# Virginia
# Pooled OPEB Trust Fund

Annual Financial Report

For the Year Ended June 30, 2019

# Virginia Pooled OPEB Trust Fund

Annual Financial Report

For the Year Ended June 30, 2019

Prepared by:
VML/VACO Finance

**Virginia Pooled OPEB Trust Fund**
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DIXON HUGHES GOODMAN LLP

# Independent Auditors' Report

Board of Trustees
Virginia Pooled OPEB Trust Fund

## Report on the Financial Statements

We have audited the accompanying financial statements of Virginia Pooled OPEB Trust Fund, which comprise the statement of fiduciary net position and the related statement of changes in fiduciary net position, as of and for the year ended June 30, 2019, and the related notes to the financial statements.

### *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.

### *Auditors' 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 net position of the Virginia Pooled OPEB Trust Fund as of June 30, 2019, and the respective changes in financial position for the year ended June 30, 2019, in accordance with accounting principles generally accepted in the United States of America.

DIXON HUGHES GOODMAN LLP

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14 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 Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2020, on our consideration of the Virginia Pooled OPEB Trust Fund'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 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 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 Virginia Pooled OPEB Trust Fund's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

**Richmond, Virginia**
**June 9, 2020**

This discussion and analysis provides an overview of the financial position and the results of activities of the Virginia Pooled Trust Fund ("Trust") as of and for the fiscal year ended June 30, 2019. Management offers the following discussion and analysis as a narrative introduction to the basic financial statements, which includes comparative information as of and for the fiscal year ended June 30, 2018, where applicable. This narrative is intended as a supplement and should be read in conjunction with the basic financial statements and accompanying notes.

The Trust was established in 2008 under the Joint Exercise of Powers statute of the Commonwealth of Virginia ("Commonwealth") to invest funds for other postemployment benefits ("OPEB") by founding participants, the County of Fairfax, Virginia and the County of Henrico, Virginia. The Trust operates under the Virginia Pooled OPEB Trust Fund Agreement ("Trust Agreement"), which was adopted by the Board of Trustees on April 11, 2008. The Trust is an Internal Revenue Code Section 115 (IRC §115) governmental trust. Income of the Trust is tax-exempt under IRC §115. The Trust was created to provide political subdivisions of the Commonwealth of Virginia with a vehicle to accumulate and invest contributions for funding OPEB to defray future expenses. It is the only pooled OPEB trust fund offered in Virginia. As of June 30, 2019, the Trust held investments in excess of $1.1 billion making it the largest pooled OPEB trust fund in the United States.

The Trust is jointly sponsored by the Virginia Association of Counties ("VACo") and the Virginia Municipal League ("VML") and operates as the VACo/VML Pooled OPEB Trust Fund. Primary benefits of participation in the Trust include access to institutional investment fund managers offered through two diversified portfolios, the guidance of an investment consultant, economies of scale through pooling, and administrative services. The Trust offers two investment portfolios: the Virginia Pooled OPEB Trust Portfolio I ("Portfolio I") and The Virginia Pooled OPEB Trust Portfolio II ("Portfolio II"). Portfolio I, the default portfolio, has an asset allocation constructed to achieve an expected rate of return of approximately 7.50%. Portfolio II has an alternatively weighted asset allocation to achieve an expected rate of return of approximately 6.00%. Participants may only invest in one portfolio at a time. Participants hold individual trust accounts wherein they can monitor the performance of their investments.

The Virginia Local Government Finance Corporation ("VLGFC"), operating as VML/VACo Finance, ("Administrator") provides day-to-day administration of the Trust pursuant to a Memorandum of Agreement.

***Financial Highlights***

- The combined total net position held in trust for pool participants was $1,171.9 million at June 30, 2019, representing an increase of $108.2 million, or 10.17%, from the net position as of June 30, 2018. The increase was due to participant contributions and investment income.
- Contributions from participants during fiscal year ended 2019 totaled $55.9 million, a 32.57% increase over contributions from participants of $42.1 million during fiscal year 2018.
- Investment earnings from interest and dividends grew 39.99% during fiscal year 2019 compared with fiscal year 2018, coming in at $17.1 million during fiscal year 2019 versus $12.2 million during fiscal year 2018. The higher interest income was primarily due to higher interest rates and an increase in the aggregate investment balance of participants.
- Net investment income declined by 35.11% during the fiscal year ended June 30, 2019 compared to the fiscal year ended June 30, 2018. This is a result of a decline in the appreciation in the fair value of investments of the Trust during the current fiscal year compared to the prior fiscal year. For year ended June 30, 2019 the Trust experienced a net appreciation in fair value of investments of $38.6 million compared to $72.5 million in fiscal year 2018, representing a decrease of $33.9 million. As discussed below, the returns of the portfolios in the Trust were 4.53% for Portfolio I and 5.52% for Portfolio II compared to 9.60% and 5.40%, respectively, for fiscal year 2018.

***Financial Highlights (continued)***

- Payables as of fiscal year ended 2019 totaled $2.7 million compared with $8.8 million as of fiscal year ended 2018 for a decrease of $6.1 million, or 69.68%. The change in ending balance is a result of lower pending trades as of the fiscal year end.

***Overview of the Financial Statements***

The components of the financial statements and the required supplementary information are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Government Accounting Standards Board ("GASB").

This overview serves as an introduction to the Trust's basic financial statements. The Trust's basic financial statements include the following:

- The *Statement of Fiduciary Net Position* presents the Trust's assets and liabilities. The difference between the assets and liabilities is reported as the net position restricted for pool participants. Over time, changes in net position may serve as a useful indicator of whether the financial position of the Trust is improving or deteriorating.
- The *Statement of Changes in Fiduciary Net Position* presents information showing how the Trust's net position changed during the period. This statement includes additions and deductions that occurred during the fiscal year. Additions include participant contributions and net investment earnings. Deductions include participant withdrawals and administrative expenses.
- The *Notes to Financial Statements* provide additional information that is essential for understanding the financial data provided in the financial statements and are an integral part of the financial statements.

The summarized financial information as of and for fiscal year ended June 30, 2019 is as below:

| | | |
|---|---|---|
| Total Assets | $ | 1,174,568,694 |
| Total Liabilities | | 2,678,682 |
| Net Position, June 30 | $ | 1,171,890,012 |
| Total Additions | $ | 109,108,226 |
| Total Deductions | | 943,722 |
| Change in Net Position | $ | 108,164,504 |
| Net Position, July 1 | $ | 1,063,725,508 |
| Change in Net Position | | 108,164,504 |
| Net position, June 30 | $ | 1,171,890,012 |

***Financial Analysis***

The Trust's investment objectives are to maximize the total long-term rate of return with reasonable risk by seeking capital appreciation and, secondarily, principal protection. The Trust is segregated and managed as two distinct portfolios referred to as Portfolio I and Portfolio II. Portfolio I is structured to achieve a compound annualized total expected rate of return over a market cycle, including current income and capital appreciation, of 7.5%. Portfolio II is structured to achieve an expected rate of return of 6.0%.

