiative when it acquires information indicating a possible violation, or make  
8 recommendations for action to end or seek retribution for any activity that, in the Ethics  
9 Committee's judgment, constitutes a violation of this Code of Ethics. If a member of the Ethics  
10 Committee is the subject of a complaint, such member shall recuse himself/herself from all  
11 proceedings involving such complaint.

12 The Ethics Committee may refer the matter to the Trust attorney for a legal opinion and/or  
13 recommendation for action.

---

Legal References

1. TCA 8-17-102(b)

# TSBA OPEB Trust

Descriptor Term:  <b>Annual Audit Report</b>	Descriptor Code:  <b>3010</b>	Revised:  <b>09/28/12</b>
	Rescinds:  <b>3010</b>	Previous Issued:  <b>11/16/09</b>

- 1 The TSBA OPEB Trust shall retain the services of a licensed certified public accountant of
- 2 Tennessee ~~prior to June 30<sup>th</sup> of each year~~ through a Request for Proposal process every three (3)
- 3 years. The Trust shall obtain an engagement letter specifying the cost and the services to be
- 4 provided by the auditor.
  
- 5 The necessary Trust records shall be made available to the auditor as available. The audit report
- 6 shall be distributed to the Board of Trustees.
  
- 7 The following schedules shall be included in the audit report:
  - 8 1. Statement of Assets and Equities;
  - 9
  - 10 2. Statement of Cash Receipts and Disbursements; and
  - 11
  - 12 3. Cash transactions during the year.

# TSBA OPEB Trust

Descriptor Term:  <b>Investment</b>	Descriptor Code:  <b>3060</b>	Revised:  <b>02/12/18</b>
	Rescinds:  <b>3060</b>	Previous Issued:  <b>04/29/15</b>

## 1 OBJECTIVES AND PERFORMANCE GOALS

2 The Trust's overall investment objective is to achieve a favorable total rate of return consistent  
3 with prudent financial management. The goal is to meet stated financial needs of the Trust while  
4 maintaining or increasing the real inflation adjusted value of the permanent funds for which the  
5 Trust has been entrusted.

6 The performance of the Trust's financial assets and its investment managers will be monitored  
7 on a quarterly basis. Portfolio asset allocation shall be reviewed at least annually. Individual  
8 managers will be expected to exceed the performance of relevant market index benchmarks over  
9 full market cycles. Risk-adjusted performance will also be measured against a peer group of  
10 similar managers and evaluated over three (3) and five (5) year annualized time periods.

## 11 BOARD OF TRUSTEES

12 The Board of Trustees is responsible for overseeing the investments assets of the Trust and for  
13 discharging its duties solely in the best interest of the Trust. These duties shall be discharged  
14 with the care, skill, prudence, and diligence under the circumstances then prevailing that a  
15 prudent man acting in a like capacity and familiar with such matters would use in the conduct of  
16 an enterprise of a like character and with like aims. In addition, the Board of Trustees will  
17 conduct a thorough review of any person or entity providing investment services to the Trust to  
18 avoid any potential conflict of interest situations.

## 19 FINANCE COMMITTEE

20 The Board of Trustees will act as the Finance Committee. The duties of the Finance Committee  
21 include, but are not limited to, the following:

- 22 1. Evaluating and selecting an investment consultant;  
23
- 24 2. Developing investment objectives and performance measurement standards which are  
25 consistent with the financial needs of the Trust and individual funds;

- 1 3. Periodically reviewing the policy guidelines, and if needed, making changes after  
2 consideration of the advice and recommendations of the investment consultant and  
3 others;  
4
- 5 4. Determining an asset allocation strategy and investment management structure  
6 designed to meet the Trust's investment objectives;  
7
- 8 5. Evaluating and selecting investment managers;  
9
- 10 6. Communicating investment objectives, portfolio guidelines, and performance  
11 standards to the investment managers;  
12
- 13 7. Holding biannual meetings for the review of performance reports and financial  
14 statements and informational conference calls as needed;  
15
- 16 8. Deploying existing assets and newly contributed funds to the investment managers;  
17
- 18 9. Reviewing and evaluating investment results in the context of predetermined  
19 performance standards;  
20
- 21 10. Ensuring that investment managers are in compliance with all portfolio guidelines  
22 and restrictions and that undo risk is not being undertaken to achieve objectives;  
23
- 24 11. Taking necessary corrective action when investment managers fail to achieve  
25 expected results; and  
26
- 27 12. Engage in RFP process for all contracted services every three (3) years.

## 28 CUSTODIAN

29 Subject to approval by the Board of Trustees, the Finance Committee is authorized to hire a  
30 custodian to safekeep the Trust's assets. The duties of the custodian include, but are not limited  
31 to, the following:

- 32 1. Providing all normal custodial functions including security safekeeping, collection of  
33 income, settlement of trades, collection of proceeds of maturing securities,  
34 distribution of income, and daily investment of uninvested cash;  
35
- 36 2. Providing reports detailing investment holdings and account transitions monthly and

1 an annual report summarizing the following to be submitted to the Finance  
2 Committee within forty-five (45) days following each fiscal year end;

3  
4 a. The reports will include the following:

- 5 1. Statement of all assets on hand;
- 6 2. Statement of all assets received representing contributions to the  
7 account; and
- 8 3. Statement of all sales, redemptions, maturities, and principal  
9 payments;

10  
11  
12 3. Establishing and maintaining directed account relationships with each investment  
13 manager; and

14  
15 4. Preparing accounting reports as requested.

## 16 INVESTMENT MANAGEMENT

17 The Board of Trustees is authorized to engage the services of investment managers, as defined  
18 under the Investment Advisors Act of 1940, and other investment professionals to provide the  
19 specialized management necessary to meet the Trust's investment objectives and guidelines.  
20 Accordingly, the Board of Trustees requires the investment managers to adhere to the "prudent  
21 man rule" under such ~~federal~~ or state laws<sup>1</sup> as may be applicable or which may be applicable in  
22 the future of the investment of Trust assets.

## 23 DELEGATION OF AUTHORITY

24 Investment managers retained by the Board of Trustees will be held responsible for making all  
25 investment decisions regarding the assets under their direction. Each investment manager will be  
26 provided with a copy of these investment policy objectives and guidelines. In addition, each  
27 manager will be provided with any additional specific goals and objectives that are applicable to  
28 the particular managed account that the manager is responsible for. Managers will be required to  
29 observe and operate within all guidelines specified by the Trust.

## 30 CAPITAL REQUIREMENTS

31 The Board of Trustees is directed to maintain an Operating Reserve balance which may be  
32 custodied in one or more accounts and must maintain a balance that is appropriate to meet the  
33 annual distribution needs of the Trust. Such funds may only be invested in insured money market  
34 instruments or in investments whose principal is guaranteed by the full faith and credit of the

1 United States Government or one of its agencies. Irrespective of the type of investment selected,  
 2 funds may not be invested in any security with a maturity greater than one (1) year. The Board of  
 3 Trustees is permitted to maintain all Trust funds in Operating Reserve investments until the Trust  
 4 fund balance reaches a level where it is both economically prudent and fiscally appropriate to  
 5 invest funds pursuant to paragraph 3 of this Section.

6  
 7 The Board of Trustees may establish an account or accounts whose balances are restricted to a  
 8 particular use or program. Such accounts may be invested according to the guidelines established  
 9 in this Investment policy Statement or restricted to more conservative allocations pursuant to the  
 10 timing of the need for the funds. Restricted fund balances may be expended at the direction of  
 11 the Board of Trustees so long as such direction is not in conflict with agreements or restrictions  
 12 attached to the receipt of such funds.

13  
 14 All remaining funds owned or controlled by the Board of Trustees shall be considered Capital  
 15 Reserves. At the end of each operating year, any and all reserves held in accounts designed as  
 16 Operating Reserves which are in excess of the required balance for the upcoming operating year  
 17 shall be reallocated to the Capital Reserves account or accounts. All funds held in Capital  
 18 Reserve accounts shall be invested pursuant to the guidelines established in this document  
 19 [policy](#).

## 20 INVESTMENT GUIDELINES

21 The Trust's investment policy objectives and guidelines will be reviewed and revised as needed  
 22 from time to time by the Finance Committee. In conducting the review, the committee will  
 23 consider applicable advice and recommendations of the Trust's staff, attorneys, accountants,  
 24 investment managers, consultants, or other professionals retained to render advice to the Trust.  
 25 All modifications shall be in writing and shall be approved by the Board of Trustees.

## 26 ASSET ALLOCATION

27 The Trust's investment philosophy is that assets should be allocated with the goal of producing  
 28 the highest total return consistent with prudent financial management. Unless otherwise specified  
 29 by individual fund objectives, this philosophy should be adhered to within the constraints  
 30 of the following asset allocation ranges:

31	<u>Maximum allocation</u>	<u>Minimum allocation</u>
32 Equity Investments	70%	35%
33 Fixed Income Investments	65%	20%
34 Cash & Equivalents	35%	0%

1	Alternative Investments – 40 Act Funds	15%	0%
2	Hedging Strategies		
3	Commodities ETF's		
4	Managed Futures Funds		

5 In cases where individual fund objectives require an exception to the above asset allocation  
6 ranges, written statements detailing the ~~policy~~ reasoning for each specific fund will be provided  
7 as supplements to this Investment Policy.

8 From time to time, the Finance Committee will determine specific asset allocation targets that it  
9 feels are best suited for accomplishing the above total return objective. These specific asset  
10 allocation targets will be communicated to individual investment managers in writing, and within  
11 a reasonable time frame, managers are expected to reallocate assets in order to comply with the  
12 target ranges established by the Committee. In the absence of specific asset allocation targets  
13 from the Trust, individual managers will have the direct responsibility for settling and  
14 maintaining an asset mix that they feel will best accomplish the Trust's total return objective. At  
15 all times and in all cases, ~~however,~~ the above maximum and minimum limits or ~~where~~  
16 ~~applicable,~~ specific individual fund maximum and minimum limits, where applicable, are to be  
17 adhered to.

## 18 **PROXY VOTING**

19 The Board of Trustees recognize that proxy voting is a fiduciary responsibility and require that  
20 proxies be voted based on those factors which would enhance the value of the Trust's  
21 investments. The Board of Trustees delegates their authority to vote proxies to the investment  
22 managers employed by the Trust and instruct the managers to maintain accurate voting records  
23 and to vote proxies for the exclusive benefit of the Trust.

## 24 **TYPES OF ASSETS**

25 In order to provide for adequate investment diversification across a broad range of assets, the  
26 following types of assets are approved for investment:

- 27 U.S. Common Stock
- 28 Non U.S. Common Stock
- 29 U.S. Preferred Stock
- 30 Non U.S. Preferred Stock
- 31 U.S. Government and Agency Securities
- 32 Non U.S. Government and Agency Securities

- 1 Corporate Bonds with a minimum BAA rating or the equivalent Municipal Debt
- 2 Convertible Securities
- 3 Commercial Paper
- 4 Money Market Funds
- 5 Mutual Funds (open and closed-end)
- 6 Exchange Traded Funds
- 7 Passive Index Funds
- 8 Commodities Exchange Traded Funds
- 9 1940 Act Alternative Funds – Hedging Strategies
- 10 1940 Act Managed Futures Funds
- 11 Certificate of Deposits

12 *Additional Criteria*

13 All fixed income and preferred stock issues ~~must~~ shall be investment grade and dollar  
14 denominated. Mutual fund investment ~~must~~ shall have investment objectives, rules, and  
15 regulations that are consistent with the Trust's Investment Policy. All assets selected for the  
16 Trust ~~must~~ shall have a readily ascertainable market value and ~~must~~ be readily marketable.

17 *Prohibited Investments*

18 Investment managers are prohibited from using the following assets and/or transactions:

- 19 Uncovered Options – Puts or Calls
- 20 Short Selling
- 21 Restricted Stock
- 22 Other Derivative Securities not specifically approved above

23 **CASH & CASH EQUIVALENTS**

24 All cash, wherever and whenever possible, should be invested in interest bearing instruments.  
25 These investments should have stable pricing and instant liquidity.

26 **INVESTMENT MARKETS – EQUITY SECURITIES**

27 In order to broaden the investment opportunities for the investment manager(s) to achieve ~~the~~  
28 specific objectives ~~set forth herein~~, the managers are permitted to invest in equity securities listed  
29 on the New York Stock Exchange, the American Stock Exchange, principal regional exchanges,  
30 and in over-the-counter securities for which there is a strong market providing ready liquidity of  
31 the specific security.

1 The Board of Trustees believes it is necessary and desirable that equity securities held by the  
2 Trust represent a diversified portfolio. In this regard, the Finance Committee and Investment  
3 Consultant will select and continue to monitor equity investment managers that have  
4 diversification and risk management strategies that are consistent with this focus.

## 5 **INVESTMENT MARKETS – FIXED INCOME SECURITIES**

6 In order to broaden the investment opportunities for the investment manager(s) to achieve ~~the~~  
7 specific objectives ~~set forth herein~~, the managers are permitted to invest in fixed income issues  
8 offered in both primary and secondary markets. Fixed income securities may include bonds,  
9 notes, and pass-through securities issued or guaranteed by the U.S. Government or its agencies,  
10 corporate bonds, notes, debentures, or asset-backed securities. Should the rating on a debt or  
11 preferred stock security purchased subsequently fall below the minimum BAA (or equivalent)  
12 rating, a sale of the issue shall be required except as warranted by investment considerations.

13 The Board of Trustees believes it is necessary and desirable that fixed income securities held by  
14 the Trust represent a diversified portfolio. In this regard, the Finance Committee and Investment  
15 Consultant will select and continue to monitor fixed income investment managers that have  
16 diversification and risk management strategies that are consistent with this focus.

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### Legal References

1. TCA 35-14-101 *et seq.*

# TSBA OPEB Trust

Descriptor Term:  <b>Reimbursement for Trustees</b>	Descriptor Code:  <b>3080</b>	Revised:  <b>02/17/20</b>
	Rescinds:  <b>3080</b>	Previous Issued:  <b>02/20/17</b>

- 1 Trustees shall be reimbursed for expenses incurred in attending Trust meetings and any special
- 2 meetings called by the Trust Chairman in accordance with Trust travel regulations.
- 3 **EXPENSES OF TRUSTEES**
- 4 ~~No~~ Trustees shall ~~receive any salary~~ serve without compensation ~~for services~~ from the Trust.
- 5 Any Trustee or other officer of the Trust may submit to the Trust for approval and be reimbursed
- 6 for expenses incurred in the pursuit of his/her position. Reimbursement for such expenses shall
- 7 be in accordance with ~~procedures and~~ policies established by the Board of Trustees.

# TSBA OPEB Trust

Descriptor Term:  <b>Conflict of Interest</b>	Descriptor Code:  <b>3090</b>	Revised:  <b>11/16/09</b>
	Rescinds:	Previous Issued:

- 1 In addition to a duty imposed by any state and federal laws governing conflict of interest
- 2 applicable to nonprofit and charitable organizations, ~~no~~ Trustees, officers, ~~director, or committee~~
- 3 ~~member~~ employees, or agents shall not benefit, either directly or indirectly, from his/her position
- 4 with the TSBA OPEB Trust, unless the interest is disclosed and a majority of disinterested ~~board~~
- 5 ~~members~~ Trustees present at the meeting determine that the transaction is in the best interest of
- 6 the Trust.

# TSBA OPEB Trust

Descriptor Term:  <b>Sensitive Information</b>	Descriptor Code:  <b>4000</b>	Revised:  <b>09/28/12</b>
	Rescinds:  <b>4000</b>	Previous Issued:  <b>11/16/09</b>

1 The TSBA OPEB Trust shall maintain the confidentiality of the personal information of its  
2 member systems consistent with ~~the Tennessee Open Records Law~~ state law.<sup>1</sup> Any other use,  
3 misuse, or breach of said information is strictly prohibited ~~and may subject the employee to~~  
4 ~~possible civil or criminal action as well as disciplinary action up to and including termination of~~  
5 ~~employment.~~

6 Personal information includes, but is not limited to:

- 7 • Credit card information;
- 8 • Social security number;
- 9 • Tax identification number;
- 10 • Medical information;
- 11 • Date of birth;
- 12 • Address;
- 13 • Phone numbers;
- 14 • Proprietary information or trade secrets; and
- 15 • Any other information designated as confidential, sensitive, or private.

16 When in doubt as to the status of specific information, ~~employees~~ Trustees should consult ~~their~~  
17 ~~supervisor or TSBA General Counsel~~ the Trust attorney for guidance.

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## Legal References

1. TCA 10-7-504



**TSBA OPEB Trust**

**Communication with  
Board of Trustees**

**September 29, 2020**





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September 29, 2020

To the Board of Trustees  
of the TSBA OPEB Trust

Dear Trustees:

We are pleased to present our Report to the Board of Trustees on the results of our audit of the financial statements of the TSBA OPEB Trust (the "Trust") for the year ended June 30, 2020.

A direct line of communication between our Firm and the Board of Trustees is essential to the proper exercise of our respective responsibilities. Our appointment involves the responsibility on our part to call to your attention any significant matters which we believe require your consideration, either at a regularly scheduled meeting or on a more timely basis, if warranted.

The accompanying report is intended solely for the use of the Board of Trustees and Trust management, and is not intended to be or should not be used by anyone other than these specified parties. It also presents information regarding our audit and certain other information which we believe will be of assistance to you. We appreciate this opportunity to discuss the contents of this report with you and any other matters you wish to address.

We would like to take this opportunity to express our appreciation for the assistance and courtesy extended to us by your employees. We appreciate working with you, and we look forward to a continued relationship with the TSBA OPEB Trust.

Very truly yours,

CROSSLIN, PLLC

A handwritten signature in black ink that reads "Erica D. Saeger". The signature is written in a cursive, flowing style.

Erica D. Saeger  
Audit Principal



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## ***Report on Results of the June 30, 2020 Audit***

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We have audited the financial statements of the TSBA OPEB Trust (the “Trust”) as of and for the year ended June 30, 2020, and we have issued an unmodified opinion dated September 29, 2020.