***Financial Analysis (continued)***

During fiscal year 2019, certain reclassifications were made to the presentation of the financial statements and the fiscal year 2018 information was reclassified for comparative purposes. Those changes include reclassifying the separately managed small-cap equity accounts and other modifications to enhance readability. Separately managed small-cap equity accounts are reported as equity securities based on the market value of the equity securities held in the investment manager's portfolios. Historically, the separately managed small-cap equity accounts were reported on a unitized basis as other investments. The comparative financial information for fiscal year 2019 to fiscal year 2018 is as follows:

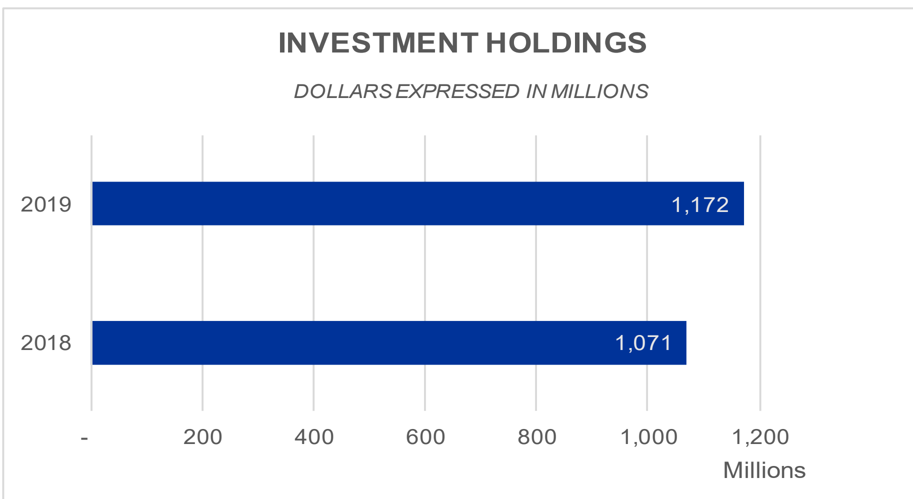
| | 2019 | 2018 | $ Change | % Change |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Short Term Investments | $ 30,928,208 | 15,782,145 | 15,146,063 | 95.97% |
| Investments at Fair Value | 1,140,820,297 | 1,054,927,372 | 85,892,925 | 8.14% |
| Receivables | 2,820,189 | 1,850,973 | 969,216 | 52.36% |
| TOTAL ASSETS | 1,174,568,694 | 1,072,560,490 | 102,008,204 | 9.51% |
| **LIABILITIES** | | | | |
| Payables | 2,678,682 | 8,834,982 | (6,156,300) | -69.68% |
| TOTAL LIABILITIES | 2,678,682 | 8,834,982 | (6,156,300) | -69.68% |
| **NET POSITION HELD IN TRUST FOR POOL PARTICIPANTS** | 1,171,890,012 | 1,063,725,508 | 108,164,504 | |

| | 2019 | 2018 | $ Change | % Change |
|---|---|---|---|---|
| **ADDITIONS** | | | | |
| Participant Contributions | $ 55,860,282 | 42,137,256 | 13,723,026 | 32.57% |
| Net Investment Income | 53,247,944 | 82,052,488 | (28,804,544) | -35.11% |
| Total Additions | 109,108,226 | 124,189,744 | (15,081,518) | -12.14% |
| **DEDUCTIONS** | | | | |
| Participant Withdrawals | $ 127,493 | 15,604 | 111,889 | 717.05% |
| Administrative and Program Expenses | 816,229 | 754,131 | 62,098 | 8.23% |
| Total Deductions | 943,722 | 769,735 | 173,987 | 22.60% |
| Change in Net Position | 108,164,504 | 123,420,009 | (15,255,505) | -12.36% |
| Net Position Beginning of Year | 1,063,725,508 | 940,305,499 | 123,420,009 | |
| **NET POSITION HELD IN TRUST FOR POOL PARTICIPANTS** | $ 1,171,890,012 | 1,063,725,508 | 108,164,504 | 10.17% |

***Net Position***

The Trust's net position is comprised primarily of the investments reported at fair value. The investment balance saw an increase of 8.14% from fiscal year ended 2018 to fiscal year ended 2019. During the fiscal year, three new participant accounts were added to the Trust, bringing the total number of participant accounts to 54. Three participant accounts had initial contributions totaling $12.3 million during fiscal year ended 2019. Increased contributions to the Trust, by new and existing participants, contributed to increases in investment balances and overall net position. The lower investment income in the current year compared to prior year resulted in a lower growth rate of the Trust during fiscal year 2019. The growth in participants and the increase in participant contributions was offset by an overall decrease in the investment performance, which led to a decrease in the change in net position from the prior year, with the current year change at $108.2 million compared to prior year of $123.4 million.

A comparison of the investment holdings, including short-term investments at amortized cost and long-term investments at fair value as of June 30 are as below:

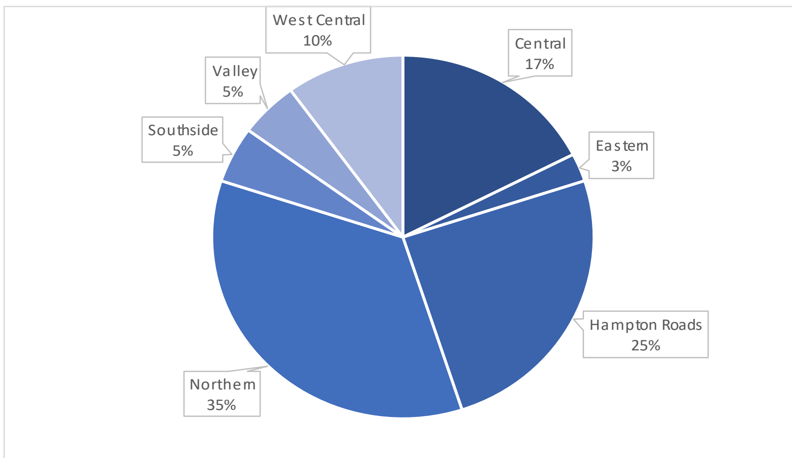



***Short Term Investments***

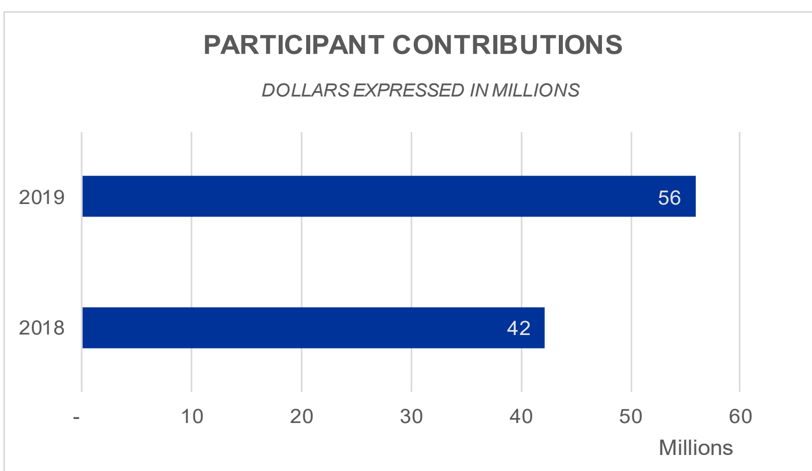
Short term investments are comprised of money-market mutual funds, which are considered cash equivalents, and totaled $30.9 million at fiscal year-end 2019 compared with $15.8 million at fiscal year ended 2018. The increase of $15.1 million is primarily attributed to an increase of contributions received from participants in June of the fiscal year 2019.

### *Participation*

Participation in the Trust's pools is voluntary and the Administrator strives to direct marketing efforts throughout the Commonwealth. The Trust provides an opportunity for all political subdivisions, including urban, rural, and underserved localities to access professionally managed investment pools. As of June 30, 2019, the Trust had participants representing seven of the eight economic regions in the Commonwealth. The economic regions of Virginia each have distinct profiles and were defined by the University of Virginia, Weldon Cooper Center for Public Service. The regions are divided based on several factors including proximity and economic conditions. The participation by economic region is shown below:




Participant activity increased during the fiscal year and participant contributions increased by 32.57%, while withdrawals remained insignificant. The increase in contributions to, and negligible withdrawals from, the Trust has led to a steady year-over-year increase in total assets.



***Participation (continued)***

Contributions from participants are commingled in the participant's selected portfolio and invested to provide funding for future employee benefits. Each participant owns equity positions in the elected portfolio based on the participant's proportionate share of ownership. Investment income or losses are allocated to the participant accounts monthly. Following the allocation of the investment income or loss, the participant shares in the equity position of each portfolio are valued for the month. The net asset value per share of each investment portfolio fluctuates with market conditions. The price per share of each portfolio has increased from fiscal year ended 2018 to fiscal year ended 2019 by 4.60% and 5.51% for Portfolio I and Portfolio II, respectively.

The chart below presents a comparison of the price per share for Portfolio I and Portfolio II as of June 30 for fiscal years 2019 and 2018:

**INVESTMENT POOL PRICE PER SHARE**

AS OF JUNE 30

| | 2019 | 2018 |
|---|---|---|
| **Portfolio I** | 17.9976 | 17.2058 |
| **Portfolio II** | 17.6860 | 16.7631 |

***Investment Performance***

The investment holdings in each portfolio are classified into one of three categories: fixed income, equities, or real assets. The investment holdings are comprised of both passive and actively managed funds. The Board of Trustees, in consultation with the investment consultant, establishes the asset allocations of each portfolio. The asset allocation for each portfolio is strategically designed to achieve the targeted long-term rate of return. The target asset allocation takes into consideration asset class returns and volatility, risk tolerance, and liquidity needs. Each investment allocation category is further described below.

The fixed income allocation provides liquidity, income, stability, preservation of capital, and a partial hedge against periods of prolonged economic contraction or deflation.

The allocation to equities is expected to provide a total return that may provide growth in principal to help preserve and enhance the value of the assets over the long-term. Equity investments may provide higher long-term returns and some protection against inflation.

The real asset allocation provides diversification and overall portfolio risk reduction through exposure to strategies that have limited correlation to equity and fixed income markets and provides a hedge against inflation over a longer time horizon.

In December 2019, a novel strain of coronavirus disease ("COVID-19") was first reported in Wuhan, China. Less than four months later, on March 11, 2020, the World Health Organization declared COVID-19 a pandemic. It is not currently possible to measure the overall impact of COVID-19 on the Trust's investment portfolios. An analysis was performed to assess the impact the pandemic had on investment performance for the subsequent fiscal year through April 30, 2020. The Trust experienced a net unrealized loss through April 30, 2020 of $32.5 million. This loss is primarily attributed to the months ended January through March of 2020 where the Trust experienced unrealized losses for three subsequent months totaling, $177.6 million. The unrealized loss was partially offset in the month of April 2020 when the market began to rebound and the Trust experienced a net unrealized gain of $80.4 million. The time-weighted rate of return on investments in Portfolio I through April of fiscal year ended

***Investment Performance (continued)***

June 30, 2020, was (2.48)% compared to the custom benchmark of (2.28)%. The annual year to date return through April 2020 was (8.53)% compared to the custom benchmark of (8.14)%. The time-weighted rate of return on investments in Portfolio II during April of fiscal year ended June 30, 2020, was (0.83)% compared to the custom benchmark of 1.74%. The annual year to date return through April 2020 was (5.67)% compared to the custom benchmark of (2.93)%.

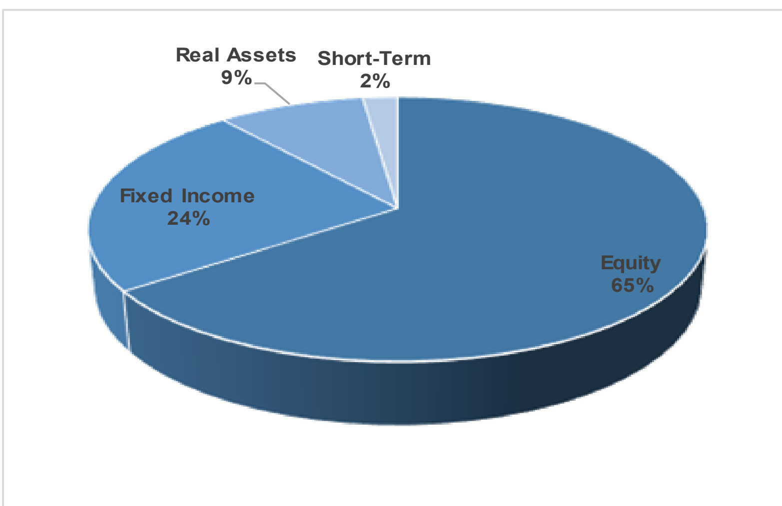
**Portfolio I**

The time-weighted rate of return on investments in Portfolio I during the fiscal year ended June 30, 2019, was 4.53% compared to a return of 9.60% for the fiscal year ended June 30, 2018. The decrease was due primarily to the performance of the public equity investments in the portfolio.