The following discussion contains information related to our audit that is required by professional standards and certain other information which will be of assistance to you.

---

### ***Our Responsibilities under U.S. Generally Accepted Auditing Standards and Government Auditing Standards***

---

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements, prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Trust. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

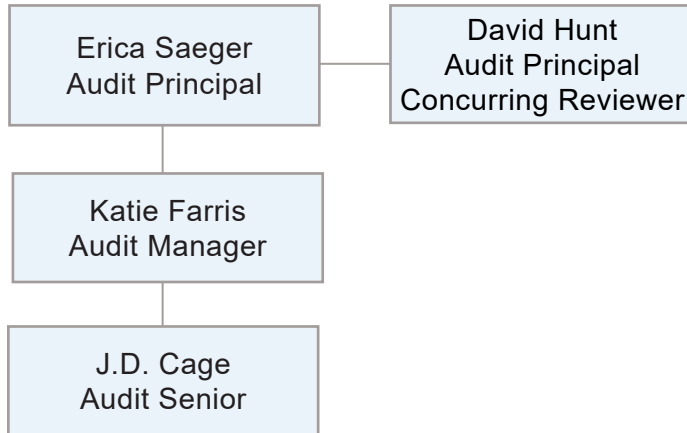
As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement and in conformity with *Government Auditing Standards*, we performed tests of the Trust’s compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.



---

## **Customer Service Team**

---



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## **Areas of Audit Significance**

---

During the audit, we focused on the following account balances and related transaction streams:

- Investments
- Investment income and expenses
- Employer contributions
- Financial reporting

---

## **Planned Scope and Timing of the Audit**

---

We performed the audit according to the planned scope and timing previously communicated to you.

---

## **Significant Accounting Policies**

---

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Trust is included in Note B to the financial statements. There have been no material changes in significant accounting policies or their application during fiscal year 2020. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. We believe the Trust's accounting policies are appropriate and comprehensive under accounting principles generally accepted in the United States of America.



---

## ***Accounting Estimates***

---

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were management's estimate of the fair value of investments. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

---

## ***Difficulties Encountered in Performing the Audit***

---

We encountered no significant difficulties with management in performing and completing our audit.

---

## ***Corrected and Uncorrected Misstatements***

---

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were two significant adjusting entries and two reclass entries made during the course of the audit. The entries are as follows:

- An adjusting entry to record the effect of a prior year audit adjustment that had not been recorded.
- An adjusting entry to create a due to/due from other plans balance to correct a contribution that was erroneously deposited by Morgan Stanley into the Collierville Schools Plan instead of the Arlington Community Schools Plan.
- Two reclassifying entries related to interest and dividends and unrealized gains to match the June 2020 settlement dates.

Additionally, there were no unrecorded entries.

---

## ***Disagreements with Management***

---

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during the course of our audits.



---

## ***Management Representations***

---

We requested certain representations from management that are included in the management representation letter. This letter has been included for informational purposes as Appendix A.

---

## ***Management Letter***

---

During the course of our audit, we remain aware for areas of improvement in internal control or areas where the Trust could improve controls or operations. The observation noted and our corresponding recommendation and benefit are included in the management letter as Appendix B.

---

## ***Fraud and Illegal Acts***

---

We did not identify any material fraudulent or illegal acts during the course of our audit, nor were any disclosed to us by management or the Board.

---

## ***Management Consultations with Other Independent Accountants***

---

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion.” If a consultation involves application of an accounting principle to the entity’s financial statements or a determination of the type of auditors’ opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

---

## ***Issues Discussed Prior to Our Selection as Independent Auditors***

---

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Trust’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.



---

## *Independence*

---

We are not aware of any relationships between Crosslin, PLLC, and the Trust that, in our professional judgment, may reasonably be thought to bear on our independence that have occurred during the period from July 1, 2019, through the date of this letter.

We confirm that we are independent with respect to the Trust within the meaning of Rule 101 of the Code of Professional Conduct of the American Institute of Certified Public Accountants and under *Government Audit Standards*.

---

## *Changes in Auditing and Accounting Standards*

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The government and standard-setting bodies are issuing guidance at an unprecedented pace. Crosslin, PLLC is constantly receiving, reviewing, and searching for the latest authoritative literature, in part through its involvement with the AICPA's Government Audit Quality Center and the Government Finance Officers Association ("GFOA"), including GFOA's Special Review Committee. We routinely interface with our customers to ensure proper understanding and application of pronouncements, standards, interpretations, and addenda that arise. In addition, we expect to join the Trust personnel in relevant discussions to implement all new standards as they arise.

Recent accounting pronouncements including the following. We will analyze these Statements with Trust management to ensure appropriate implementation, as applicable.

- **GASB Statement No. 84, Fiduciary Activities**  
Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.
- **GASB Statement No. 87, Leases**  
Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.
- **GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period**  
Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.
- **GASB Statement No. 90, Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61**  
Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.
- **GASB Statement No. 91, Conduit Debt Obligations**  
Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.



---

## *Changes in Auditing and Accounting Standards - Continued*

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- **The GASB issued Statement No. 92, Omnibus 2020**, which is effective as follows:
  - The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.
  - The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2020.
  - The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021.
  - The requirements related to the measurement of liabilities (and assets, if any) associated with asset retirement obligations in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021.
- **GASB Statement No. 93, Replacement of Interbank Offered Rates** Effective Date: The requirements of this Statement, except for paragraphs 11b, 13, and 14 are effective for reporting periods beginning after June 15, 2020. The requirement in paragraph 11b is effective for reporting periods ending after December 31, 2021. The requirements in paragraphs 13 and 14 are effective for fiscal years periods beginning after June 15, 2021, and all reporting periods thereafter. Earlier application is encouraged.
- **GASB Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements** Effective Date: The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- **GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance** Effective Date: The requirements of this Statement are effective immediately.
- **GASB Statement No. 96, Subscription-Based Information Technology Arrangements** Effective Date: The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.



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## ***Changes in Auditing and Accounting Standards***

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- **GASB Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32** Effective Date: The requirements of this Statement are effective as follows:
  - The requirements in (1) paragraph 4 of this Statement as it applies to defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans and (2) paragraph 5 of this Statement are effective immediately.
  - Paragraphs 6–9 of this Statement and the supersession of the remaining requirements of Statement 32 (as detailed in paragraph 3 of this Statement).
  - Questions 4.3 and 4.5 of Implementation Guide 2019-2, as amended, are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged if Statement 84, as amended, has been implemented.



September 29, 2020

Crosslin, PLLC  
The Astoria  
3803 Bedford Avenue, Suite 103  
Nashville, TN 37215

This representation letter is provided in connection with your audit of the financial statements of the TSBA OPEB Trust (the "Trust"), which comprise the statement of net position as of June 30, 2020, and the respective statement of changes in net position for the year then ended, and the disclosures (collectively, the "financial statements"), for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of September 29, 2020, the following representations made to you during your audit.

#### **Financial Statements**

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated February 1, 2019, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the required supplementary information and other information in accordance with the applicable criteria.
- 2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP.
- 3) We acknowledge our responsibility 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.
- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 5) Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
- 6) Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.

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525 BRICK CHURCH PARK DRIVE • NASHVILLE, TN 37207 • TELEPHONE (615) 815-3900 • (800) 448-6465 • FAX (615) 815-3911

[www.tsba.net](http://www.tsba.net)

*Assisting school boards in effectively governing school districts*

- 7) No events, except as made known to you, including instances of noncompliance, have occurred subsequent to the date of the statement of net position and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.
- 8) We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements, and we have not consulted external counsel for any material litigation, claims, or assessments through the date of this letter.
- 9) Guarantees, whether written or oral, under which the Trust is contingently liable, if any, have been properly recorded or disclosed.

**Information Provided**

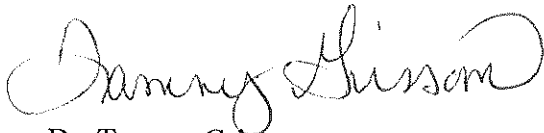
- 10) We have provided you with:
  - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
  - b) Additional information that you have requested from us for the purpose of the audit.
  - c) Unrestricted access to persons within the Trust from whom you determined it necessary to obtain audit evidence.
  - d) Minutes of the meetings of the Board of Trustees or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 11) All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- 12) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 13) We have no knowledge of any fraud or suspected fraud that affects the Trust and involves:
  - Management,
  - Employees who have significant roles in internal control, or
  - Others where the fraud could have a material effect on the financial statements.
- 14) We have no knowledge of any allegations of fraud or suspected fraud affecting the Trust's financial statements communicated by employees, former employees, regulators, or others.
- 15) We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
- 16) We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements, and we have not consulted external counsel for any material litigation, claims, or assessments through the date of this letter.
- 17) We have disclosed to you the names of the Trust's related parties and all the related party relationships and transactions, including any side agreements.

## **Government-specific**

- 18) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 19) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 20) The Trust has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or net position.
- 21) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts, and legal and contractual provisions for reporting specific activities in separate funds.
- 22) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
- 23) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- 24) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
- 25) There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
- 26) As part of your audit, you assisted with preparation of the financial statements and disclosures. We acknowledge our responsibility as it relates to those nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements and disclosures.
- 27) The Trust has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 28) The Trust has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 29) The financial statements properly disclose all joint ventures and other related organizations, if any.
- 30) Components of net position (restricted for other postemployment benefits) are properly classified and, if applicable, approved.
- 31) Investments are properly valued.
- 32) Expenses have been appropriately classified in the statement of changes in net position.
- 33) Revenues are appropriately classified in the statement of changes in net position.

- 34) Interfund balances have been appropriately classified and reported.
- 35) Deposits and investment securities are properly classified as to risk and are properly disclosed.
- 36) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
- 37) We have obtained a copy of the relevant SSAE 18 SOC 1 report that covers the year under audit, related to significant processes and transactions that have been outsourced to those service organizations. In connection with the SSAE 18 SOC 1 report, we have read the report, evaluated the impact of the exceptions to relevant tests, identified the complementary controls listed under the user controls section of the report, and have determined that those user controls have been designed appropriately and have been implemented.

Very truly yours,

A handwritten signature in cursive script that reads "Tammy Grissom". The signature is written in black ink and is positioned above the printed name.

Dr. Tammy Grissom

Trust Administrator



To the Board of Trustees  
TSBA OPEB Trust  
Nashville, Tennessee

In planning and performing our audit of the financial statements of the TSBA OPEB Trust (the “Trust”) as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the Trust’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the Trust’s internal control. Accordingly, we do not express an opinion on the effectiveness of the 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

During our audit, we identified certain matters involving internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated September 29, 2020 on the financial statements of the Trust. We will review the status of these comments during our next audit engagement. Our comments and recommendations are intended to improve internal controls or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:



## CONTRIBUTIONS

### Observation

During our audit, we noted that a contribution to the Arlington Community Schools Plan was erroneously deposited into the Collierville Schools Plan investment account by Morgan Stanley, the investment custodian. After we notified management of the error, they promptly contacted Morgan Stanley and action was taken to correct the error.

### Recommendation and Benefit

We recommend that management's process for review of the monthly investment statements be updated to specifically include procedures to verify that contributions received are posted to the appropriate investment account. This will help ensure that each member system's investments are properly stated and that investment earnings and administrative fees are properly calculated and applied to the proper investment accounts.

### Management's Response

The TSBA Trust Administrator has spoken with the Morgan Stanley representative and they are going to set TSBA up to verify and review our accounts online and are going to begin forwarding a receipt for checks received along with pertinent deposit/account information. In addition, the TSBA Director of Finance will also maintain a spreadsheet for all contributions received from the member systems of the OPEB Trust as a check and balance to what Morgan Stanley shows on a quarterly basis.

\* \* \* \* \*

Management's responses to the observations and recommendations identified in our audit were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, the board of trustees, and others within the Trust, and is not intended to be and should not be used by anyone other than these specified parties.

*Crosslin, PLLC*

Nashville, Tennessee  
September 29, 2020



**TSBA OPEB TRUST**  
**AUDITED FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

TSBA OPEB TRUST

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## **TSBA OPEB TRUST**

### **LETTER OF INTRODUCTION**

The TSBA OPEB Trust (the “Trust”) is pleased to present its Annual Financial Report for the year ended June 30, 2020.

#### **Responsibility and Controls**

The Trust is responsible for the financial statements and related information included in this report. A system of internal accounting controls is maintained to provide reasonable assurance that assets are safeguarded and that the books and records reflect only authorized transactions. Limitations exist in any system of internal controls. However, based on recognition that the cost of the system should not exceed its benefits, management believes its system of internal accounting controls maintains an appropriate cost/benefit relationship.

Management believes that its policies and procedures provide guidance and reasonable assurance that the Trust’s operations are conducted according to management’s intentions and to a high standard of business ethics. In management’s opinion, the financial statements present fairly, in all material respects, the net position of the Trust as of June 30, 2020, and the changes in its net position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

#### **Audit Assurance**

The unmodified opinion of our independent external auditors, Crosslin, PLLC, is included in this report.

**TSBA OPEB TRUST  
BOARD OF TRUSTEES**

Mark Hansen, Chairman

Tammy Grissom, Trust Administrator

Mark Clark

Dale Viox

Scott McCormick

Jim Campbell

Kevin Long



## Independent Auditor's Report

Board of Trustees  
TSBA OPEB Trust  
Nashville, Tennessee

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the TSBA OPEB Trust (the "Trust") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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



### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust as of June 30, 2020, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 8 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*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Trust's basic financial statements. The introductory section as required by the State of Tennessee, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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



### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2020, on our consideration of the 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 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 Trust's internal control over financial reporting and compliance.

*Crosslin, PLLC*

Nashville, Tennessee  
September 29, 2020

TSBA OPEB TRUST  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Management offers the following discussion and analysis as a narrative introduction to the basic financial statements and an analytical overview of the Trust's financial activities for the fiscal year ended June 30, 2020. This narrative is intended as a supplement and should be read in conjunction with the financial statements.

***Overview of the Financial Statements***

The Trust's financial statements include the following components:

- Statement of Net Position
- Statement of Changes in Net Position
- Notes to Financial Statements

The *Statement of Net Position* presents the Trust's assets, liabilities, and the resulting net position, which are held in trust for the other postemployment benefits of contributing members. This statement reflects a year-end snapshot of the Trust's investments, at fair value, along with cash.

The *Statement of Changes in Net Position* presents information showing how the Trust's net position held in trust for other postemployment benefits changed during the period. This statement includes additions for contributions by employers and investment earnings and deductions for administrative expenses.

The *Notes to Financial Statements* are an integral part of the financial statements and provide additional information that is necessary in order to gain a comprehensive understanding of data reported in the financial statements.

***Financial Highlights***

- Net position is restricted for future benefit payments of participating members. Net position at June 30, 2020 totaled approximately \$102.2 million.
- Employer contributions comprised approximately \$6.4 million of the net increase in net position of approximately \$9.8 million during the year.

***Condensed Financial Information***

In order to ensure the participating employers' ability to properly fund the payment of other postemployment benefits to their employees in future years, it is advisable for employers to accumulate funds on a regular and systematic basis. The principal sources from which the Trust derives additions are employer contributions and earnings on investments.

TSBA OPEB TRUST  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Comparative summary financial statements of the Trust are presented as follows:

**NET POSITION  
JUNE 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
Cash	\$ 5,652	\$ 505,651
Due to	200,000	-
Investments	<u>102,218,950</u>	<u>91,889,269</u>
Total assets	<u>102,424,602</u>	<u>92,394,920</u>
<b>LIABILITIES</b>		
Due from	<u>200,000</u>	<u>-</u>
Total liabilities	<u>200,000</u>	<u>-</u>
<b>NET POSITION RESTRICTED FOR OPEB</b>	<u>\$102,224,602</u>	<u>\$92,394,920</u>

**CHANGES IN NET POSITION  
YEARS ENDED JUNE 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<b>ADDITIONS</b>		
Employer contributions	\$ 6,441,354	\$ 6,686,354
Net investment return	<u>3,545,167</u>	<u>3,605,710</u>
Total additions	<u>9,986,521</u>	<u>10,292,064</u>
<b>DEDUCTIONS</b>		
Administrative expenses	<u>156,839</u>	<u>145,996</u>
Total deductions	<u>156,839</u>	<u>145,996</u>
<b>NET CHANGE</b>	<u>9,829,682</u>	<u>10,146,068</u>
<b>NET POSITION RESTRICTED FOR OPEB</b>		
Beginning of year	<u>92,394,920</u>	<u>82,248,852</u>
End of year	<u>\$102,224,602</u>	<u>\$92,394,920</u>

TSBA OPEB TRUST  
MANAGEMENT'S DISCUSSION AND ANALYSIS

***Analysis of Financial Position and Results of Operations***

The Trust's net position was approximately \$102.2 million at June 30, 2020. During fiscal year 2020, contributions were made to seven of the nine active participant accounts.

Current Trust participants and the fiscal year in which they joined the Trust are as follows:

Hickman County Board of Education (Active)	2008 - 2009
Johnson County Board of Education (Active)	2008 - 2009
Shelby County Board of Education (Active)	2008 - 2009
Claiborne County Board of Education (Non-active)	2009 - 2010
Jackson/Madison County Board of Education (Active)	2012 - 2013
Arlington Community Schools Board of Education (Active)	2014 - 2015
Bartlett City Schools Board of Education (Active)	2014 - 2015
Collierville Schools Board of Education (Active)	2014 - 2015
Lakeland City Board of Education (Active)	2014 - 2015
Millington Municipal Schools Board of Education (Active)	2015 - 2016

***Requests for Information***

This financial report is designed to provide a general overview of the Trust's finances. If you have any questions concerning any of the information provided in this report or would like to request additional financial information, contact the Tennessee School Boards Association's Finance Department at 525 Brick Church Park Drive, Nashville, Tennessee 37207.

TSBA OPEB TRUST  
STATEMENT OF NET POSITION  
JUNE 30, 2020

	Arlington Community Schools Plan	Bartlett City Schools Plan	Collierville Schools Plan	Hickman County Schools Plan	Jackson- Madison Schools Plan	Johnson County Schools Plan	Lakeland Schools System Plan	Millington Municipal Schools Plan	Shelby County Schools Plan	TSBA OPEB Trust Account	Total
<b>ASSETS</b>											
Cash	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,652	\$ 5,652
Due from other Plans	200,000	-	-	-	-	-	-	-	-	-	200,000
Investments, at fair value	2,597,388	3,463,856	1,730,950	2,254,414	395,213	1,088,410	1,593,322	303,648	88,791,749	-	102,218,950
<b>Total assets</b>	<b>2,797,388</b>	<b>3,463,856</b>	<b>1,730,950</b>	<b>2,254,414</b>	<b>395,213</b>	<b>1,088,410</b>	<b>1,593,322</b>	<b>303,648</b>	<b>88,791,749</b>	<b>5,652</b>	<b>102,424,602</b>
<b>LIABILITIES</b>											
Due to other Plans	-	-	200,000	-	-	-	-	-	-	-	200,000
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>200,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>200,000</b>
<b>NET POSITION</b>											
<b>RESTRICTED FOR OTHER POSTEMPLOYMENT BENEFITS</b>	<b>\$ 2,797,388</b>	<b>\$ 3,463,856</b>	<b>\$ 1,530,950</b>	<b>\$ 2,254,414</b>	<b>\$ 395,213</b>	<b>\$ 1,088,410</b>	<b>\$ 1,593,322</b>	<b>\$ 303,648</b>	<b>\$ 88,791,749</b>	<b>\$ 5,652</b>	<b>\$ 102,224,602</b>

See accompanying notes to financial statements.

TSBA OPEB TRUST  
STATEMENT OF CHANGES IN NET POSITION  
YEAR ENDED JUNE 30, 2020

	Arlington Community Schools Plan	Bartlett City Schools Plan	Collierville Schools Plan	Hickman County Schools Plan	Jackson- Madison Schools Plan	Johnson County Schools Plan	Lakeland Schools System Plan	Millington Municipal Schools Plan	Shelby County Schools Plan	TSBA OPEB Trust Account	Total
<b>ADDITIONS</b>											
Employer contributions	\$ 200,000	\$ 500,000	\$ 125,000	\$ -	\$ 25,000	\$ 25,000	\$ 475,000	\$ -	\$ 5,091,354	\$ -	\$ 6,441,354
Net investment return:											
Net appreciation (depreciation)											
fair value of investments	3,820	(3,287)	(616)	1,825	940	776	(14,292)	338	381,731	-	371,235
Interest and dividends	90,483	103,232	49,592	78,290	13,735	37,622	43,809	10,543	2,909,899	1	3,337,206
Less investment expenses	(4,413)	(5,037)	(2,385)	(3,818)	(663)	(1,842)	(2,339)	(514)	(142,263)	-	(163,274)
Net investment return	89,890	94,908	46,591	76,297	14,012	36,556	27,178	10,367	3,149,367	1	3,545,167
Total additions, net	289,890	594,908	171,591	76,297	39,012	61,556	502,178	10,367	8,240,721	1	9,986,521
<b>DEDUCTIONS</b>											
Administrative expenses	6,217	6,793	3,369	5,398	931	2,592	3,255	727	127,557	-	156,839
Total deductions	6,217	6,793	3,369	5,398	931	2,592	3,255	727	127,557	-	156,839
NET INCREASE IN NET POSITION	283,673	588,115	168,222	70,899	38,081	58,964	498,923	9,640	8,113,164	1	9,829,682
<b>NET POSITION RESTRICTED FOR OTHER POSTEMPLOYMENT BENEFITS:</b>											
BEGINNING OF YEAR	2,513,715	2,875,741	1,362,728	2,183,515	357,132	1,029,446	1,094,399	294,008	80,678,585	5,651	92,394,920
END OF YEAR	\$ 2,797,388	\$ 3,463,856	\$ 1,530,950	\$ 2,254,414	\$ 395,213	\$ 1,088,410	\$ 1,593,322	\$ 303,648	\$ 88,791,749	\$ 5,652	\$ 102,224,602

See accompanying notes to financial statements.

TSBA OPEB TRUST  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020

A. DESCRIPTION OF THE TRUST

The TSBA GASB 45 Trust was established on April 16, 2009 pursuant to the provisions of the Tennessee Interlocal Cooperation Act (Tenn. Code Ann. § 12-9-101, et seq.) and the policies and bylaws from time to time promulgated by the Board of Trustees (the “Board”). Effective February 15, 2016, the name of the Trust was changed to the TSBA OPEB Trust (the “Trust”). Membership in the Trust shall be open to all members of the Tennessee School Boards Association. Non-members and other governmental entities will be considered by the Trustees on a case by case basis. The purpose of the Trust is to establish a fund through the Trust, which will allow members to pre-fund the liability associated with other postemployment benefits other than pensions. The Trust is not a component unit of another governmental entity.

The Trust’s Board of Trustees has fiduciary responsibility for the investment of monies and administration of the Trust pursuant to the Trust Agreement. The Board of Trustees is currently composed of seven members. Five of the Trustees are appointed from the governing boards of the participating members of the Trust for three-year terms and they may be reappointed. Additionally, the Executive Director and President of the Tennessee School Boards Association (“TSBA”) are ex-officio members of the Board of Trustees. All seven Trustees are voting members.

For the year ended June 30, 2020, the Trust administered Plan assets for nine defined benefit postemployment plans - Arlington Community Schools Plan, Bartlett City Schools Plan, Collierville Schools Plan, Hickman County Schools Plan, Jackson-Madison Schools Plan, Johnson County Schools Plan, Lakeland Schools Systems Plan, Millington Municipal Schools Plan, and Shelby County Schools Plan, (collectively the “Plans”). Although the assets of the Plans are commingled for investment purposes, each of the Plan’s assets are held in an irrevocable trust and may be used only for the payment of benefits to the members of the respective Plan in accordance with the terms of the Plans. The TSBA OPEB Trust Account reflects the activity related to the administration of the Trust.

The Trust does not purport to present the financial status of each of the participating employer’s postemployment benefit plans, nor do these statements contain information on accumulated plan benefits and other disclosures necessary for a fair presentation of the individual plans in accordance with accounting principles generally accepted in the United States of America.

TSBA OPEB TRUST  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting

The financial statements of the Trust are presented as a fiduciary fund type. The economic resources measurement focus and the accrual basis of accounting are used in the preparation of the financial statements. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each employer's Plan.

Investments

Investments are reported at fair value. Net investment return consists of realized and unrealized appreciation in the fair value of investments, interest and dividends earned, and investment expenses. In order to account for each participating member's activities, separate accounts are maintained by the Trust.

Fair Value of Financial Instruments

Assets and liabilities recorded at fair value in the statement of financial position are categorized based on the level of judgment associated with the inputs used to measure their fair value. Level inputs, are as follows:

Level 1 - Values are unadjusted quoted prices for identical assets in active markets accessible at the measurement date.

Level 2 - Inputs include quoted prices for similar assets in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

The Trust's financial instruments consist of cash and investments. Cash is recorded at fair value using Level 1 inputs. Investments are recorded at fair value using Level 1 and Level 3 inputs. See Note D.

Administrative Expenses

Each Plan is responsible for its administrative expenses.

TSBA OPEB TRUST  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Taxes

The Trust is exempt from taxation under Section 115 of the Internal Revenue Code. Accordingly, the accompanying financial statements do not include a provision for federal or state income taxes.

Use of Estimates

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

C. INVESTMENTS

The Trust's investments, at June 30, 2020, consist of the following:

	<u>Fair Value/ Carrying Amount</u>	<u>Cost</u>
Cash and cash equivalents	\$ 7,754,836	\$ 7,754,836
Exchange-traded and closed-end funds	22,883,513	20,929,077
Mutual funds	65,722,639	63,810,675
Structured investments	<u>5,857,962</u>	<u>5,953,000</u>
Total	<u>\$102,218,950</u>	<u>\$98,447,588</u>

TSBA OPEB TRUST  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020

D. FAIR VALUE MEASUREMENTS

The Trust categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Trust has the following recurring fair value measurements as of June 30, 2020:

	Measured at Fair Value	Fair Value Measurements at Reporting Date Using		
		<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Investments:				
Cash and cash equivalents	\$ 7,754,836	\$ 7,754,836	\$ -	\$ -
Exchange-traded and closed-end funds	22,883,513	22,883,513	-	-
Mutual funds	65,722,639	65,722,639	-	-
Structured investments	<u>5,857,962</u>	<u>-</u>	<u>-</u>	<u>5,857,962</u>
	<u>\$102,218,950</u>	<u>\$96,360,988</u>	<u>\$ -</u>	<u>\$5,857,962</u>

In determining fair value, the Trust uses various valuation approaches. The following is a description of the valuation methodologies used for instruments measured at fair value and their classification within the valuation hierarchy:

Cash and Cash Equivalents

Cash and cash equivalents are in active markets and classified within Level 1 of the valuation hierarchy.

Exchange-Traded and Closed-End Funds

Investments in exchange-traded and closed-end funds represent securities which are traded on national markets or exchanges. These investments are classified within Level 1 of the valuation hierarchy.

Mutual Funds

Investments in mutual funds represent fixed income mutual funds which are listed on national markets or exchanges. These investments are classified within Level 1 of the valuation hierarchy.

Structured Investments

Structured investments may be linked to a wide variety of underlying asset classes including equities, interest rates, commodities, and currencies. Each underlying asset will have its own unique set of risks and uncertainties. These structured investments are valued by the custodian using a proprietary pricing model and are classified within Level 3 of the valuation hierarchy.

TSBA OPEB TRUST  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020

E. RISKS AND UNCERTAINTIES

The Trust's investments include various types of investment funds, which in turn invest in any combination of stock, bonds and other investments exposed to various risks, such as interest rate, credit, and market risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Trust's financial statements.

F. RELATED PARTY TRANSACTIONS

The Trust is administered by the Tennessee School Boards Association ("TSBA"). TSBA receives a quarterly administrative fee calculated individually for each participant on a sliding scale as a percentage of invested assets. The fee covers all administrative costs including personnel, office expense, legal, accounting, and promotion. The quarterly administrative fee during fiscal year 2020 totaled \$156,839.

G. DUE TO/FROM OTHER PLANS

On June 3, 2020, a \$200,000 contribution to the Arlington Community Schools Plan was erroneously deposited into the Collierville Schools Plan investment account by the investment custodian. As of June 30, 2020, the error had not been corrected. Accordingly, the \$200,000 is presented as a due from Collierville Schools Plan and due to Arlington Community Schools Plan in the statement of net position as of June 30, 2020.

On August 5, 2020, the investment custodian corrected the deposit amount and subsequent investment purchases in the investment accounts for the Arlington Community Schools Plan and Collierville Schools Plan.

H. COVID-19 PANDEMIC

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus (the "COVID-19 outbreak"). In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. This pandemic has adversely affected global economic activity and greatly contributed to significant deterioration and instability in financial markets. Because the values of the Trust's investments have and will fluctuate in response to changing market conditions, the amount of losses that will be recognized in subsequent periods, if any, and related impact on the Trust's liquidity cannot be determined at this time.

TSBA OPEB TRUST  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020

H. COVID-19 PANDEMIC - Continued

While expected to be temporary, the Trust cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time. If the pandemic continues, it may have an adverse effect on the Trust's fair value of investments in fiscal year 2021.

I. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 29, 2020, the date the financial statements were available for issuance, and has determined there were no subsequent events requiring disclosure, except as discussed in Note G.



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

Board of Trustees  
TSBA OPEB Trust  
Nashville, 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 TSBA OPEB Trust (the "Trust") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements, as listed in the table of contents, and have issued our report thereon dated September 29, 2020.

### **Internal Control Over Financial Reporting**

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

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

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



## **Compliance and Other Matters**

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

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 Trust's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Crosslin, PLLC*

Nashville, Tennessee  
September 29, 2020

TSBA OPEB TRUST  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2020

The Trust had no prior audit findings.

## Performance Review - October 2020

Prepared on October 19, 2020 for:  
**TSBA OPEB TRUST**

TAMMY GRISSOM TTEE  
TSBA OPEB TRUST U/T/A DTD  
11/05/2012  
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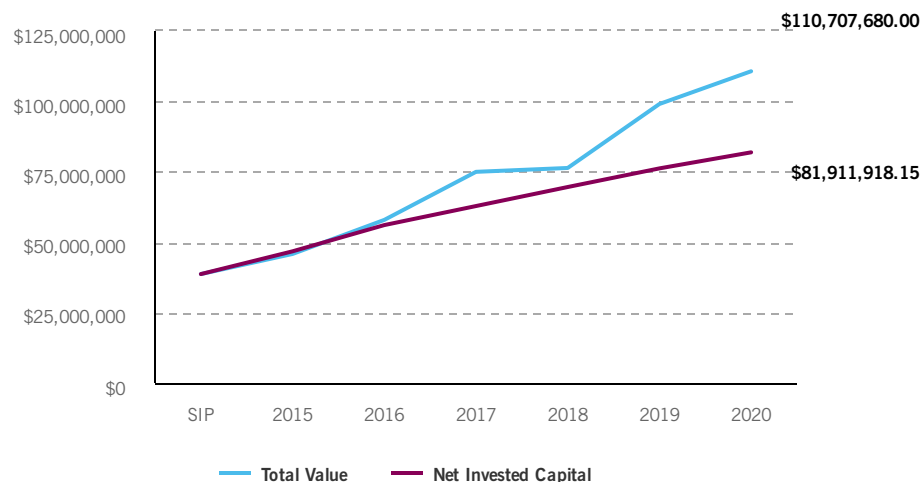
3102 WEST END AVE STE 200  
NASHVILLE, TN 37203

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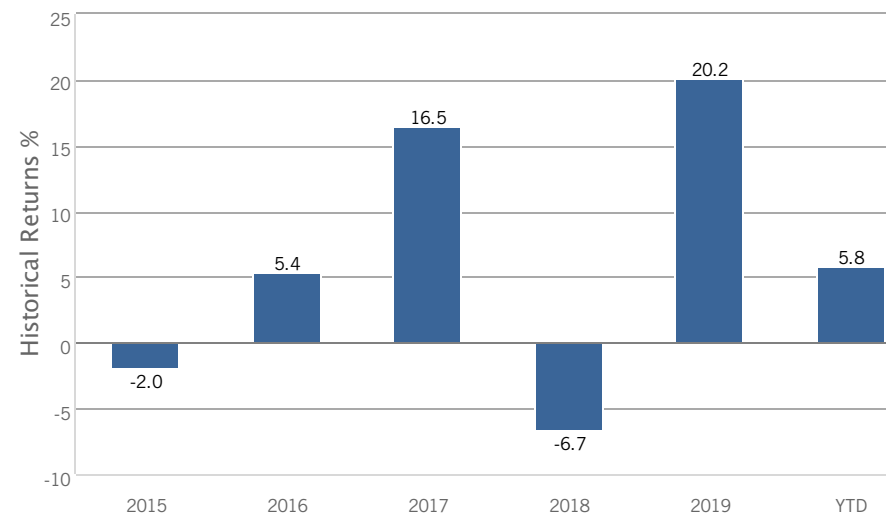
Please review the disclosures and definitions throughout this Document.  
 Various sub-sections of this Document may not contain information on all accounts/positions covered in this Document.

## TOTAL VALUE VS. NET INVESTED CAPITAL



Does not include Performance Ineligible Assets.

## DOLLAR-WEIGHTED PERIOD RETURN % (NET OF FEES)

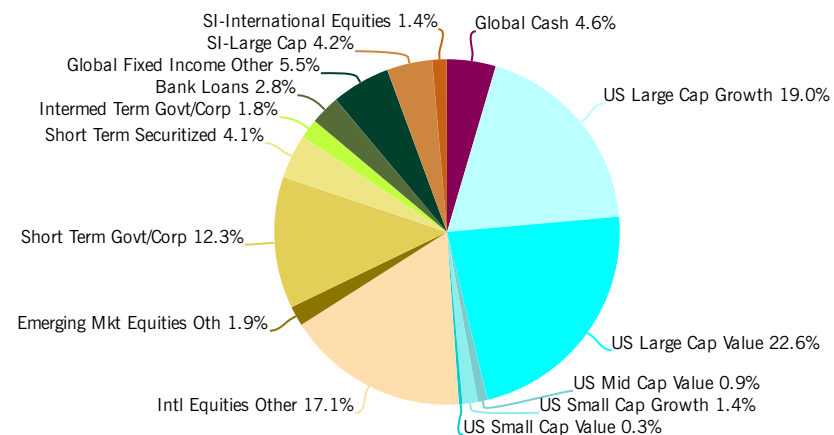


Does not include Performance Ineligible Assets.