Portfolio I measures its returns against a custom composite benchmark comprised of each asset classes' market index benchmark, weighted by the long-term policy allocations. The investment performance of Portfolio I aims to exceed the return of the benchmark on a rolling three-year period while preserving participant capital. The total return (net of fees) of Portfolio I for the year ended June 30, 2019 was 4.53% compared to 5.43% for the custom benchmark.

Portfolio I is constructed to achieve an expected rate of return of approximately 7.50%. This objective is achieved by weighting the asset allocation more heavily towards equities and real assets, an allocation that tends to have greater market volatility than a portfolio weighted more heavily towards fixed income.

Below is the asset allocation based on the major asset classes for Portfolio I as of June 30, 2019:



**Portfolio I (continued)**

The asset allocation of Portfolio I, based on fair value as of June 30, 2019, was as follows:

| Asset Class | | Portfolio Amount | Portfolio Allocation |
|---|---|---|---|
| Money Market Mutual Funds | $ | 21,850,711 | 2.40% |
| Large Cap Equity | | 267,989,467 | 29.38% |
| Small Cap Equity | | 89,329,843 | 9.79% |
| International Developed Equity | | 124,902,759 | 13.69% |
| Emerging Markets Equity | | 49,081,590 | 5.38% |
| Private Equity | | 12,213,615 | 1.34% |
| Long/Short Equity | | 47,334,155 | 5.19% |
| Core Plus Fixed Income | | 121,676,548 | 13.34% |
| Core Fixed Income | | 59,937,255 | 6.57% |
| Absolute Return Fixed Income | | 36,215,783 | 3.97% |
| Real Estate Real Assets | | 58,825,583 | 6.45% |
| Commodities Real Assets | | 22,765,419 | 2.50% |
| Total | $ | 912,122,728 | 100.00% |

**Portfolio II**

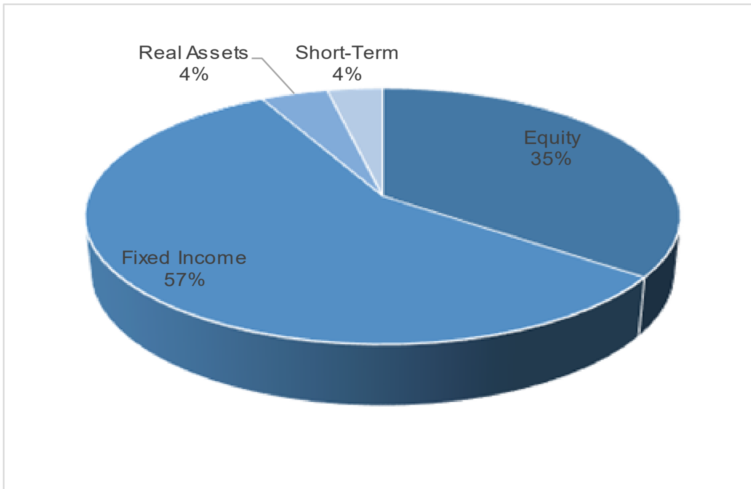
The time-weighted rate of return on investments in Portfolio II during the fiscal year ended June 30, 2019, was 5.52% compared to a return of 5.40% for the fiscal year ended June 30, 2018. The increase was due primarily to the improved performance of the public fixed income investments in the portfolio.

Portfolio II measures its returns against a custom composite benchmark comprised of each asset classes' market index benchmark, weighted by the long-term policy allocations. The investment performance of Portfolio II aims to exceed the return of the benchmark on a rolling three-year period while preserving participant capital. The total return (net of fees) of Portfolio II for the year ended June 30, 2019 was 5.52% compared to 6.84% for the custom benchmark.

Portfolio II is constructed to achieve an expected rate of return of approximately 6.00% and to experience less volatility by allocating a greater weight to fixed-income investments than equity investments.

**Portfolio II (continued)**

Below is the asset allocation based on major asset classes for Portfolio II as of June 30, 2019:




The asset allocation of Portfolio II, based on fair value as of June 30, 2019, was as follows:

| Asset Class | | Portfolio Amount | Portfolio Allocation |
|---|---|---|---|
| Money Market Mutual Funds | $ | 9,065,677 | 3.50% |
| Large Cap Equity | | 40,912,191 | 15.76% |
| Small Cap Equity | | 14,518,805 | 5.59% |
| International Developed Equity | | 20,686,092 | 7.97% |
| Emerging Markets Equity | | 7,719,553 | 2.97% |
| Long/Short Equity | | 7,240,193 | 2.79% |
| Core Plus Fixed Income | | 100,243,460 | 38.61% |
| Core Fixed Income | | 42,453,570 | 16.35% |
| Absolute Return Fixed Income | | 5,774,292 | 2.22% |
| Real Estate Real Assets | | 6,592,122 | 2.54% |
| Commodities Real Assets | | 4,408,002 | 1.70% |
| Total | $ | 259,613,957 | 100.00% |

***Economic Factors and Review***

The Trust's operations are dependent on the financial markets and overall global economic conditions. Participant activity is influenced by local economic factors and participant cash flows.

At the end of the fiscal year, fears of a domestic economic slowdown fueled rising expectations for Federal Reserve rate cuts and helped to propel Treasury yields lower as investors sought the safety of government-backed debt amidst rising uncertainty. Geopolitical tensions remained a source of potential volatility in the fiscal year ended June 2019, with 2020 election campaigns and heightened conflict with Iran coming into focus, even as U.S. relations with both China and Mexico seemingly improved. The European economy continued to show signs of weakness, most notably as it relates to export-dependent manufacturing and subdued inflation. Leading indicators were trending lower in most major economies.

Quarterly U.S. real economic growth during the fiscal year 2019, as measured by Gross Domestic Product ("GDP"), ranged from 1.1% - 3.1% on an annualized basis. The average quarterly GDP growth rate (real) for the fiscal year ended June 2019 was 2.28% compared to 3.18% for fiscal year 2018.

Labor market conditions remained generally positive. Wage growth was not reflected in broader consumer prices, which reinforced concerns that the Federal Reserve's 2% inflation target remained elusive and may require further accommodation (i.e., lower interest rates) to achieve. Domestic year-on-year inflation ("CPI") as of June 2019 was 1.6%, down from 2.9% in June 2018.