## DOLLAR-WEIGHTED RETURN % (NET OF FEES)

	Quarter to Date (\$) 09/30/20-10/16/20	Year to Date (\$) 12/31/19-10/16/20	Performance Inception (\$) 06/09/15-10/16/20
<b>Beginning Total Value</b>	<b>108,017,888</b>	<b>99,077,485</b>	<b>38,680,482</b>
Net Contributions/Withdrawals	-42,426	5,701,586	43,231,436
Investment Earnings	2,732,218	5,928,609	28,795,762
<b>Ending Total Value</b>	<b>110,707,680</b>	<b>110,707,680</b>	<b>110,707,680</b>
<b>DOLLAR WEIGHTED RATE OF RETURN (%)</b> (Annualized for periods over 12 months)			
Return % (Net of Fees)	2.53	5.81	7.32
90-Day T-Bills	0.00	0.56	1.08

## ASSET ALLOCATION



# Bull Market Intact, but Need Consolidation Followed by Rotation & Higher Rates

As of October 14, 2020

- **4 Reasons to Remain Bullish:** (1) New bull markets begin with a recession and have typically run for years. (2) The health crisis that triggered this recession has brought unprecedented monetary and fiscal stimulus that is likely to become structural in nature. (3) Economic data surprises and earnings revisions support our V-Shaped recovery. (4) Sentiment and positioning have remained remarkably skeptical considering the size and persistence of the equity rally.
- **4 Reasons for a Likely Correction:** (1) Breadth of the rally and economic data surprises have deteriorated. (2) Congressional gridlock on CARES 2 fiscal stimulus package creates doubt about whether this bill can get passed in a timely fashion. and (3) Fed's new inflation targeting scheme in the absence of yield caps opens the door for potentially much higher back-end rates than markets are expecting if CARES 2 passes. (4) Election uncertainty.
- **V-Shaped Recovery Happening Even Faster than We Expected.** The Fed's unprecedented response, in conjunction with Congress, has driven a strong recovery from the depths of this recession. While there is a long way to go to get back to prior output levels, the economic data surprises and earnings revisions suggest we are well on our way.
- **Barbell of Growth and Cyclical with a Skew Toward Small/Mid Caps.** In line with our recession playbook, we continue to recommend a mix of high-quality growth stocks with the biggest potential beneficiaries of a continued recovery—i.e. cyclicals. Focus on companies that are likely to deliver the most operating leverage as business returns. This is likely to include some lower-quality stocks that would be survivors on the recession and in position to take share and leverage their lower cost structures.
- **Our US style and sector recommendations reflect this view.** Overweight small/mid over large, Financials, Consumer Cyclical, Materials, Industrials, and Healthcare. Underweight Tech, Utilities, and Consumer Staples.
- **Inflation is the Key to the Secular Bull Market for Stocks and Secular Bear Market for Bonds.** The shift in policy from monetary to fiscal dominance is something we have been waiting for to make a more aggressive call on inflation and equities. A US recession was always a necessary condition for this outcome, and now we have it. The health crisis nature of this event further supports this potential outcome. Finally, don't forget the other inflationary trends that were well established before this recession began—populism, nationalism, de-globalization, and a sign that the US dollar may either lose or have to share its reserve currency status.
- **We Recommend Being Overweight to Equities and Credit, Underweight Interest Rate Risk—i.e., Duration.** We also recommend owning some commodities as another inflation hedge. Avoid profitless growth stocks and pure bond proxies/defensives. Cash is not king with front-end rates at zero and rising inflation risks. There will be moments of doubt and uncertainty about the recovery if a second wave of the virus returns, US/China trade relations flare up, and uncertainty around the US election persists. We would use any pullbacks around this doubt as buying opportunities for stocks, led by US cyclicals, international and small/mid caps.

Source: Morgan Stanley & Co. Research

Past performance is no guarantee of future results. Estimates of future performance are based on assumptions that may not be realized. This material is not a solicitation of any offer to buy or sell any security or other financial instrument or to participate in any trading strategy. Please refer to important information, disclosures and qualifications at the end of this material.

## Investment Policy Range

**General Policy:** The Trust's investment philosophy is that assets should be allocated with the goal of producing the highest total return consistent with prudent financial management. Unless otherwise specified by individual fund objectives, this philosophy should be adhered to within the constraints of the following asset allocation ranges:

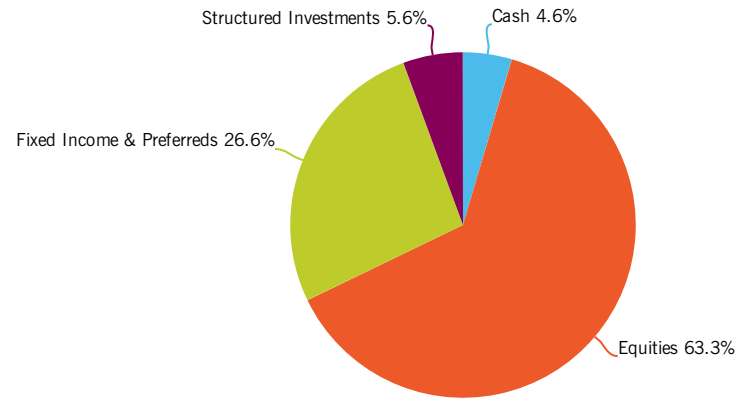
	<u>Maximum Allocation</u>	<u>Minimum Allocation</u>
Equity Investments	70%	35%
Fixed Income Investments	65%	20%
Cash & Equivalents	35%	0%
Alternative Investments – 40 Act Funds	15%	0%
Hedging Strategies		
Commodities ETF's		
Managed Futures Funds		

**Exceptions for Individual Funds:** In cases where individual fund objectives require an exception to the above asset allocation ranges, written statements detailing the policy for each specific fund will be provided as Supplements to this Investment Policy.

**Asset Allocation Targets:** From time to time the Finance Committee will determine specific asset allocation targets that it feels are best suited for accomplishing the above total return objective. These specific asset allocation targets will be communicated to individual investment managers in writing, and within a reasonable time frame, managers are expected to reallocate assets in order to comply with the target ranges established by the Committee. In the absence of specific asset allocation targets from the Trust, individual managers will have the direct responsibility for setting and maintaining an asset mix that they feel will best accomplish the Trust's total return objective. At all times, and in all cases, however, the above maximum and minimum limits, or where applicable, specific individual fund maximum and minimum limits, are to be adhered to.

The information in this report is based on data supplied by you and is intended to be used as a guide for your financial strategy. The information and data were obtained from sources deemed reliable. Their accuracy or completeness is not guaranteed and is subject to change with current market conditions. There is no guarantee that the figures presented will be attainable in the future. Morgan Stanley Smith Barney LLC, its affiliates and Morgan Stanley Financial Advisors or Private Wealth Advisors do not offer tax advice. Individuals should consult their personal tax advisor before many any tax-related investment decisions.

ASSET ALLOCATION - ASSET CLASS



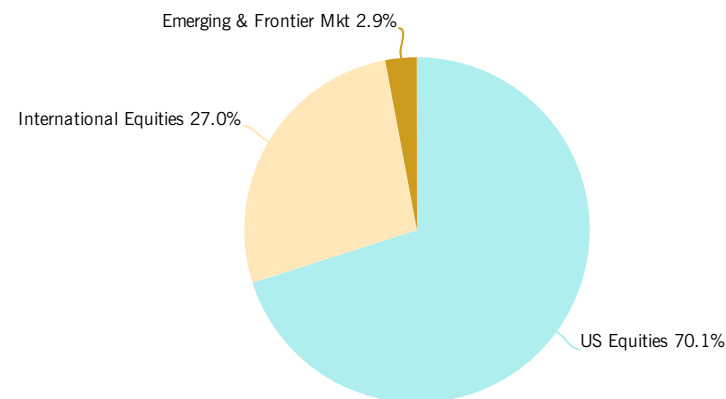
ASSET ALLOCATION

	Total Value (\$) 10/16/2020	% of Portfolio 10/16/2020
Cash	5,044,517.36	4.6
Equities	70,056,008.11	63.3
Fixed Income & Preferreds	29,403,035.62	26.6
Structured Investments	6,204,153.50	5.6
<b>TOTAL PORTFOLIO</b>	<b>110,707,714.59</b>	<b>100.0</b>

TOP EQUITY POSITIONS BASED ON TOTAL VALUE

SECURITY DESCRIPTION	Total Value (\$) 10/16/2020	% of Equities 10/16/2020
OAKMARK FUND ADVISOR	8,277,688.10	11.8
JOHN HANCOCK DISPLND VAL INST	8,204,423.15	11.7
PGIM JENNISON GROWTH Z	7,973,413.99	11.4
AMERICAN EUROPACIFIC GRW F2	7,436,254.05	10.6
ISHARES CORE S&P U.S. GROWTH	6,345,414.70	9.1
ISHARES CORE S&P U.S. VALUE	6,065,269.76	8.7
ISHARES CORE MSCI EAFE ETF	6,012,242.08	8.6
THORNBURG INTL GROWTH I	5,449,185.89	7.8
VANGUARD INDEX FDS S&P 500 ETF	5,225,056.20	7.5
BLACKROCK HIGH EQ INCOME INST	4,041,470.07	5.8
<b>Top Equity Positions</b>	<b>65,030,417.99</b>	<b>92.8</b>
<b>Other Equity Positions</b>	<b>5,025,590.12</b>	<b>7.2</b>
<b>Total Equities</b>	<b>70,056,008.11</b>	<b>100.0</b>

ASSET ALLOCATION - EQUITIES



ASSET ALLOCATION - EQUITIES

	% of Equities 10/16/2020	Total Value (\$) 10/16/2020	% of Portfolio 10/16/2020
<b>US Equities</b>	<b>70.1</b>	<b>49,094,297.20</b>	<b>44.3</b>
US Large Cap Growth	30.1	21,070,200.84	19.0
US Large Cap Value	35.8	25,062,535.13	22.6
US Mid Cap Value	1.5	1,021,565.30	0.9
US Small Cap Growth	2.2	1,570,006.48	1.4
US Small Cap Value	0.5	369,989.46	0.3
<b>International Equities</b>	<b>27.0</b>	<b>18,897,682.02</b>	<b>17.1</b>
Intl Equities Other	27.0	18,897,682.02	17.1
<b>Emerging &amp; Frontier Mkt</b>	<b>2.9</b>	<b>2,064,028.89</b>	<b>1.9</b>
Emerging Mkt Equities Oth	2.9	2,064,028.89	1.9
<b>TOTAL EQUITIES</b>	<b>100.0</b>	<b>70,056,008.11</b>	<b>63.3</b>

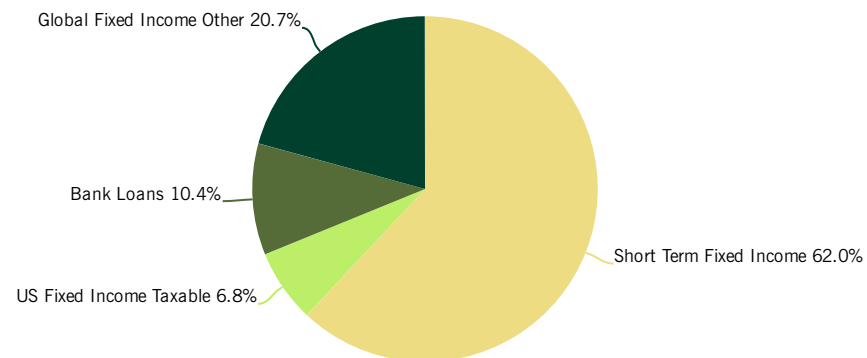
TSBA OPEB TRUST

As of October 16, 2020 | Reporting Currency: USD

## TOP FIXED INCOME &amp; PREFERRED POSITIONS BASED ON TOTAL VALUE

SECURITY DESCRIPTION	Total Value (\$) 10/16/2020	% of Fixed Income & Preferreds 10/16/2020
PGIM SHORT-TERM CORP BOND Z	18,227,778.69	62.0
NUVEEN STRATEGIC INCOME INST	6,099,131.27	20.7
PUTNAM FLOATING RATE INC Y	3,064,403.88	10.4
ISHARES GNMA BOND ETF	2,011,721.78	6.8
<b>Top Fixed Income &amp; Preferred Positions</b>	<b>29,403,035.62</b>	<b>100.0</b>
<b>Other Fixed Income &amp; Preferred Positions</b>	-	-
<b>Total Fixed Income &amp; Preferred</b>	<b>29,403,035.62</b>	<b>100.0</b>

## ASSET ALLOCATION - FIXED INCOME &amp; PREFERREDS



## ASSET ALLOCATION - FIXED INCOME &amp; PREFERREDS

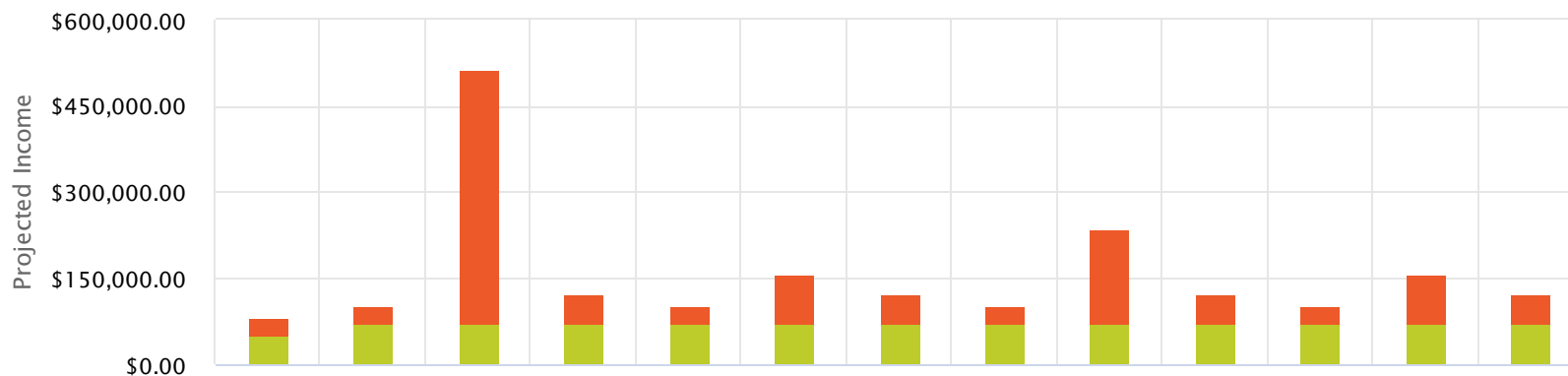
	% of Fixed Income & Preferreds 10/16/2020	Total Value (\$) 10/16/2020	% of Portfolio 10/16/2020
Short Term Fixed Income	62.0	18,227,778.69	16.5
US Fixed Income Taxable	6.8	2,011,721.78	1.8
Bank Loans	10.4	3,064,403.88	2.8
Global Fixed Income Other	20.7	6,099,131.27	5.5
<b>TOTAL FIXED INCOME &amp; PREFERREDS</b>	<b>100.0</b>	<b>29,403,035.62</b>	<b>26.6</b>

# PROJECTED 12 MONTH INCOME SUMMARY

TSBA OPEB TRUST

As of October 16, 2020 | Reporting Currency: USD

## PROJECTED 12 MONTH INCOME SUMMARY



Asset Class	Total Value (\$) 10/16/2020	10/17/20 to 10/31/20 (\$)	12 Month Projected Income (\$) (11/01/20 - 10/31/21)												% Yield	
			Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct		Total
Cash	5,044,517	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equities	70,056,008	31,016	31,016	443,810	52,917	31,016	86,751	52,917	31,016	164,259	52,917	31,016	86,751	52,917	<b>1,197,403</b>	1.71
Fixed Income & Preferreds	29,403,036	49,778	72,142	72,142	72,142	72,142	72,142	72,142	72,142	72,142	72,142	72,142	72,142	72,142	<b>865,704</b>	2.94
Structured Investments	6,204,154	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>110,707,715</b>	<b>80,794</b>	<b>103,158</b>	<b>515,952</b>	<b>125,059</b>	<b>103,158</b>	<b>158,893</b>	<b>125,059</b>	<b>103,158</b>	<b>236,401</b>	<b>125,059</b>	<b>103,158</b>	<b>158,893</b>	<b>125,059</b>	<b>2,063,107</b>	<b>1.86</b>

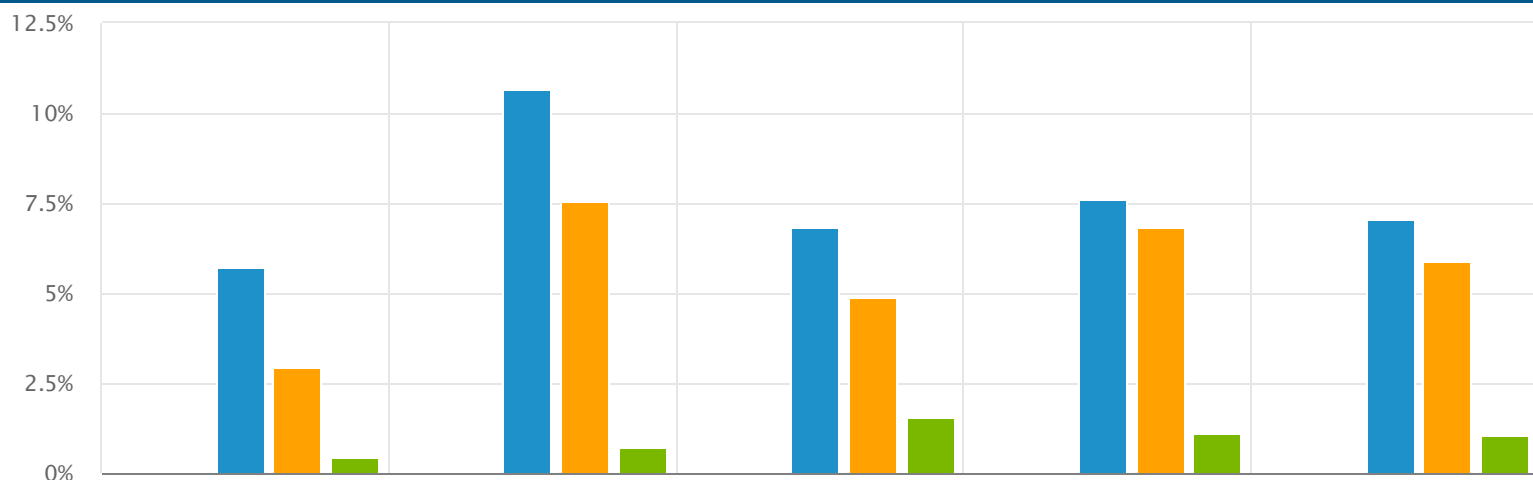
Projected Income is calculated only for securities where data is available.

In instances whereby payment frequency and/or last payment date is not available, income is based on the current dividend or coupon rate, and will be displayed in the Total column only.

TSBA OPEB TRUST

As of October 16, 2020 | Reporting Currency: USD

## RETURN % (NET OF FEES) VS. BENCHMARKS (ANNUALIZED)

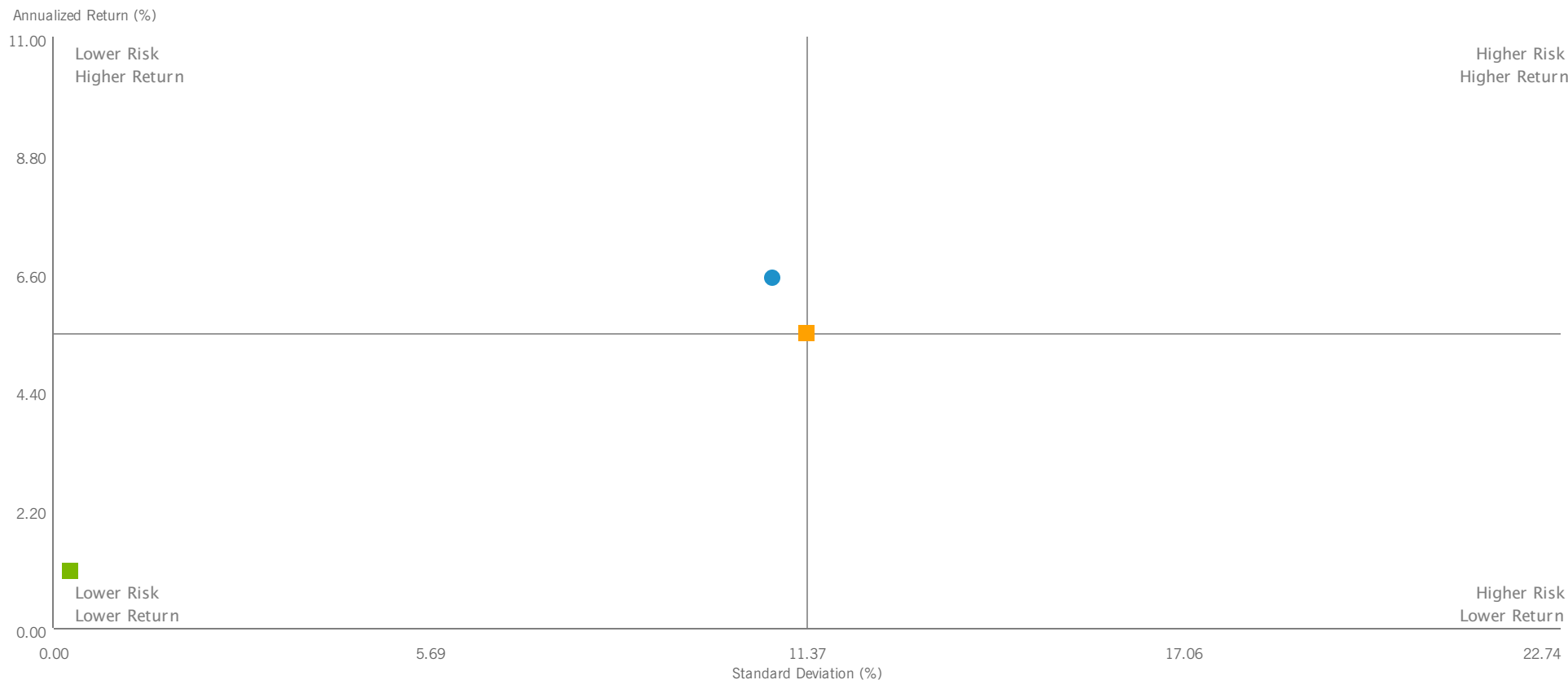


	Year to Date 12/31/19 - 10/16/20	Last 12 Months 10/31/19 - 10/16/20	Last 3 Years 10/31/17 - 10/16/20	Last 5 Years 10/31/15 - 10/16/20	Performance Inception 07/13/15 - 10/16/20
Beginning Total Value (\$)	98,302,039.81	93,477,938.06	73,202,124.18	46,338,005.37	0.00
Net Contributions/Withdrawals (\$)	-251,414.32	223,585.68	12,631,255.35	28,482,347.56	75,142,545.41
Investment Earnings (\$)	5,712,693.46	10,061,795.20	17,929,939.41	28,942,966.02	28,620,773.54
Ending Total Value (\$)	103,763,318.94	103,763,318.94	103,763,318.94	103,763,318.94	103,763,318.94
Return % (Net of Fees)	5.73	10.65	6.81	7.62	7.03
TN TSBA Composite (%)	2.93	7.58	4.91	6.81	5.89
FTSE T-Bills 30 Day (%)	0.43	0.70	1.56	1.10	1.04

Inception dates for advisory account(s) reflect the most recent advisory program or discretion change.

The investment returns shown on this page are time-weighted measurements which exclude the effect of the timing and amount of your contributions and withdrawals.

RETURN % (NET OF FEES) AND VOLATILITY VS. BENCHMARKS

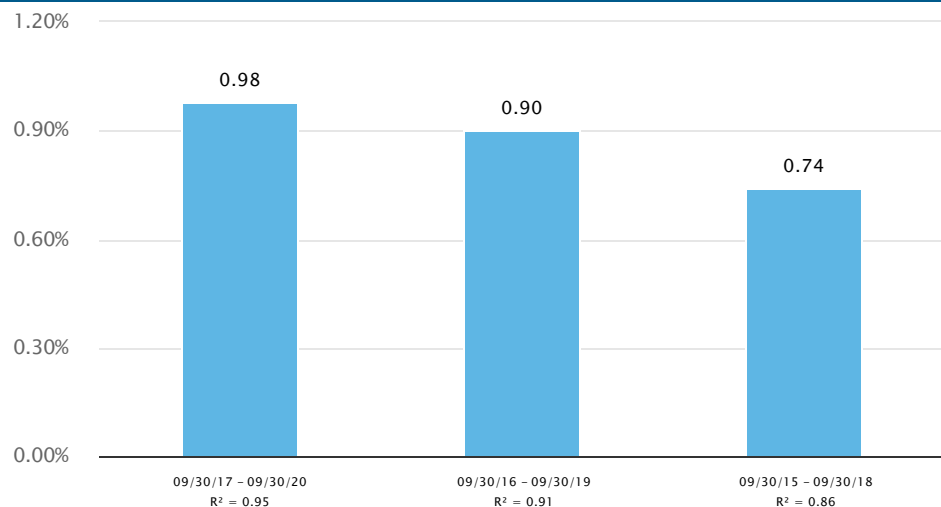


	Return % (Net of Fees) 07/31/15-09/30/20	Standard Deviation (%) 07/31/15-09/30/20
● Portfolio	6.52	10.86
■ TN TSBA Composite	5.50	11.37
■ FTSE T-Bills 30 Day	1.06	0.25

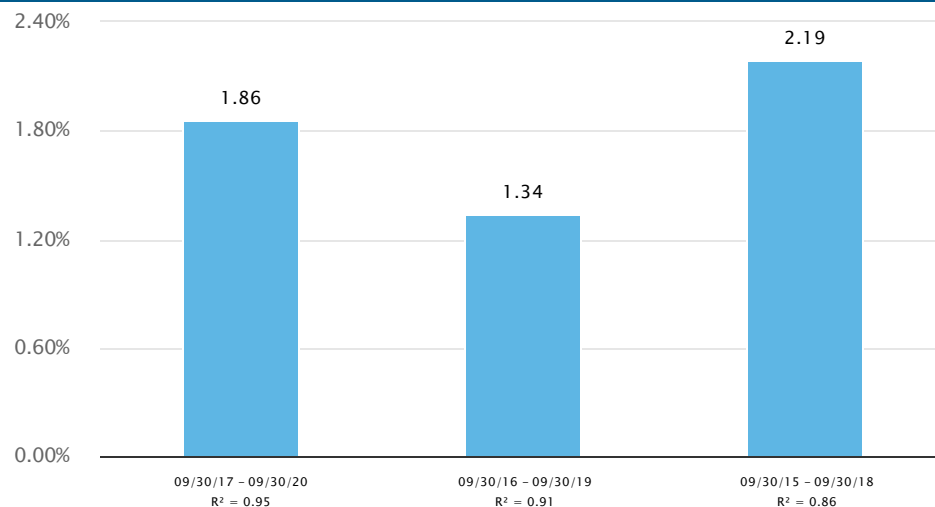
Inception dates for advisory account(s) reflect the most recent advisory program or discretion change.

The investment returns shown on this page are time-weighted measurements which exclude the effect of the timing and amount of your contributions and withdrawals.

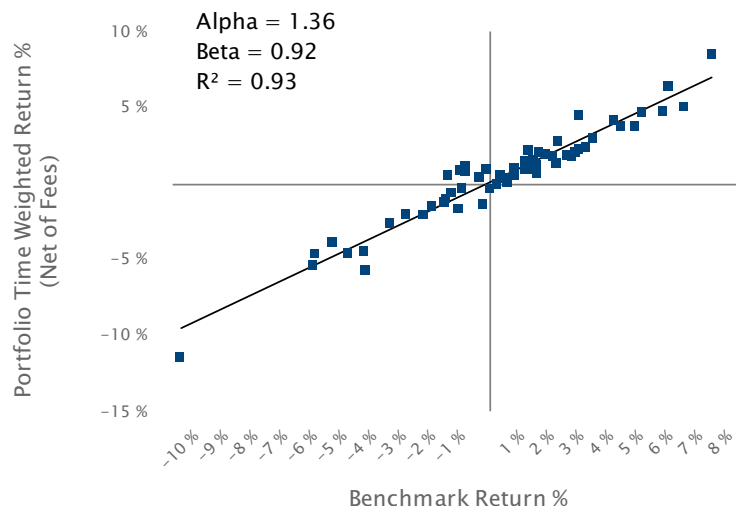
BETA - ROLLING PERIODS - TIME WEIGHTED RETURN %(NET OF FEES)



ALPHA - ROLLING PERIODS - TIME WEIGHTED RETURN %(NET OF FEES)



MONTHLY OBSERVATIONS SINCE 07/31/15 WITH SIMPLE REGRESSION LINE - TIME WEIGHTED RETURN %(NET OF FEES)



**Alpha:** Is a measure of a portfolio's time weighted net of fees return in excess of the market return, both adjusted for risk. A positive alpha indicates that the portfolio outperformed the market on a risk-adjusted basis, and a negative alpha indicates the portfolio did worse than the market.

**Beta:** Is a measure of the sensitivity of a portfolio's time weighted net of fees return against that of the market. A beta greater than 1.00 indicates volatility greater than the market.

**Modern Portfolio Theory:** Seeks to quantify the relationship between risk and return and operates under the assumption that an investor must be compensated for assuming risk.

**R<sup>2</sup>:** Is a measure that indicates the extent to which fluctuations in a portfolio's time weighted net of fees return is correlated with the return of the general market. An R<sup>2</sup> of 0.80 implies that 80% of the fluctuation of a portfolio's return is explained by the fluctuation in the market.

**Graph Notes:** Both the benchmark and portfolio returns are adjusted by the return of the 90-day Treasury Bills to illustrate the excess return above the Risk Free Rate for each period.

Inception dates for advisory account(s) reflect the most recent advisory program or discretion change.

The investment returns shown on this page are time-weighted measurements which exclude the effect of the timing and amount of your contributions and withdrawals.

## ACCOUNT(S) INCLUDED IN THIS REPORT

TSBA OPEB TRUST

Reporting Currency: USD

## MORGAN STANLEY WEALTH MANAGEMENT

Account Name and Address	Account Type/ Manager Name	Advisory/ Brokerage	Account Number	Date Opened	Date Closed	Performance (%) Inception - 10/16/20	Total Value (\$) 10/16/20	% of Portfolio 10/16/20
ARLINGTON CITY - Alternative Investment 525 BRICK CHURCH PARK DR NASHVILLE	AAA	Brokerage	471-XXX385	02/18/20	-	2.86	165,616.64	0.15
ARLINGTON CITY BOE 525 BRICK CHURCH PARK DRIVE NASHVILLE	Consulting Group Advisor	Advisory	471-XXX901	06/17/15	-	6.86	2,859,228.92	2.58
BARTLETT CITY - Alternative Investment 525 BRICK CHURCH PARK DR NASHVILLE	AAA	Brokerage	471-XXX383	02/18/20	-	2.88	189,677.00	0.17
BARTLETT CITY BOE 525 BRICK CHURCH PARK DRIVE NASHVILLE	Consulting Group Advisor	Advisory	471-XXX902	06/17/15	-	6.93	3,562,157.36	3.22
Collierville City - Alternative Invest. 525 BRICK CHURCH PARK DR NASHVILLE	AAA	Brokerage	471-XXX396	02/18/20	-	2.90	92,929.35	0.08
COLLIERVILLE CITY BOE 525 BRICK CHURCH PARK DRIVE NASHVILLE	Consulting Group Advisor	Advisory	471-XXX903	06/17/15	-	6.68	1,569,537.70	1.42
HICKMAN CO. 525 BRICK CHURCH PARK DRIVE NASHVILLE	Consulting Group Advisor	Advisory	471-XXX866	06/03/15	-	6.86	2,237,334.19	2.02
Hickman Co. - Alternative Investment 525 BRICK CHURCH PARK DR NASHVILLE	AAA	Brokerage	471-XXX388	02/18/20	-	2.86	144,770.87	0.13
JACKSON-MADISON 525 BRICK CHURCH PARK DRIVE NASHVILLE	Consulting Group Advisor	Advisory	471-XXX864	06/03/15	-	6.85	407,590.54	0.37
JACKSON-MADISON - Alternative Investment 525 BRICK CHURCH PARK DR NASHVILLE	AAA	Brokerage	471-XXX403	02/18/20	-	2.88	25,521.45	0.02

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## ACCOUNT(S) INCLUDED IN THIS REPORT

TSBA OPEB TRUST

Reporting Currency: USD

## MORGAN STANLEY WEALTH MANAGEMENT (Continued)

Account Name and Address	Account Type/ Manager Name	Advisory/ Brokerage	Account Number	Date Opened	Date Closed	Performance (%) Inception - 10/16/20	Total Value (\$) 10/16/20	% of Portfolio 10/16/20
JOHNSON CO. 525 BRICK CHURCH PARK DRIVE NASHVILLE	Consulting Group Advisor	Advisory	471-XXX869	06/03/15	-	6.86	1,108,917.33	1.00
JOHNSON CO. - Alternative Investment 525 BRICK CHURCH PARK DR NASHVILLE	AAA	Brokerage	471-XXX398	02/18/20	-	2.87	69,823.57	0.06
Lakeland City - Alternative Investment 525 BRICK CHURCH PARK DR NASHVILLE	AAA	Brokerage	471-XXX393	02/18/20	-	2.87	103,196.29	0.09
LAKELAND CITY BOE 525 BRICK CHURCH PARK DRIVE NASHVILLE	Consulting Group Advisor	Advisory	471-XXX900	06/17/15	-	6.68	1,621,875.36	1.47
MILLINGTON 525 BRICK CHURCH PARK DRIVE NASHVILLE	Consulting Group Advisor	Advisory	471-XXX583	07/05/16	-	8.50	309,602.35	0.28
MILLINGTON - Alternative Investment 525 BRICK CHURCH PARK DR NASHVILLE	AAA	Brokerage	471-XXX409	02/18/20	-	2.83	19,248.22	0.02
SHELBY CO. 525 BRICK CHURCH PARK DRIVE NASHVILLE	Consulting Group Advisor	Advisory	471-XXX863	06/03/15	-	6.83	90,827,088.70	82.04
SHELBY CO. - Alternative Investment 525 BRICK CHURCH PARK DR NASHVILLE	AAA	Brokerage	471-XXX380	02/18/20	-	2.88	5,393,598.75	4.87
TSBA GASB 45 TRUST 525 BRICK CHURCH PARK DRIVE NASHVILLE	AAA	Brokerage	471-XXX865	06/03/15	07/20/15	-	0.00	0.00
TSBA GASB 45 TRUST 525 BRICK CHURCH PARK DRIVE NASHVILLE	AAA	Brokerage	471-XXX925	06/23/15	07/20/15	-	0.00	0.00

Investment, insurance and annuity products offered through Morgan Stanley Smith Barney LLC are: NOT FDIC INSURED | MAY LOSE VALUE | NOT BANK GUARANTEED | NOT A BANK DEPOSIT | NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY. All content within this Document applies to the accounts listed above or a subset thereof, unless otherwise indicated. Closed Accounts listed above are included for historical performance. The investment returns shown on this page are time-weighted measurements which exclude the effect of the timing and amount of your contributions and withdrawals.

## ACCOUNT(S) INCLUDED IN THIS REPORT

TSBA OPEB TRUST

Reporting Currency: USD

## MORGAN STANLEY WEALTH MANAGEMENT (Continued)

Account Name and Address	Account Type/ Manager Name	Advisory/ Brokerage	Account Number	Date Opened	Date Closed	Performance (%) Inception - 10/16/20	Total Value (\$) 10/16/20	% of Portfolio 10/16/20
<b>Morgan Stanley Wealth Management Total</b>							<b>110,707,714.59</b>	<b>100.00</b>
<b>Total Portfolio</b>							<b>110,707,714.59</b>	<b>100.00</b>

Investment, insurance and annuity products offered through Morgan Stanley Smith Barney LLC are: NOT FDIC INSURED | MAY LOSE VALUE | NOT BANK GUARANTEED | NOT A BANK DEPOSIT | NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY. All content within this Document applies to the accounts listed above or a subset thereof, unless otherwise indicated. Closed Accounts listed above are included for historical performance. The investment returns shown on this page are time-weighted measurements which exclude the effect of the timing and amount of your contributions and withdrawals.

## DISCLOSURES

**Explanatory Notes and Disclosures:** This document is designed to assist you and your Financial Advisor in understanding portfolio positions, composition and subsets thereof. It is designed solely for your individual use, is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security. Do not take action relying on this information without confirming its accuracy and completeness. Please read carefully all accompanying notes and disclosures provided in this Document.