The unemployment rate during fiscal year 2019 ranged from 3.6% - 4.0% and ended the fiscal year at 3.7% compared to 4.0% at the end of fiscal year 2018, despite 224,000 new jobs added, which was well above expectations. The labor participation rate also increased slightly to 62.9%, back to where it was a year ago. Average hourly wages rose at a year-over-year pace of 3.1%. Virginia's unemployment rate during fiscal year 2019 ranged from 2.8% - 3.0%.

Rising global and domestic growth concerns pressured intermediate and longer-term interest rates dramatically lower while short-term rates remain anchored by Federal Reserve Policy. The Federal Open Market Committee ("FOMC") met in June 2019, leaving interest rates at 2.25% - 2.50%.

U.S. Treasury yields moved lower during the fiscal year ended June 30, 2019, producing outsized returns across the fixed income security types. Over the entire fiscal year, the 2-year U.S. Treasury bill finished June at 1.76%, which represented a 0.77% decrease in yield over the trailing one-year. Over the same period, the yield on the 10-year U.S. Treasury Bond went from 2.86% to 2.01%.

Total returns for the Bloombar U.S. Aggregate Bond Index were up 7.87% for the fiscal year ended June 30, 2019. Longer duration bond indexes outperformed bonds with shorter durations, as a decline in rates produced better results for those bonds with higher interest rate sensitivity. High yield bonds produced a positive return of 7.48% as measured by the Bloombar U.S. Corporate High Yield benchmark, as spreads tightened during the fiscal year ended June 30, 2019.

U.S. equities experienced mixed results for the fiscal year ended June 30, 2019. U.S. Large Cap stocks, as measured by the S&P 500, finished the fiscal year up 10.42%; while U.S. Small Cap stocks, as measured by the Russell 2000, index finished the fiscal year down 3.31%.

Non-U.S. stocks, while positive, produced muted returns for the fiscal year ended June 30, 2019. The MSCI EAFE index, which represents non-U.S. developed market stocks, was up 1.60% for the fiscal year, and similarly, the

***Economic Factors and Review (continued)***

MSCI Emerging Markets index advanced 1.61%. The ongoing trade discussions between the U.S. and China have continued to affect non-U.S. stocks. Real estate, as measured by the NFI-ODCE Index, returned 5.47% for the fiscal year ended June 30, 2019.

***Requests for Information***

This financial report is designed to provide a general overview of the Trust's financial results. This report and additional information can be found by visiting the Trust's website, valocalfinance.org/opeb/. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Managing Director
VML/VACo Finance
8 E. Canal Street, Suite 100
Richmond, VA 23219
(804) 648-0635

**VIRGINIA POOLED OPEB TRUST FUND**
STATEMENT OF FIDUCIARY NET POSITION

*JUNE 30, 2019*

| | | Total OPEB Trust |
|---|---|---|
| **ASSETS** | | |
| Short-Term Investments | $ | 30,928,208 |
| Investments at Fair Value: | | |
| Fixed Income Securities | | 366,300,909 |
| Equity Securities | | 681,928,262 |
| Real Assets | | 92,591,126 |
| Accrued Investment Income | | 341,615 |
| Receivable for Investments Sold | | 2,478,574 |
| Total Assets | | 1,174,568,694 |
| **LIABILITIES** | | |
| Payable for Investments Purchased | | 1,836,982 |
| Accounts Payable | | 841,700 |
| Total Liabilities | | 2,678,682 |
| **NET POSITION HELD IN TRUST FOR POOL PARTICIPANTS** | $ | 1,171,890,012 |

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

**VIRGINIA POOLED OPEB TRUST FUND**
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

*YEAR ENDED JUNE 30, 2019*

| | | Total OPEB Trust |
|---|---|---|
| **ADDITIONS** | | |
| Participant Contributions | $ | 55,860,282 |
| Investment Income: | | |
| Net Appreciation in Fair Value of Investments | | 38,628,925 |
| Interest and Dividends | | 17,120,068 |
| Investment Expenses | | (2,501,049) |
| Net Investment Income | | 53,247,944 |
| Total Additions | | 109,108,226 |
| **DEDUCTIONS** | | |
| Participant Withdrawals | | 127,493 |
| Administrative and Program Expenses | | 816,229 |
| Total Deductions | | 943,722 |
| Change in Net Position | | 108,164,504 |
| Net Position Beginning of Year | | 1,063,725,508 |
| **NET POSITION HELD IN TRUST FOR POOL PARTICIPANTS** | $ | 1,171,890,012 |

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

**Note 1—Summary of significant account policies**

*Basis of Presentation* – The accompanying financial statements have been prepared in conformity with the accounting principles generally accepted in the United States of America ("GAAP") as prescribed by the Governmental Accounting Standards Board ("GASB").

*The Reporting Entity* – For financial reporting purposes, the Virginia Pooled OPEB Trust Fund ("Trust") is an independent reporting entity and is not a component unit of another governmental entity. The Trust is a governmental external investment pool that invests funds to defray costs of other postemployment benefits ("OPEB"). The Trust reports activities as a single fiduciary fund type. These financial statements have been prepared utilizing the accounting principles for governmental external investment pools.

The Trust was established April 11, 2008, to provide a pooled investment alternative for OPEB contributions made by political subdivisions of the Commonwealth of Virginia ("Commonwealth"). The Trust is a qualified investment trust as defined in § 15.2-1544 of the Code of Virginia ("Code"), under Article 8.

The Trust was created to provide an investment vehicle to pool participant contributions for OPEB and to invest such funds under the direction and daily supervision of professional fund managers. The investment earnings compound and the earnings are available to fund retiree OPEBs as they are earned by employees. The Trust is open to political subdivisions of the Commonwealth including local governments, school divisions, authorities, and other governmental entities that adopt ordinances or resolutions to become participants. Participants hold individual trust accounts within the investment portfolio.

The Trust is comprised of two investment portfolios and operates under the Virginia Pooled OPEB Trust Fund Agreement ("Trust Agreement"). The Virginia Pooled OPEB Trust Portfolio I ("Portfolio I") is the default portfolio and has an asset allocation constructed to achieve an expected rate of return of approximately 7.50%. The Virginia Pooled OPEB Trust Portfolio II ("Portfolio II") has an alternatively weighted asset allocation to achieve an expected rate of return of approximately 6.00%. Participants may invest in only one portfolio at a time.