For convenience purposes, your Financial Advisor may have assigned a designated name for this Document. The list of the accounts covered in this document is noted herein and may not include all of your accounts with us or external custodians. Furthermore, the information included in this document may not include all asset classes/securities/liabilities held by you at the firm or external custodians. Please review this document carefully and discuss any questions you may have with your Financial Advisor. If you do not understand an entry, suspect an error, or want more details on current values or other information, contact your Financial Advisor. This document is based upon your Morgan Stanley account holdings and may include other holdings/information that you or a third party provided about assets custodied elsewhere. Morgan Stanley will not verify any other holdings/information. If any information reflects assets held away from Morgan Stanley that will be indicated. The information contained in this document is subject to, and does not supersede the confirmations and account statements you receive from us. Values shown in your official account statement may differ from the values shown in this document due to, among other things, different reporting methods, delays, market conditions and interruptions. If there are discrepancies between your official account statement and this document, rely on your official account statement.

The information in this document is approximate and subject to updating, correction and other changes. We are not obligated to notify you if information changes. Although the statements of fact and data in this document have been obtained from, and are based upon sources that we believe to be reliable, we do not guarantee their accuracy, or timeliness, and any such information may be incomplete or condensed. Percentage values shown in this document are subject to rounding, which may impact total values. The values of securities and other investments not actively traded may be estimated or may not be available.

This information is provided for informational purposes only and should not be used for tax preparation. The information reported on your Form(s) 1099 supersedes the information provided in this report and should be exclusively relied upon for tax preparation. Morgan Stanley, its affiliates and its employees are not in the business of providing tax or legal advice. Clients should seek advice based on their particular circumstances from an independent tax and legal advisor. Morgan Stanley Smith Barney LLC is a registered Broker/Dealer, Member SIPC, and not a bank. Where appropriate, Morgan Stanley Smith Barney LLC has entered into arrangements with banks and other third parties to assist in offering certain banking related products and services.

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**Important Regulation Best Interest Information:** This report is being provided as a courtesy. By providing this report, we do not represent or agree that we will monitor the investments in your brokerage account(s) or deliver future reports.

**Additional information about your Floating Rate Notes:** For floating rate securities, the estimated accrued interest and estimated annual income are based on the current floating coupon rate and may not reflect historic rates within the accrual period.

**Important Information About Auction Rate Securities:** For certain Auction Rate Securities there is no or limited liquidity. Therefore, the price(s) for these Auction Rate Securities are indicated as not available by a dash "-". There can be no assurance that a successful auction will occur or that a secondary market exists or will develop for a particular security.

**Important Pricing Information:** Prices of securities not actively traded may not be available, and are indicated by a dash "-".

**Asset Classification:** We classify assets based on general characteristics such as: income generation, underlying capital structure, or exposure to certain market sectors. As many assets contain characteristics of more than one asset class, allocations may be under or over inclusive. These classifications do not constitute a recommendation and may differ from the classification of instruments for regulatory or tax purposes. In addition, the Other asset class contains securities that are not included in the various asset class classifications. This can include, but is not limited to, non-traditional investments such as some Equity Unit Trusts, Index Options and Structured Investments issued outside of Morgan Stanley. Additionally, investments for which we are unable to procure market data to properly classify them will appear in the Other category.

**Morgan Stanley Wealth Management:** Morgan Stanley Wealth Management (custodian type "Morgan Stanley Wealth Management") is a registered trade name of Morgan Stanley Smith Barney LLC.

**Additional information about your Structured Products:** Structured Investments are complex products and may be subject to special risks, which may include, but are not limited to: loss of initial investment; issuer credit risk and price volatility resulting from any actual or anticipated changes to issuer's and/or guarantor's credit ratings or credit spreads; limited or no appreciation and limits on participation in any appreciation of underlying asset(s); risks associated with the underlying reference asset(s); no periodic payments; call prior to maturity; early redemption fees for market linked deposits; lower interest rates and/or yield compared to conventional debt with comparable maturity; unique tax implications; limited or no secondary market; and conflicts of interest due to affiliation, compensation or other factors which could adversely affect market value or payout to investors. Investors also should consider the concentration risk of owning the related security and their total exposure to any underlying asset.

**Morgan Stanley & Co.:** Morgan Stanley & Co. LLC ("Morgan Stanley & Co.") is an affiliate of Morgan Stanley Smith Barney LLC ("Morgan Stanley Wealth Management") and both are subsidiaries of Morgan Stanley, the financial holding company. Morgan Stanley & Co. values shown on your Morgan Stanley Wealth Management statement may differ from the values shown in your official Morgan Stanley & Co. statement due to, among other things, different reporting methods, delays, market conditions and interruptions. The information shown is approximate and subject to updating, correction and other changes. Information being reported by Morgan Stanley Wealth Management on assets held by other custodians, which are related to Income, Performance, Tax Lots, Total Cost, Target Asset Allocation, Asset Classification and Gain/Loss may differ from that information provided by the custodian. In performance calculations, the inception date will align with the first date on which Morgan Stanley Wealth Management received account information from the custodian. If there are discrepancies between your official Morgan Stanley & Co. account statement and your Morgan Stanley Wealth Management supplemental client report, rely on the official Morgan Stanley & Co. account statement.

**External Accounts:** "External" generally refers to accounts, assets, and/or liabilities that you hold with other financial institutions and/or which may be custodied outside of Morgan Stanley (whose subsidiaries include Morgan Stanley Smith Barney LLC and Morgan Stanley & Co.) ("External Accounts"). External Accounts are not under administration or management at Morgan Stanley and are not reflected in your Morgan Stanley account statements. Information related to External Accounts is provided solely as a service to you and your Financial Advisor/Private Wealth Advisor. The information reference is based upon information provided by external sources which we believe to be reliable. However, we do not independently verify this information. As such, we do not warrant or guarantee that such information is accurate or timely, and any such information may be incomplete or condensed.

Information related to Income, Performance, Tax Lots, Total Cost, Target Asset Allocation, Asset Classification and Gain/Loss may differ from the information provided by your custodian. External information presented herein is subject to, and does not supersede, the confirmations and account statements provided by your custodian. Values shown in an account statement from your custodian may differ from the values shown here due to, among other things, different reporting methods, delays, market conditions and interruptions. If there are discrepancies between your custodian's official account statement and this material, rely on the custodian's official account statement. We are not obligated to notify you or your Financial Advisor/Private Wealth Advisor if information changes. In performance calculations, the inception date referenced will reflect the first date on which Morgan Stanley received account information from the custodian. If information on an External Account cannot be reported, it will be noted.

Assets not custodied with Morgan Stanley are not covered by SIPC protection at Morgan Stanley or by additional protection under Morgan Stanley's excess insurance coverage plans. However, these assets may be subject to SIPC coverage at the entity at which they are custodied.

**Timing of Feeds:** Account and Position data for Morgan Stanley & Co. and External Accounts is obtained from sources that we believe to be reliable. However, Morgan Stanley Wealth management does not guarantee its accuracy or timeliness as such information may be incomplete, condensed, or based on differing points of time. Please refer to the "Last Update Date" for information regarding when the data was last refreshed. You should not take any action relying upon this information without confirming its accuracy and completeness.

**Manually Added assets:** "Manually Added" generally refers to accounts, assets, and/or liabilities, as applicable, that you hold with other financial institutions and/or which may be custodied outside of Morgan Stanley (whose subsidiaries include Morgan Stanley Smith Barney LLC and Morgan Stanley & Co.) ("Manually Added External Accounts"). The Manually Added External Accounts referenced are generally not held with Morgan Stanley and are not under administration or management at Morgan Stanley. Information about such Manually Added External Accounts is manually inputted, updated and maintained solely by you and/or your Financial Advisor/Private Wealth Advisor. Morgan Stanley may include information about these Manually Added External Accounts solely as a service to you and your Financial Advisor/Private Wealth Advisor. We do not independently verify any information related to your Manually Added External Accounts. As such, we do not warrant or guarantee that such information is accurate or timely, and any such information may be incomplete or condensed. Valuations and other information about these assets may be provided by you and/or your Financial Advisor/Private Wealth Advisor and are generally based upon estimates. The information is used for position, asset allocation, and product allocation reporting purposes but is not, however, reflected in your Morgan Stanley account statements. Income values, including Estimated Annual Income and Projected Income, are not calculated for Manually Added External Accounts. The information being reported by Morgan Stanley on Manually Added External Accounts related to Performance, Tax Lots, Total Cost, Target Asset Allocation, Asset Classification and Gain/Loss may differ from the information provided to you by the custodian of those assets. If there are discrepancies between your custodian's official account statement and this material, rely on the custodian's official account statement. The inception date referenced in this view will reflect the date on which information about the Manually Added External Accounts was input by you and/or your Financial Advisor/Private Wealth Advisor. If information on a Manually Added asset cannot be reported, it will be noted.

Assets not custodied with Morgan Stanley are not covered by SIPC protection at Morgan Stanley or by additional protection under Morgan Stanley's excess insurance coverage plans. However, these assets may be subject to SIPC coverage at the entity at which they are custodied.

**Performance:** Performance results are annualized for time periods greater than one year and include all cash and cash equivalents, realized and unrealized capital gains and losses, dividends, interest and income. Depending on the opening or closing date of the account or position, the performance referenced may be for a portion of the time period identified. The investment results depicted herein represent historical performance. As a result of recent market activity, current performance may vary from the figures shown. Please contact your Financial Advisor for up-to-date performance information. Past performance is not a guarantee of future results. Quotations of performance appearing in this report may include performance experienced in legacy accounts which have been closed and purged, and as such are not included on the Accounts Included in This Report page.

Market values used for performance calculation do not include Performance Ineligible Assets and thus may differ from asset allocation market values. Common examples of Performance Ineligible Assets include life insurance and annuities as well as Manually Added and External accounts, assets and liabilities.

Unless otherwise indicated, performance is a composite calculation of the entire portfolio and may include brokerage and investment advisory accounts as well as assets for different accounts included in this report. The accounts included in the composite may have (or have had) different investment objectives and strategies, been subject to different restrictions, and incurred different types of fees, markups, commissions and other charges. Accordingly, performance results may blend the performance of assets and strategies that may not have been available in all of the accounts at all times during the reporting period. In addition, accounts in the composite may have changed from brokerage to advisory or vice versa. Accounts may also have moved from one advisory program to another (including from a discretionary program to a non-discretionary program).

For Morgan Stanley Smith Barney LLC accounts, performance information may cover the full history of the account(s) or just the performance of an account(s) since the inception of the current program(s). Performance results on individual accounts will vary and may differ from the composite returns. Your Financial Advisor can provide you with individual account portfolio composition and performance information. For investment advisory accounts, please see the Morgan Stanley Smith Barney LLC Form ADV Part 2 or applicable disclosure brochure and any applicable brokerage commission and/or fee schedule for a full disclosure of fees and expenses. Your Financial Advisor will provide those documents to you upon request. For brokerage accounts, please speak to your Financial Advisor for more information on commissions and other account fees and expenses.

Performance inception date does not necessarily correspond to the account opening date. Where multiple accounts are included in performance calculations, the inception date is the oldest performance inception. Performance data may not be available for all periods as some accounts included in performance may have more recent performance inception dates. Consequently, the actual performance for a group of accounts may differ from reported performance. Please ask your Financial Advisor for the performance inception date for each account.

**Indices:** Benchmark indices and blends included in this material are for informational purposes only, are provided solely as a comparison tool and may not reflect the underlying composition and/or investment objective(s) associated with the account(s). In some circumstances, the benchmark index may not be an appropriate benchmark for use with the specific composite portfolio. For instance, an index may not take into consideration certain changes that may have occurred in the portfolio since the inception of the account(s), (e.g., changes from a brokerage to an advisory account or from one advisory program to another, asset class changes, or index changes for individual managers). The volatility of the index used for comparison may be materially different from that of the performance shown. Indices are unmanaged and not available for direct investment. Index returns do not take into account fees or other charges. Such fees and charges would reduce performance. Please see the Benchmark Definitions section of this material for additional information on the indices used for comparison.

**Performance Inception Month End:** Performance Inception Month End refers to performance calculated from the end of the month in which the accounts became eligible for performance. Calculating performance from the Performance Inception Month End allows for a comparison to be made to appropriate benchmarks. Performance Inception Month End does not necessarily correspond to the account opening date.

**Projected 12 Month:** Projected 12 Month Income is based upon cash income from interest, cash dividends, and partnership distributions. It is a hypothetical projection calculated using current yields. The projected income referenced is based upon certain market projections effective as at today's date only and can change at any time. Such projected income is hypothetical, do not reflect actual investment results, and is not a guarantee of future results. The projected income is referenced for illustrative purposes only. Morgan Stanley does not represent or guarantee that the projected income referenced will or can be attained. The actual income may be lower or higher than the projections based upon a variety of factors and assumptions. The projected income shown may under or over compensate for the impact of actual market conditions and other factors. We make no representation or warranty as to the reasonableness of the assumptions made, or that all assumptions used to construct this projected income information have been stated or fully considered. To the extent that the assumptions made do not reflect actual conditions, the illustrative value of the hypothetical projected income will decrease. The projected income referenced may include income from Morgan Stanley & Co. and External Accounts, where data is available. Such information was obtained from third party sources which Morgan Stanley believes to be reliable. However, we make no representation or guarantee that the information is accurate or complete. You should not rely upon this information to make any investment decision. Please refer to the official account statements and performance reports you received from your custodian and/or financial institution for information about projected income in your External Accounts. The projected income referenced does not include income from assets in Manually Added External Accounts.

**Morgan Stanley Wealth Management is the trade name of Morgan Stanley Smith Barney LLC, a registered broker-dealer in the United States.**

The sole purpose of this material is to inform, and it in no way is intended to be an offer or solicitation to purchase or sell any security, other investment or service, or to attract any funds or deposits. Investments mentioned may not be appropriate for all clients. Any product discussed herein may be purchased only after a client has carefully reviewed the offering memorandum and executed the subscription documents. Morgan Stanley Wealth Management has not considered the actual or desired investment objectives, goals, strategies, guidelines, or factual circumstances of any investor in any fund(s). Before making any investment, each investor should carefully consider the risks associated with the investment, as discussed in the applicable offering memorandum, and make a determination

based upon their own particular circumstances, that the investment is consistent with their investment objectives and risk tolerance. Morgan Stanley Smith Barney LLC offers investment program services through a variety of investment programs, which are opened pursuant to written client agreements. Each program offers investment managers, funds and features that are not available in other programs; conversely, some investment managers, funds or investment strategies may be available in more than one program.

Morgan Stanley's investment advisory programs may require a minimum asset level and, depending on your specific investment objectives and financial position, may not be appropriate for you. Please see the Morgan Stanley Smith Barney LLC program disclosure brochure (the "Morgan Stanley ADV") for more information in the investment advisory programs available. The Morgan Stanley ADV is available at [www.morganstanley.com/ADV](http://www.morganstanley.com/ADV) (unsafe: <http://www.morganstanley.com/ADV>). **Sources of Data.** Information in this material in this report has been obtained from sources that we believe to be reliable, but we do not guarantee its accuracy, completeness or timeliness. Third-party data providers make no warranties or representations relating to the accuracy, completeness or timeliness of the data they provide and are not liable for any damages relating to this data. All opinions included in this material constitute the Firm's judgment as of the date of this material and are subject to change without notice. This material was not prepared by the research departments of Morgan Stanley & Co. LLC or Morgan Stanley Smith Barney LLC. Some historical figures may be revised due to newly identified programs, firm restatements, etc.

**Global Investment Manager Analysis (GIMA) Focus List, Approved List and Tactical Opportunities List; Watch Policy.** GIMA uses two methods to evaluate investment products in applicable advisory programs: **Focus** (and investment products meeting this standard are described as being on the Focus List) and **Approved** (and investment products meeting this standard are described as being on the Approved List). In general, Focus entails a more thorough evaluation of an investment product than Approved. Sometimes an investment product may be evaluated using the Focus List process but then placed on the Approved List instead of the Focus List. Investment products may move from the Focus List to the Approved List, or vice versa. GIMA may also determine that an investment product no longer meets the criteria under either process and will no longer be recommended in investment advisory programs (in which case the investment product is given a "Not Approved" status). GIMA has a "Watch" policy and may describe a Focus List or Approved List investment product as being on "Watch" if GIMA identifies specific areas that (a) merit further evaluation by GIMA and (b) may, but are not certain to, result in the investment product becoming "Not Approved." The Watch period depends on the length of time needed for GIMA to conduct its evaluation and for the investment manager or fund to address any concerns. Certain investment products on either the Focus List or Approved List may also be recommended for the **Tactical Opportunities List** based in part on tactical opportunities existing at a given time. The investment products on the Tactical Opportunities List change over time. For more information on the Focus List, Approved List, Tactical Opportunities List and Watch processes, please see the applicable Form ADV Disclosure Document for Morgan Stanley Wealth Management. Your Financial Advisor or Private Wealth Advisor can also provide upon request a copy of a publication entitled "Manager Selection Process."

The **Global Investment Committee** is a group of seasoned investment professionals who meet regularly to discuss the global economy and markets. The committee determines the investment outlook that guides our advice to clients. They continually monitor developing economic and market conditions, review tactical outlooks and recommend model portfolio weightings, as well as produce a suite of strategy, analysis, commentary, portfolio positioning suggestions and other reports and broadcasts.

The GIC Asset Allocation Models are not available to be directly implemented as part of an investment advisory service and should not be regarded as a recommendation of any Morgan Stanley investment advisory service. The GIC Asset Allocation Models do not represent actual trading or any type of account or any type of investment strategies and none of the fees or other expenses (e.g. commissions, mark-ups, mark-downs, advisory fees, fund expenses) associated with actual trading or accounts are reflected in the GIC Asset Allocation Models which, when compounded over a period of years, would decrease returns.

**Adverse Active Alpha<sup>SM</sup> 2.0** is a patented screening and scoring process designed to help identify high-quality equity and fixed income managers with characteristics that may lead to future outperformance relative to index and peers. While highly ranked managers performed well as a group in our Adverse Active Alpha model back tests, not all of the managers will outperform. Please note that this data may be derived from back-testing, which has the benefit of hindsight. In addition, highly ranked managers can have differing risk profiles that might not be appropriate for all investors. Our view is that Adverse Active Alpha is a good starting point and should be used in conjunction with other information. Morgan Stanley Wealth Management's qualitative and quantitative investment manager due diligence process are equally important factors for investors when considering managers for use through an investment advisory program. Factors including, but not limited to, manager turnover and changes to investment process can partially or fully negate a positive Adverse Active Alpha ranking. Additionally, highly ranked managers can have differing risk profiles that might not be appropriate for all investors.