The Trust seeks to maximize the total long-term rate of return with reasonable risk by seeking capital appreciation and, secondarily, principal protection. Participant ownership is proportionate and based on market value. The value of each share is determined by dividing the value of the net position of the portfolio by the number of units outstanding at the end of the month when the portfolios are valued. The Net Asset Value ("NAV") is floating and fluctuates in accordance with market conditions including asset prices and interest rate levels. Shares are purchased and redeemed at the floating NAV. The Trust has elected to report its investments at fair value, and as such participants should also report their investments in the Trust at fair value approximating NAV. Fair value is determined one time per month.

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 comprised of nine voting members. Trustees are members of the local finance boards of participating political subdivisions and are elected for staggered three-year terms by the participants in the Trust. The Trust is not subject to regulatory oversight and is not registered with the Securities and Exchange Commission ("SEC") as an investment company.

**Note 1—Summary of significant account policies (continued)**

*Measurement Focus and Basis of Accounting* – The financial statements of the Trust are presented as a fiduciary fund type utilizing the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis revenues are recognized when earned, and expenses are recognized when incurred regardless of timing of the cash flows. Security transactions and the related gains and losses are reported on a trade date basis. As of June 30, 2019, there were pending trades which are reflected in the Trust's fiduciary net position. Interest income is accrued as earned but is allocated to participants' accounts once per month. Employer contributions are recognized when received. Benefits and distributions are recognized when a formal request from a participating employer's local finance board is received.

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 plan in accordance with GAAP.

*GASB Statements* – There were no new pronouncements issued by the GASB that affected the Trust for fiscal year ended June 30, 2019.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, effective for reporting periods beginning after December 2018, with early adoption permitted. In May 2020 in light of the COVID-19 pandemic, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, this standard is intended to provide relief to governments. The standard postponed by one year the effective dates of provisions in Statement No. 84. The Trust Administrator elected to delay adoption of the standard for fiscal year ended June 30, 2021. The standard establishes criteria for identifying and reporting fiduciary activities. The Trust is currently evaluating the potential impact of the standard on financial reporting at the time of adoption.

*Cash and Cash Equivalents* – The Trust considers all deposits in banks and short-term highly liquid investments that are readily convertible to cash to be cash and cash equivalents.

Cash equivalents, which are comprised of money market mutual funds, are recorded at amortized cost, which approximates fair value.

Cash received from participants for investing in the Trust is recognized upon receipt by the custodian bank and is immediately invested in a money market mutual fund held in the name of the participant. One time per month the participant funds received are transferred from the participant account into the investment pool. Investments are purchased at the direction of the program administrator under the guidance of a professional investment consultant.

*Investment Objectives* – The investment objectives are to maximize the total long-term rate of return with reasonable risk by seeking capital appreciation and, secondarily, principal protection. The Board of Trustees, with assistance from the investment consultant, makes asset class choices and sets the asset class target allocations. The Board of Trustees chooses which investment managers to include in the investment portfolios. Investment managers construct and manage the strategies for the Trust's investment portfolios. The managers have full discretion in the management of assets within their control and are subject to the investments guidelines established by the Board of Trustees in the Investment Policy and Guidelines.

*Investment Restrictions* – The investment policy seeks to achieve diversification and domestic equity investments should not exceed 10% in any one company in an individual manager's portfolio. Short-term cash positions should not exceed 10% of an investment managers' portfolio unless the Board of Trustees grants approval.

**Note 1—Summary of significant account policies (continued)**

*Valuation* – Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Security transactions are recorded on a trade-date basis. Realized gains and losses on sales of investments are calculated on an identified cost basis. Interest income, including any amortization of premium or accretion of discount, is recorded on the accrual basis. See Note 2 and Note 3 for discussion of investment risk and fair value measurements. Net investment income consists of realized and unrealized appreciation (depreciation) in the fair value of investments and interest income earned. Realized gains and losses on the sale of investments are recognized on the specific identification basis to match with the cost basis of the investments sold.

*Administrative and Investment Fees* – The Trust contracted with a program administrator (“Administrator”) to oversee the operations of the Trust. The Trust contracts with a third-party service provider for custody and record keeping services. The costs for the services of the Administrator are accrued and charged as administrative expenses. Investment manager fees and fees for the third-party service provider, paid by the participants, are accrued, and recognized as investment expenses. The Board of Trustees approves administrative and investment fees.

The Trust contracts with an investment consultant to assist in developing investment policy guidelines, including asset class choices, asset allocation targets and risk diversification, and perform ongoing monitoring of the investment managers. The costs for the investment consultant are paid by the program Administrator and are included in the program administration fee that is paid to the Administrator.

Administrative fees are assessed on a quarterly basis in arrears for the costs of administering the Trust. The fee is inclusive of all costs of program administration. Investment fees include investment manager fees and custody fees incurred by participants. The program administration fee is applied on a sliding scale based upon each participant’s net asset value at the beginning of the preceding quarter in addition to the weighted value of any contributions made during the preceding quarter. Custody fees incurred by participants are assessed on a quarterly basis in arrears and are deducted from the participant’s accounts. The process for deducting investment management fees varies by asset manager; however, the participants pay the investment management fees. Based on the Trust’s June 30, 2019 market value, the investment-related expenses were approximately 0.49% (49 basis points). Based on the Trust’s June 30, 2019 market value, the total administrative fees during the fiscal year were approximately 0.07% (7 basis points).

*Income Distribution* – In order to account for each participant’s activity, separate accounts are maintained by the Trust. Earnings less expenses accrued in the Trust are allocated to each participant monthly. The allocation is based on the participant’s pro rata share of the total investments in the pool. The allocated net investment income is automatically reinvested the same business day.

*Participant Transactions* – For Portfolio I and Portfolio II, the value of each participant’s investment is determined by the pro rata share of NAV of the respective portfolio based on the fair value determination on the strike days. Each participant’s proportionate share is adjusted so the sum of the value of participant shares equals the total investment portfolio value.

**Note 1—Summary of significant account policies (continued)**

The portfolios are managed as variable NAV investment pools. Fair value and NAV are determined on the last business day of each month. The pool transacts with participants based on a floating NAV per share that is determined by the market, which is the same method used to report investments. Participants may contribute at any time and the contributions initially are invested in a money market fund held in the participant's name. Each month participant contributions are transferred from the participant's account into the investment portfolios. Investments are purchased based on the direction provided by the Administrator and the investment consultant to remain within the range of targeted asset allocations. Participant redemptions may be made to pay authorized OPEB expenses. Participant withdrawals are redeemable at quarter-end based on a calendar year basis and require a ninety-day written notice.

*Custodian* – The Trust has contracted with a custodian to maintain custody of the funds and securities. The custodian is responsible for holding all funds and securities in a separate account in the name of the Trust, collecting all income and principal due to the Trust from securities held, accepting contributions and distributing redemptions, and properly accepting for delivery and/or delivering securities in accordance with the contract between the Trust and the custodian.

*Risk Management* – The Trust is exposed to various risks of loss such as loss due to torts, theft, injuries, and natural disasters. The Administrator, at the direction of the Board of Trustees, maintains commercial insurance coverage to limit exposure to identified risks. The Administrator conducts an analysis at least annually to determine the type and extent of coverage needed. The coverage is deemed sufficient to preclude any significant uninsured loss for the covered risks. There were no significant reductions in insurance coverage from the prior year. The costs of settled claims, if any, have not exceeded the coverage in any of the past three years. Claim losses in excess of insurance coverage are unlikely, and, if incurred, would be insignificant to the Trust's financial position. As of June 30, 2019, there is no evidence of an asset impairment or other information that would require the recognition or disclosure of a loss.

*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.

*Estimates* – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates also affect the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates and assumptions.

*Termination* – The Trust Agreement specifically allows for the termination of the Trust once "all participation interests of all participating employers have been terminated in their entirety." Partial termination would occur when a participating employer's interest in the Trust is terminated or when a Trust Joinder Agreement has been terminated. In case of termination, either in whole or in part, affected assets of the Trust would be distributed or transferred in accordance with the Trust Agreement.

**Note 2—Deposits and Investment Risk**

**Deposits and Investment Risk** – The following information regarding disclosures of risks are designed to inform financial statement users about the Trust's various risks.

*Custodial Credit Risk* – Custodial credit risk is the risk, in the event of the failure of a depository financial institution or financial counterparty, the Trust will not be able to recover the value of its deposits, investments, or recover collateral securities that are in the possession of an outside party. The Board has not adopted a formal custodial credit risk policy. The Board evaluates each financial institution with which the Trust deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories or custodians. The Trust has one bank for the deposit of funds which serves as the custodian.

As of June 30, 2019, the Trust did not have funds held as deposits which were exposed to custodial credit risk.

Cash equivalents are short-term investments and are comprised of money market mutual funds with a weighted average maturity of 24 days as of June 30, 2019. At June 30, 2019, the Trust had $30.9 million of money market mutual funds, which represent approximately 2.63% of the Trust's total assets. The cash equivalents are reported as short-term investments on the *Statement of Fiduciary Net Position*.

As of June 30, 2019, investment securities for the Trust were registered and held by the custodian in the name of the Trust for the benefit of the investment pools and were not exposed to custodial credit risk.

*Foreign Currency Risk* – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Board has not adopted a formal foreign currency risk policy. The Trust does not directly hold investments that are exposed to foreign currency risks. The Trust's international equity, emerging market equity, and fixed income investments are currently implemented through commingled funds and mutual funds.

*Interest Rate Risk* – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in interest rates. The Trust manages the risk for the fixed income securities using the effective duration methodology. The Board has not adopted a formal policy for interest rate risk and the Trust does not limit duration for funds of fixed-income securities.

The following schedules reflect the weighted average effective duration for investments subject to interest rate risk as of June 30, 2019:

| Investment Type | | Fair Value | Weighted Average Effective Duration (in years) |
|---|---|---|---|
| Fixed Income Mutual Funds | $ | 255,173,479 | 5.31 |
| Fixed Income Commingled Fund | | 111,127,430 | 4.86 |
| **Total** | $ | 366,300,909 | 5.17 |

**Note 2—Deposits and Investment Risk (continued)**

*Credit Risk* – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Trust. Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and disclosure is not required. The Investment Policy does not require investments to be rated. The managers of the fixed income strategies have the flexibility to invest in a broad range of fixed income securities including domestic, international, emerging market debt as well as high yield securities, bank loans, non-agency mortgage backed securities and asset backed securities, municipals, and convertible bonds. The managers may invest in fixed income obligations issued by national governments, government agencies, supranational organizations, banks, and corporations based on their opportunistic views of the market. The fixed income strategies are comprised of commingled and mutual funds and as of June 30 were not rated by a nationally recognized statistical rating organization.

*Concentration of Credit Risk* – Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer or security type. The Trust's investment policy states that no more than 10% of each portfolio's assets shall be invested in any one entity. No more than 25% of each portfolio's assets may be invested in a single strategy of any one asset manager. As of June 30, 2019, the Trust did not hold investments of 10% in one domestic issuer, no more than 25% of any one portfolio was invested in a single strategy of any one asset manager, and no investments at fair value exceeded 5% of the Trust's total investments.

**Note 3—Fair value measurement**

Fair value, as defined under GAAP, is an exit price representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

Level 1: Observable inputs such as quoted prices in active markets.

Level 2: Inputs other than quoted prices in active markets that are either directly or indirectly observable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing a security and are developed based on market data obtained from sources independent of the reporting entity. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk, and others.

Level 3: Unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions. In situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the factors market participants would use in pricing the security and would be based on the best information available under the circumstances.

Investments that are measured at fair value using the NAV as a practical expedient are not classified in the fair value hierarchy. The Trust measures certain qualifying investments at the NAV to estimate fair value unless it is probable that the Trust will sell its interest at an amount different than the NAV. As of June 30, 2019, the Trust did not intend to sell investments for an amount other than that measured at the NAV. Short-term highly liquid investments classified as cash equivalents that are measured and reported at amortized cost are not classified in the fair value hierarchy.

**Note 3—Fair value measurement (continued)**

Prices are primarily obtained from nationally recognized vendors. The main pricing source vendor is ICE Data Services. Automated transmissions of prices are received daily, when automatic pricing is not available alternate pricing sources are utilized. For certain security types it is necessary to utilize a price from an interested party if no independent source is available. The additional pricing services may include investment managers, brokers, fund companies, and issuing banks. The custodian's internal control process involves analyzing the accuracy and timeliness of the pricing information provided by the vendors to ensure the data meets the standards for quality and completeness.

The custodian obtains prices for most domestic securities at the close of each business day. Certain security types are priced at the end of each business week or on the last business day of each month. These security types include, but are not limited to, closely-held securities, commingled funds, limited partnerships, and real estate holdings.

There have been no changes in the methodologies used as of June 30, 2019. There were no transfers between levels in the fair value hierarchy during the period. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

Investments categorized as Level 1 include debt and equity securities which are valued using quoted prices in active markets for those securities.

Investments valued using the NAV as a practical expedient are provided by the general partners, investment managers, or through independent appraisals.