The proprietary **Value Score** methodology considers an active investment strategies' value proposition relative to its costs. From a historical quantitative study of several quantitative markers, Value Score measures perceived forward-looking benefit and computes (1) "fair value" expense ratios for most traditional investment managers across 40 categories and (2) managers' perceived "excess value" by comparing the fair value expense ratios to actual expense ratios. Managers are then ranked within each category by their excess value to assign a Value Score. Our analysis suggests that greater levels of

excess value have historically corresponded to attractive subsequent performance.

For more information on the ranking models, please see *Adverse Active Alpha<sup>SM</sup> 2.0: Scoring Active Managers According to Potential Alpha and Value Score: Scoring Fee Efficiency by Comparing Managers' Fair Value" and Actual Expense Ratios*. The whitepapers are available from your Financial Advisor or Private Wealth Advisor. ADVERSE ACTIVE ALPHA is a registered service mark of Morgan Stanley and/or its affiliates. U.S. Pat. No. 8,756,098 applies to the Adverse Active Alpha system and/or methodology.

Additionally, highly ranked managers can have differing risk profiles that might not be appropriate for all investors. For more information on AAA, please see the Adverse Active Alpha Ranking Model and Selecting Managers with Adverse Active Alpha whitepapers. The whitepaper are available from your Financial Advisor or Private Wealth Advisor. ADVERSE ACTIVE ALPHA is a registered service mark of Morgan Stanley and/or its affiliates. U.S. Pat. No. 8,756,098 applies to the Adverse Active Alpha system and/or methodology.

**The Global Investment Manager Analysis (GIMA) Services Only Apply to Certain Investment Advisory Programs** GIMA evaluates certain investment products for the purposes of some – but not all – of Morgan Stanley Smith Barney LLC's investment advisory programs (as described in more detail in the applicable Form ADV Disclosure Document for Morgan Stanley Wealth Management). If you do not invest through one of these investment advisory programs, Morgan Stanley Wealth Management is not obligated to provide you notice of any GIMA Status changes even though it may give notice to clients in other programs.

**Strategy May Be Available as a Separately Managed Account or Mutual Fund** Strategies are sometimes available in Morgan Stanley Wealth Management investment advisory programs both in the form of a separately managed account ("SMA") and a mutual fund. These may have different expenses and investment minimums. Your Financial Advisor or Private Wealth Advisor can provide more information on whether any particular strategy is available in more than one form in a particular investment advisory program. In most Morgan Stanley Wealth Management investment advisory accounts, fees are deducted quarterly and have a compounding effect on performance. For example, on an advisory account with a 3% annual fee, if the gross annual performance is 6.00%, the compounding effect of the fees will result in a net performance of approximately 3.93% after one year, 1 after three years, and 21.23% after five years. **Conflicts of Interest:** GIMA's goal is to provide professional, objective evaluations in support of the Morgan Stanley Wealth Management investment advisory programs. We have policies and procedures to help us meet this goal. However, our business is subject to various conflicts of interest. For example, ideas and suggestions for which investment products should be evaluated by GIMA come from a variety of sources, including our Morgan Stanley Wealth Management Financial Advisors and their direct or indirect managers, and other business persons within Morgan Stanley Wealth Management or its affiliates. Such persons may have an ongoing business relationship with certain investment managers or mutual fund companies whereby they, Morgan Stanley Wealth Management or its affiliates receive compensation from, or otherwise related to, those investment managers or mutual funds. For example, a Financial Advisor may suggest that GIMA evaluates an investment manager or fund in which a portion of his or her clients' assets are already invested. While such a recommendation is permissible, GIMA is responsible for the opinions expressed by GIMA. See the conflicts of interest section in the applicable Form ADV Disclosure Document for Morgan Stanley Wealth Management for a discussion of other types of conflicts that may be relevant to GIMA's evaluation of managers and funds. In addition, Morgan Stanley Wealth Management, MS & Co., managers and their affiliates provide a variety of services (including research, brokerage, asset management, trading, lending and investment banking services) for each other and for various clients, including issuers of securities that may be recommended for purchase or sale by clients or are otherwise held in client accounts, and managers in various advisory programs. Morgan Stanley Wealth Management, managers, MS & Co., and their affiliates receive compensation and fees in connection with these services. Morgan Stanley Wealth Management believes that the nature and range of clients to which such services are rendered is such that it would be inadvisable to exclude categorically all of these companies from an account.

Morgan Stanley charges each fund family we offer a mutual fund support fee, also called a "revenue-sharing payment," on client account holdings in fund families according to a tiered rate that increases along with the management fee of the fund so that lower management fee funds pay lower rates than those with higher management fees.

Overlay Managers or Executing Sub-Managers ("managers") in some of Morgan Stanley's Separately Managed Account ("SMA") programs may affect transactions through broker-dealers other than Morgan Stanley or our affiliates. If your manager trades with another firm, you may be assessed costs by the other firm in addition to Morgan Stanley's fees. Those costs will be included in the net price of the security, not separately reported on trade confirmations or account statements. Certain managers have historically directed most, if not all, of their trades to outside firms. Information provided by managers concerning trade execution away from Morgan Stanley is summarized at: [www.morganstanley.com/wealth/investmentsolutions/pdfs/adv/sotresponse.pdf](http://www.morganstanley.com/wealth/investmentsolutions/pdfs/adv/sotresponse.pdf) (unsafe: <span class=link>http://</span><span class=link>www.morganstanley.com/wealth/investmentsolutions/pdfs/adv/sotresponse.pdf). For more information on trading and costs, please refer to the ADV Brochure for your program(s), available at [www.morganstanley.com/ADV](http://www.morganstanley.com/ADV) (unsafe: <span class=link>http://</span><span class=link>www.morganstanley.com/ADV), or contact your Financial Advisor/Private Wealth Advisor.

**Consider Your Own Investment Needs:** The model portfolios and strategies discussed in the material are formulated based on general client characteristics including risk tolerance. This material is not intended to be an analysis of whether particular investments or strategies are appropriate for you or a recommendation, or an offer to participate in any investment. Therefore, clients should not use this profile as the sole basis for investment decisions. They should consider all relevant information, including their existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon. Such a determination may lead to asset allocation results that are materially different from the asset allocation shown in this profile. Talk to your Financial Advisor about what would be an appropriate asset allocation for you, whether CGCM is an appropriate program for you.

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**Please consider the investment objectives, risks, fees, and charges and expenses of mutual funds, ETFs, closed end funds, unit investment trusts, and variable insurance products carefully before investing. The prospectus contains this and other information about each fund. To obtain a prospectus, contact your Financial Advisor or Private Wealth Advisor or visit the Morgan Stanley website at [www.morganstanley.com](http://www.morganstanley.com) (unsafe: <span class=**

***An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the Fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund.***

The type of mutual funds and ETFs discussed in this presentation utilizes nontraditional or complex investment strategies and/or derivatives. Examples of these types of funds include those that utilize one or more of the below noted investment strategies or categories or which seek exposure to the following markets: (1) commodities (e.g., agricultural, energy and metals), currency, precious metals; (2) managed futures; (3) leveraged, inverse or inverse leveraged; (4) bear market, hedging, long-short equity, market neutral; (5) real estate; (6) volatility (seeking exposure to the CBOE VIX Index). Investors should keep in mind that while mutual funds and ETFs may, at times, utilize nontraditional investment options and strategies, they should not be equated with unregistered privately offered alternative investments. Because of regulatory limitations, mutual funds and ETFs that seek alternative-like investment exposure must utilize a more limited investment universe. As a result, investment returns and portfolio characteristics of alternative mutual funds and ETFs may vary from traditional hedge funds pursuing similar investment objectives. Moreover, traditional hedge funds have limited liquidity with long “lock-up” periods allowing them to pursue investment strategies without having to factor in the need to meet client redemptions and ETFs trade on an exchange. On the other hand, mutual funds typically must meet daily client redemptions. This differing liquidity profile can have a material impact on the investment returns generated by a mutual fund or ETF pursuing an alternative investing strategy compared with a traditional hedge fund pursuing the same strategy.

Nontraditional investment options and strategies are often employed by a portfolio manager to further a fund’s investment objective and to help offset market risks. However, these features may be complex, making it more difficult to understand the fund’s essential characteristics and risks, and how it will perform in different market environments and over various periods of time. They may also expose the fund to increased volatility and unanticipated risks particularly when used in complex combinations and/or accompanied by the use of borrowing or “leverage.”

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### KEY ASSET CLASS CONSIDERATIONS AND OTHER RISKS

Investing in the markets entails the risk of market volatility. The value of all types of investments, including stocks, mutual funds, exchange-traded funds ("ETFs"), closed-end funds, and unit investment trusts, may increase or decrease over varying time periods. To the extent the investments depicted herein represent **international securities**, you should be aware that there may be additional risks associated with international investing, including foreign economic, political, monetary and/or legal factors, changing currency exchange rates, foreign taxes, and differences in financial and accounting standards. These risks may be magnified in **emerging markets and frontier markets**. **Small- and mid-capitalization companies** may lack the financial resources, product diversification and competitive strengths of larger companies. In addition, the securities of small- and mid-capitalization companies may not trade as readily as, and be subject to higher volatility than, those of larger, more established companies. The value of **fixed income securities** will fluctuate and, upon a sale, may be worth more or less than their original cost or maturity value. Bonds are subject to interest rate risk, call risk, reinvestment risk, liquidity risk, and credit risk of the issuer. **High yield bonds** are subject to additional risks such as increased risk of default and greater volatility because of the lower credit quality of the issues. In the case of **municipal bonds**, income is generally exempt from federal income taxes. Some income may be subject to state and local taxes and to the federal alternative minimum tax. Capital gains, if any, are subject to tax. **Treasury Inflation Protection Securities' (TIPS)** coupon payments and underlying principal are automatically increased to compensate for inflation by tracking the consumer price index (CPI). While the real rate of return is guaranteed, TIPS tend to offer a low return. Because the return of TIPS is linked to inflation, TIPS may significantly underperform versus conventional U.S. Treasuries in times of low inflation. There is no guarantee that investors will receive par if TIPS are sold prior to maturity. The returns on a portfolio consisting primarily of **environmental, social, and governance-aware investments ("ESG")** may be lower or higher than a portfolio that is more diversified or where decisions are based solely on investment considerations. Because ESG criteria exclude some investments, investors may not be able to take advantage of the same opportunities or market trends as investors that do not use such criteria. The companies identified and investment examples are for illustrative purposes only and should not be deemed a recommendation to purchase, hold or sell any securities or investment products. They are intended to demonstrate the approaches taken by managers who focus on ESG criteria in their investment strategy. There can be no guarantee that a client's account will be managed as described herein. **Options** and margin trading involve substantial risk and are not appropriate for all investors. Besides the general investment risk of holding securities that may decline in value and the possible loss of principal invested, **closed-end funds** may have additional risks related to declining market prices relative to net asset values (NAVs), active manager underperformance and potential leverage. Closed-end funds, unlike open-end funds, are not continuously offered. There is a one-time public offering and once issued, shares of closed-end funds are sold in the open market through a stock exchange. NAV is total assets less total liabilities divided by the number of shares outstanding. At the time an investor purchases shares of a closed-end fund, shares may have a market price that is above or below NAV. Portfolios that invest a large percentage of assets in only one industry **sector** (or in only a few sectors) are more vulnerable to price fluctuation than those that diversify among a broad range of sectors.

**Alternative investments** often are speculative and include a high degree of risk. Investors could lose all or a substantial amount of their investment. Alternative investments are appropriate only for eligible, long-term investors who are willing to forgo liquidity and put capital at risk for an indefinite period of time. They may be highly illiquid and can engage in leverage and other speculative practices that may increase the volatility and risk of loss. Alternative Investments typically have higher fees than traditional investments. Investors should carefully review and consider potential risks before investing. Certain of these risks may include but are not limited to: Loss of all or a substantial portion of the investment due to leveraging, short-selling, or other speculative practices; Lack of liquidity in that there may be no secondary market for a fund; Volatility of returns; Restrictions on transferring interests in a fund; Potential lack of diversification and resulting higher risk due to concentration of trading authority when a single advisor is utilized; Absence of information regarding valuations and pricing; Complex tax structures and delays in tax reporting; Less regulation and higher fees than mutual funds; Risks associated with the operations, personnel, and processes of the manager; and Risks associated with cybersecurity. As a diversified global financial services firm, Morgan Stanley Wealth Management engages in a broad spectrum of activities including financial advisory services, investment management activities, sponsoring and managing private investment funds, engaging in broker-dealer

transactions and principal securities, commodities and foreign exchange transactions, research publication, and other activities. In the ordinary course of its business, Morgan Stanley Wealth Management therefore engages in activities where Morgan Stanley Wealth Management's interests may conflict with the interests of its clients, including the private investment funds it manages. Morgan Stanley Wealth Management can give no assurance that conflicts of interest will be resolved in favor of its clients or any such fund. All expressions of opinion are subject to change without notice and are not intended to be a forecast of future events or results. Further, opinions expressed herein may differ from the opinions expressed by Morgan Stanley Wealth Management and/or other businesses/affiliates of Morgan Stanley Wealth Management. 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These limitations include survivorship bias (the returns of the indices may not be representative of all the hedge funds in the universe because of the tendency of lower performing funds to leave the index); heterogeneity (not all hedge funds are alike or comparable to one another, and the index may not accurately reflect the performance of a described style); and limited data (many hedge funds do not report to indices, and the index may omit funds, the inclusion of which might significantly affect the performance shown). The HFRI indices are based on information self-reported by hedge fund managers that decide on their own, at any time, whether or not they want to provide, or continue to provide, information to HFR Asset Management, L.L.C. Results for funds that go out of business are included in the index until the date that they cease operations. Therefore, these indices may not be complete or accurate representations of the hedge fund universe, and may be biased in several ways. Composite index results are shown for illustrative purposes and do not represent the performance of a specific investment. Individual funds have specific tax risks related to their investment programs that will vary from fund to fund. Clients should consult their own tax and legal advisors as Morgan Stanley Wealth Management does not provide tax or legal advice. Interests in alternative investment products are offered pursuant to the terms of the applicable offering memorandum, are distributed by Morgan Stanley Wealth Management and certain of its affiliates, and (1) are not FDIC-insured, (2) are not deposits or other obligations of Morgan Stanley Wealth Management or any of its affiliates, (3) are not guaranteed by Morgan Stanley Wealth Management and its affiliates, and (4) involve investment risks, including possible loss of principal. Morgan Stanley Wealth Management is a registered broker-dealer, not a bank. 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Investment products in this category may employ various investment strategies and techniques for both hedging and more speculative purposes such as short-selling, leverage, derivatives and options, which can increase volatility and the risk of investment loss. Alternative investments are not appropriate for all investors. As a diversified global financial services firm, Morgan Stanley Wealth Management engages in a broad spectrum of activities including financial advisory services, investment management activities, sponsoring and managing private investment funds, engaging in broker-dealer transactions and principal securities, commodities and foreign exchange transactions, research publication, and other activities. In the ordinary course of its business, Morgan Stanley Wealth Management therefore engages in activities where Morgan Stanley Wealth Management's interests may conflict with the interests of its clients, including the private investment funds it manages. Morgan Stanley Wealth Management can give no assurance that conflicts of interest will be resolved in favor of its clients or any such fund. Alternative investments involve complex tax structures, tax inefficient investing, and delays in distributing important tax information. Individual funds have specific risks related to their investment programs that will vary from fund to fund. Clients should consult their own tax and legal advisors as Morgan Stanley Wealth Management does not provide tax or legal advice.

A majority of Alternative Investment managers reviewed and selected by GIMA pay or cause to be paid an ongoing fee for distribution from their management fees to Morgan Stanley Wealth Management in connection with Morgan Stanley Wealth Management clients that purchase an interest in an Alternative Investment and in some instances pay these fees on the investments held by advisory clients. Morgan Stanley Wealth Management rebates such fees that are received and attributable to an investment held by an advisory client and retains the fees paid in connection with investments held by brokerage clients. Morgan Stanley Wealth Management has a conflict of interest in offering alternative investments because Morgan Stanley Wealth Management or our affiliates, in most instances, earn more money in your account from your investments in alternative investments than from other investment options.

It should be noted that the majority of hedge fund indexes are comprised of hedge fund manager returns. This is in contrast to traditional indexes, which are comprised of individual securities in the various market segments they represent and offer complete transparency as to membership and construction methodology. As such, some believe that hedge fund index returns have certain biases that are not present in traditional indexes. Some of these biases inflate index performance, while others may skew performance negatively. However, many studies indicate that overall hedge fund index performance has been biased to the upside. Some studies suggest performance has been inflated by up to 260 basis points or more annually depending on the types of biases included and the time period studied. Although there are numerous potential biases that could affect hedge fund returns, we identify some of the more common ones throughout this paper.

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Self-selection bias results when certain manager returns are not included in the index returns and may result in performance being skewed up or down. Because hedge funds are private placements, hedge fund managers are able to decide which fund returns they want to report and are able to opt out of reporting to the various databases. Certain hedge fund managers may choose only to report returns for funds with strong returns and opt out of reporting returns for weak performers. Other hedge funds that close may decide to stop reporting in order to retain secrecy, which may cause a downward bias in returns.

Survivorship bias results when certain constituents are removed from an index. This often results from the closure of funds due to poor performance, “blow ups,” or other such events. As such, this bias typically results in performance being skewed higher. As noted, hedge fund index performance biases can result in positive or negative skew. However, it would appear that the skew is more often positive. While it is difficult to quantify the effects precisely, investors should be aware that idiosyncratic factors may be giving hedge fund index returns an artificial “lift” or upwards bias.

**Hedge Funds of Funds** and many funds of funds are private investment vehicles restricted to certain qualified private and institutional investors. They are often speculative and include a high degree of risk. Investors can lose all or a substantial amount of their investment. They may be highly illiquid, can engage in leverage and other speculative practices that may increase volatility and the risk of loss, and may be subject to large investment minimums and initial lockups. They involve complex tax structures, tax-inefficient investing and delays in distributing important tax information. Categorically, hedge funds and funds of funds have higher fees and expenses than traditional investments, and such fees and expenses can lower the returns achieved by investors. Funds of funds have an additional layer of fees over and above hedge fund fees that will offset returns. An investment in an **exchange-traded fund** involves risks similar to those of investing in a broadly based portfolio of equity securities traded on an exchange in the relevant securities market, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in stock and bond prices. An investment in a **target date portfolio** is subject to the risks attendant to the underlying funds in which it invests, in these portfolios the funds are the Consulting Group Capital Market funds. A target date portfolio is geared to investors who will retire and/or require income at an approximate year. The portfolio is managed to meet the investor’s goals by the pre-established year or “target date.” A target date portfolio will transition its invested assets from a more aggressive portfolio to a more conservative portfolio as the target date draws closer. An investment in the target date portfolio is not guaranteed at any time, including, before or after the target date is reached. **Managed futures** investments are speculative, involve a high degree of risk, use significant leverage, are generally illiquid, have substantial charges, subject investors to conflicts of interest, and are appropriate only for the risk capital portion of an investor’s portfolio. Managed futures investments do not replace equities or bonds but rather may act as a complement in a well diversified portfolio. Managed Futures are complex and not appropriate for all investors. **Rebalancing** does not protect against a loss in declining financial markets. There may be a potential tax implication with a rebalancing strategy.

**Asset allocation and diversification** do not assure a profit or protect against loss in declining financial markets. Past performance is no guarantee of future results. Actual results may vary.

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*For index, indicator and survey definitions referenced in this report please visit the following: <https://www.morganstanley.com/wealth-investmentsolutions/wmir-definitions> (unsafe: <https://www.morganstanley.com/wealth-investmentsolutions/wmir-definitions>)*

**GLOBAL INVESTMENT COMMITTEE (GIC) ASSET ALLOCATION MODELS:** The Asset Allocation Models are created by Morgan Stanley Wealth Management's GIC.

**HYPOTHETICAL MODEL PERFORMANCE (GROSS):** Hypothetical model performance results do not reflect the investment or performance of an actual portfolio following a GIC Strategy, but simply reflect actual historical performance of selected indices on a real-time basis over the specified period of time representing the GIC's strategic and tactical allocations as of the date of this report. The past performance shown here is simulated performance based on benchmark indices, not investment results from an actual portfolio or actual trading. There can be large differences between hypothetical and actual performance results achieved by a particular asset allocation or trading strategy. Hypothetical performance results do not represent actual trading and are generally designed with the benefit of hindsight. Actual performance results of accounts vary due to, for example, market factors (such as liquidity) and client-specific factors (such as investment vehicle selection, timing of contributions and withdrawals, restrictions and rebalancing schedules). Clients would not necessarily have obtained the performance results shown here if they had invested in accordance with any GIC Asset Allocation Model for the periods indicated. Despite the limitations of hypothetical performance, these hypothetical performance results allow clients and Financial Advisors to obtain a sense of the risk/return trade-off of different asset allocation constructs. The hypothetical performance results in this report are calculated using the returns of benchmark indices for the asset classes, and not the returns of securities, fund or other investment products. Models may contain allocations to Hedge Funds, Private Equity and Private Real Estate. The benchmark indices for these asset classes are not issued on a daily basis. When calculating model performance on a day for which no benchmark index data is issued, we have assumed straight line growth between the index levels issued before and after that date.

**FEES REDUCE THE PERFORMANCE OF ACTUAL ACCOUNTS:** None of the fees or other expenses (e.g. commissions, mark-ups, mark-downs, fees) associated with actual trading or accounts are reflected in the GIC Asset Allocation Models. The GIC Asset Allocation Models and any model performance included in this presentation are intended as educational materials. Were a client to use these models in connection with investing, any investment decisions made would be subject to transaction and other costs which, when compounded over a period of years, would decrease returns. Information regarding Morgan Stanley's standard advisory fees is available in the Form ADV Part 2, which is available at [www.morganstanley.com/adv](http://www.morganstanley.com/adv). The following hypothetical illustrates the compound effect fees have on investment returns: For example, if a portfolio's annual rate of return is 15% for 5 years and the account pays 50 basis points in fees per annum, the gross cumulative five-year return would be 101.1% and the five-year return net of fees would be 96.8%. Fees and/or expenses would apply to clients who invest in investments in an account based on these asset allocations, and would reduce clients' returns. The impact of fees and/or expenses can be material.

**Variable annuities** are long-term investments designed for retirement purposes and may be subject to market fluctuations, investment risk, and possible loss of principal. All guarantees, including optional benefits, are based on the financial strength and claims-paying ability of the issuing insurance company and do not apply to the underlying investment options. Optional riders may not be able to be purchased in combination and are available at an additional cost. Some optional riders must be elected at time of purchase. Optional riders may be subject to specific limitations, restrictions, holding periods, costs, and expenses as specified by the insurance company in the annuity contract. If you are investing in a **variable annuity** through a tax-advantaged retirement plan such as an IRA, you will get no additional tax advantage from the variable annuity. Under these circumstances, you should only consider buying a variable annuity because of its other features, such as lifetime income payments and death benefits protection. Taxable distributions (and certain deemed distributions) are subject to ordinary income tax and, if taken prior to age 59½, may be subject to a 10% federal income tax penalty. Early withdrawals will reduce the death benefit and cash surrender value.

**Equity securities** may fluctuate in response to news on companies, industries, market conditions and general economic environment. **Ultrashort-term fixed income** asset class is comprised of fixed income securities with high quality, very short maturities. They are therefore subject to the risks associated with debt securities such as credit and interest rate risk.

**Master Limited Partnerships (MLPs)** are limited partnerships or limited liability companies that are taxed as partnerships and whose interests (limited partnership units or limited liability company units) are traded on securities exchanges like shares of common stock. Currently, most MLPs operate in the energy, natural resources or real estate sectors. Investments in MLP interests are subject to the risks generally applicable to companies in the energy and natural resources sectors, including commodity pricing risk, supply and demand risk, depletion risk and exploration risk. Individual MLPs are publicly traded partnerships that have unique risks related to their structure. These include, but are not limited to, their reliance on the capital markets to fund growth, adverse ruling on the current tax treatment of distributions (typically mostly tax deferred), and commodity volume risk. The potential tax benefits from investing in MLPs depend on their being treated as partnerships for federal income tax purposes

and, if the MLP is deemed to be a corporation, then its income would be subject to federal taxation at the entity level, reducing the amount of cash available for distribution to the fund which could result in a reduction of the fund's value. MLPs carry interest rate risk and may underperform in a rising interest rate environment. MLP funds accrue deferred income taxes for future tax liabilities associated with the portion of MLP distributions considered to be a tax-deferred return of capital and for any net operating gains as well as capital appreciation of its investments; this deferred tax liability is reflected in the daily NAV, and, as a result, the MLP fund's after-tax performance could differ significantly from the underlying assets even if the pre-tax performance is closely tracked.

**Investing in commodities** entails significant risks. Commodity prices may be affected by a variety of factors at any time, including but not limited to, (i) changes in supply and demand relationships, (ii) governmental programs and policies, (iii) national and international political and economic events, war and terrorist events, (iv) changes in interest and exchange rates, (v) trading activities in commodities and related contracts, (vi) pestilence, technological change and weather, and (vii) the price volatility of a commodity. In addition, the commodities markets are subject to temporary distortions or other disruptions due to various factors, including lack of liquidity, participation of speculators and government intervention. **Physical precious metals** are non-regulated products. Precious metals are speculative investments, which may experience short-term and long term price volatility. The value of precious metals investments may fluctuate and may appreciate or decline, depending on market conditions. Unlike bonds and stocks, precious metals do not make interest or dividend payments. Therefore, precious metals may not be appropriate for investors who require current income. Precious metals are commodities that should be safely stored, which may impose additional costs on the investor.

**REITs** investing risks are similar to those associated with direct investments in real estate: property value fluctuations, lack of liquidity, limited diversification and sensitivity to economic factors such as interest rate changes and market recessions. Risks of **private real estate** include: illiquidity; a long-term investment horizon with a limited or nonexistent secondary market; lack of transparency; volatility (risk of loss); and leverage. Principal is returned on a monthly basis over the life of a **mortgage-backed security**. Principal prepayment can significantly affect the monthly income stream and the maturity of any type of MBS, including standard MBS, CMOs and Lottery Bonds. **Asset-backed securities** generally decrease in value as a result of interest rate increases, but may benefit less than other fixed-income securities from declining interest rates, principally because of prepayments.

**Yields** are subject to change with economic conditions. Yield is only one factor that should be considered when making an investment decision. **Credit ratings** are subject to change. **Duration**, the most commonly used measure of bond risk, quantifies the effect of changes in interest rates on the price of a bond or bond portfolio. The longer the duration, the more sensitive the bond or portfolio would be to changes in interest rates. The majority of \$25 and \$1000 par **preferred securities** are "callable" meaning that the issuer may retire the securities at specific prices and dates prior to maturity. Interest/dividend payments on certain preferred issues may be deferred by the issuer for periods of up to 5 to 10 years, depending on the particular issue. The investor would still have income tax liability even though payments would not have been received. Price quoted is per \$25 or \$1,000 share, unless otherwise specified. Current yield is calculated by multiplying the coupon by par value divided by the market price. The initial interest rate on a **floating-rate security** may be lower than that of a fixed-rate security of the same maturity because investors expect to receive additional income due to future increases in the floating security's underlying reference rate. The reference rate could be an index or an interest rate. However, there can be no assurance that the reference rate will increase. Some floating-rate securities may be subject to call risk. The market value of **convertible bonds** and the underlying common stock(s) will fluctuate and after purchase may be worth more or less than original cost. If sold prior to maturity, investors may receive more or less than their original purchase price or maturity value, depending on market conditions. Callable bonds may be redeemed by the issuer prior to maturity. Additional call features may exist that could affect yield. Some \$25 or \$1000 par **preferred securities** are QDI (Qualified Dividend Income) eligible. Information on QDI eligibility is obtained from third party sources. The dividend income on QDI eligible preferreds qualifies for a reduced tax rate. Many traditional 'dividend paying' perpetual preferred securities (traditional preferreds with no maturity date) are QDI eligible. In order to qualify for the preferential tax treatment all qualifying preferred securities must be held by investors for a minimum period – 91 days during a 180 day window period, beginning 90 days before the ex-dividend date.

Companies paying **dividends** can reduce or cut payouts at any time.

**Nondiversification:** For a portfolio that holds a concentrated or limited number of securities, a decline in the value of these investments would cause the portfolio's overall value to decline to a greater degree than a less concentrated portfolio. The **indices selected by Morgan Stanley Wealth Management** to measure performance are representative of broad asset classes. Morgan Stanley Wealth Management retains the right to change representative indices at any time. Because of their narrow focus, **sector investments** tend to be more volatile than investments that diversify across many sectors and companies.

**Growth investing** does not guarantee a profit or eliminate risk. The stocks of these companies can have relatively high valuations. Because of these high valuations, an investment in a growth stock can be more risky than an investment in a company with more modest growth expectations. **Value investing** does not guarantee a profit or eliminate risk. Not all companies whose stocks are considered to be value stocks are able to turn their business around or successfully employ corrective strategies which would result in stock prices that do not rise as initially expected.

Any type of **continuous or periodic investment plan** does not assure a profit and does not protect against loss in declining markets. Since such a plan involves continuous investment in securities regardless of fluctuating price levels of such securities, the investor should consider his financial ability to continue his purchases through periods of low price levels.

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## GENERAL DEFINITIONS

**Alpha:** Is a measure of a portfolio's time weighted net of fees return in excess of the market return, both adjusted for risk. A positive alpha indicates that the portfolio outperformed the market on a risk-adjusted basis, and a negative alpha indicates the portfolio did worse than the market.

**Annualized Standard Deviation:** A statistical calculation that measures the volatility of returns over time; the larger the standard deviation, the greater the volatility.

**Beta:** Is a measure of the sensitivity of a portfolio's time weighted net of fees return against that of the market. A beta greater than 1.00 indicates volatility greater than the market.

**Dollar-Weighted Return (Internal Rate of Return):** A return calculation that measures the actual performance of a portfolio over the reporting period. Since dollar weighted returns include the impact of client contributions and withdrawals, they should not be compared to market indices or used to evaluate the performance of a manager, but can be used to evaluate progress toward investment goals.

**Graph Notes:** Both the benchmark and portfolio returns are adjusted by the return of the go-day Treasury Bills to illustrate the excess return above the Risk Free Rate for each period.

**Investment Earnings:** A combination of the income received and total portfolio value increase or decrease, excluding net contributions and withdrawals, over the reporting period.

**Modern Portfolio Theory:** Seeks to quantify the relationship between risk and return and operates under the assumption that an investor must be compensated for assuming risk.

**Net Contributions/Withdrawals:** The net value of cash and securities contributed to or withdrawn from the account(s) during the reporting period. Net contributions and withdrawals may include advisory fees for advisory accounts.

**Net of Fees:** Performance results depicted as "net" of fees shall mean that any wrap fee, investment management fees, trade commissions, and/or other account fees have been deducted. Any other fees or expenses associated with the account, such as third party custodian fees, may not have been deducted. Please see the Morgan Stanley Smith Barney LLC Form ADV Part 2 Brochure for advisory accounts and/or any applicable brokerage account trade confirmation statements for a full disclosure of the applicable charges, fees and expenses. Your Financial Advisor will provide those documents to you upon request.

**Performance ineligible assets:** Performance returns are not calculated for certain assets because accurate valuations and transactions for these assets are not processed or maintained by Morgan Stanley Smith Barney LLC. Common examples include life insurance and annuities as well as Manually Added and External accounts, assets and liabilities.

**R<sup>2</sup>:** Is a measure that indicates the extent to which fluctuations in a portfolio's time weighted net of fees return is correlated with the return of the general market. An R<sup>2</sup> of 0.80 implies that 80% of the fluctuation of a portfolio's return is explained by the fluctuation in the market.

**Tax-Qualified Account(s):** Accounts that qualify for favorable tax treatment under US federal tax law and may benefit from favorable tax treatment under applicable state tax law. Typically, these accounts benefit from tax deferred growth potential, meaning investment earnings (such as capital gains, dividends, and interest) are generally not subject to federal income tax while the earnings remain in the account. Capital gains rates generally do not apply. Distributions of taxable amounts are generally subject to ordinary income tax and, if made before age 59 1/2, may be subject to a 10% (25% for certain SIMPLE IRA distributions) penalty tax. Some tax-qualified accounts, such as traditional Individual Retirement Accounts ("IRA") and employer sponsored retirement plan accounts, may allow tax deductible and/or pre-tax contributions (subject to certain limitations and restrictions). Other tax-qualified accounts, such as Roth IRAs and Coverdell Education Savings Accounts, may allow income tax free distributions, but only if certain conditions are satisfied.

**Taxable Account(s):** Accounts that are not Tax-Qualified Account(s), meaning investment earnings (such as capital gains, dividends, and interest) are generally subject to current US federal income taxation when held by US taxable investors. Note, however, that this category may include specific assets that are generally not subject to US federal income tax such as municipal bonds.

**Time-Weighted Return:** A return calculation that measures the investment performance of a portfolio over the reporting period. Time weighted returns do not include the impact of client contributions and withdrawals and therefore, may not reflect the actual rate of return the client received. Time weighted returns isolate investment actions and can be compared to benchmarks and used to evaluate the performance of a manager.

**Total Value:** "Total Value" represents the Market Value of the portfolio or Asset Class referenced and includes the accrual of interest and dividends. Total Value in the Asset Allocation view prior to January

2014, does not reflect the accrual of interest and dividends. Total Value for Morgan Stanley & Co. and External accounts also does not include accrued interest and dividends.

#### BENCHMARK DEFINITIONS

**TN TSBA Composite:** The current allocation is comprised of 25.00% BC Global Agg 1-3 YR, 50.00% MSCI AC World Net, 15.00% MSCI EAFE Net, 10.00% MSCI EM Net.

**FTSE T-Bills 30 Day:** A measure of monthly returns equivalent of yield averages that are not marked to market. A measure of short term rates.

**MSCI AC World Net:** The MSCI ACWI Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 46 country indexes comprising 23 developed and 23 emerging market country indexes. The developed market country indexes included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indexes included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey, and United Arab Emirates (as of June 2014). Net total return indices reinvest dividends after the deduction of withholding taxes, using (for international indices) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

**MSCI EAFE Net:** The MSCI EAFE Index -Europe, Australasia, Far East - is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US and Canada. The MSCI EAFE Index consists of the following 21 developed market country indexes: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom (as of June 2014). Net total return indices reinvest dividends after the deduction of withholding taxes, using (for international indices) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

**MSCI EM Net:** The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index consists of the following 23 emerging market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey, and United Arab Emirates (as of June 2014). Net total return indices reinvest dividends after the deduction of withholding taxes, using (for international indices) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

**BC Global Agg 1-3 YR:** The Barclays Global Aggregate Index provides a broad-based measure of the global investment-grade fixed income markets. The three major components of this index are the U.S. Aggregate, the Pan-European Aggregate, and the Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government, agency and corporate securities, and USD investment grade 144A securities. This index is the 1-3 Yr component of the Global Aggregate index.

**90-Day T-Bills:** Equal dollar amounts of three-month Treasury bills are purchased at the beginning of each of three consecutive months. As each bill matures, all proceeds are rolled over or reinvested in a new three-month bill. The income used to calculate the monthly return is derived by subtracting the original amount invested from the maturity value. The yield curve average is the basis for calculating the return on the index. The index is rebalanced monthly by market capitalization. The 90-Day Treasury Bill is a short-term obligation issued by the United States government. T-bills are purchased at a discount to the full face value, and the investor receives the full value when they mature. The difference of discount is the interest earned. T-bills are issued in denominations of \$10,000 auction and \$1,000 increments thereafter.