The following is a description of the valuation methodologies used for assets measured at fair value as of June 30, 2019:

| | | Total | Quoted Prices in Active Markets for Identical Assets<br>Level 1 | Significant Other Observable Inputs<br>Level 2 | Significant Unobservable Inputs<br>Level 3 |
|---|---|---|---|---|---|
| Fixed-Income Mutual Funds | $ | 255,173,479 | 255,173,479 | - | - |
| Common Stocks & ADRs | | 99,946,624 | 99,946,624 | - | - |
| Real Estate Investment Trusts | | 3,902,024 | 3,902,024 | - | - |
| Equity Mutual Funds | | 308,901,658 | 308,901,658 | - | - |
| **Total Investments by Fair Value Level** | $ | 667,923,785 | 667,923,785 | - | - |
| **Investments Measured at the Net Asset Value (NAV):** | | | | | |
| Fixed-Income Commingled Funds | $ | 111,127,430 | | | |
| Equity Commingled Funds | | 202,389,994 | | | |
| Private Equity Funds | | 12,213,615 | | | |
| Equity Long/Short Hedge Funds | | 54,574,347 | | | |
| Real Asset Commingled Funds | | 92,591,126 | | | |
| **Total Investments Measured at the NAV** | $ | 472,896,512 | | | |
| **Total Investments Measured at Fair Value** | $ | 1,140,820,297 | | | |

**Note 3—Fair value measurement (continued)**

The schedule below presents investments measured at the NAV per share, or its equivalent at June 30, 2019:

| | Investments Measured at the Net Asset Value (NAV) | | | |
|---|---|---|---|---|
| | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
| Fixed Income Commingled Funds | $ 111,127,430 | - | Semi-Monthly | 5 days |
| Equity International Commingled Funds | 202,389,994 | - | Weekly, Monthly | 5-10 days |
| Equity Long/ Short | 54,574,347 | - | Monthly, Quarterly, Semi-Annually | 35-97 days |
| Private Equity | 12,213,615 | 31,802,270 | Not Eligible | N/A |
| Real Asset Real Estate Commingled Funds | 65,417,706 | - | Quarterly | 45-60 days |
| Real Asset Commodities Commingled Funds | 27,173,420 | - | Monthly | 5 days |
| **Total Investments Measured at the NAV** | $ 472,896,512 | 31,802,270 | | |

*Fixed-Income Commingled Funds* - The fair value of the investments in fixed-income commingled funds are determined using the NAV per share of the investments. Fixed-income commingled investments consist of one institutional investment fund that invests in U.S. and international investment grade and non-investment grade debt securities.

*Equity International Commingled Funds* - The fair value of the investments in equity commingled funds are determined using the NAV per share of the investments. Equity commingled investments consists of three institutional investment funds employing international equity strategies. The strategies include a focused international equity fund, a developed markets international equity fund, and an emerging markets equity fund. Redemptions are allowable for these funds and frequency varies by fund but are available weekly or monthly upon 5-10 business days' notice.

*Private Equity Funds* - The fair value of the investments in private equity funds are determined using the NAV per share of the investments. Investments at the NAV for private equity funds are determined by the Trust's ownership interest in partners' capital and is commonly calculated by subtracting the fair value of liabilities from the fair value of assets. These investments can never be redeemed with the funds. Instead, the nature of the investments in this type is that distributions are received through the liquidation of the underlying assets of the fund. This classification includes three funds which deploy various strategies, with vintage years from 2015 -2018. The funds invest at scale on a global basis. In addition to growth equity investments, Managers can invest in transactions of various sizes and types, from early-stage and start-up companies to later-stage transactions that may involve leverage. One fund pursues a contrarian, value-oriented investment strategy whereby it focuses on three primary types of investments: Distressed investments, corporate carve-outs, and opportunistic buyouts. The private equity funds have investment periods of six years with stated lives ranging from ten to twelve years.

**Note 3—Fair value measurement (continued)**

*Equity Long/Short Hedge Funds -* The fair value of the investments in hedge funds are determined using the NAV per share of the investments. The initial investment in the hedge funds occurred during the fiscal year. There are eleven hedge funds which are invested in through a platform that allows qualified investors to invest in a custom portfolio of individual global long and short equity positions. The Trust selected the underlying hedge funds from a list of available funds under advisement of the investment consultant. Each hedge fund manager may invest in various strategies and have full authority to vary net exposure. As of June 30, 2019, approximately 47.92% of the hedge fund investments could not be redeemed due to lockup restrictions. One fund had a redemption restriction which was waived early for all investor during the fiscal year. The Trust elected to redeem the full investment prior to the ending of the initial lock-up and the fund was liquidated during the fiscal year for an amount approximate to its fair value at the time of liquidation. Five of the funds have redemption restrictions from one to two years. Following the initial redemption restrictions redemptions are available on monthly, quarterly, or semi-annual basis with a notice required ranging from 35 to 65 days. The remaining five funds have quarterly redemption periods with a notice required ranging from 50 to 97 days.

*Real Asset Real Estate Commingled Funds* – The fair value of the investments in real asset real estate commingled funds are determined using the NAV per share of the investments. The real asset real estate commingled funds include two funds. Redemptions are available quarterly and require a 45 to 60 days' notice.

*Real Asset Commodities Commingled Funds* – The fair value of the investments in real asset commodities commingled funds are determined using the NAV per share of the investments. This category includes one fund that utilizes a long-only unleveraged portfolio of exchange traded, U.S. dollar-denominated futures and forward contracts in tangible commodities. Redemptions are available monthly and require a 5 days' notice.

**Note 4—Related party transactions**

The Trust has an agreement with Virginia Local Government Finance Corporation ("VLGFC") whereby VLGFC serves as administrator for the Trust. The Trust compensates VLGFC to provide administrative services through an annual program fee charged as a percentage of invested assets. The administrative fee during fiscal year 2019 amounted to $0.82 million.

**Note 5—Commitments**

As of June 30, 2019, the Trust had committed to fund private equity partnerships for $43.1 million, of which $11.3 million was drawn to date. This leaves an outstanding unfunded commitment to invest of $31.8 million.

**Note 6—Subsequent events**

The Trust has performed an evaluation of subsequent events through June 9, 2020, the date the basic financial statements were available to be issued. In December 2019, a novel strain of coronavirus disease ("COVID-19") was first reported in Wuhan, China. Less than four months later, on March 11, 2020, the World Health Organization declared COVID-19 a pandemic. The extent of COVID-19's effect on the Trust's financial performance will depend on future developments, including the duration of the pandemic. It is not currently possible to measure the overall impact of COVID-19 on the Trust's investment portfolios. Management believes that it has adequately planned for economic downturns through portfolio diversification and by means of establishing target asset allocations.

During fiscal year 2020, through June 9, 2020, the Trust invested in six additional private equity partnerships. The Trust made commitments to fund the private equity partnerships for a combined total of $31.5 million, of which none has been drawn to date. As of June 9, 2020, the unfunded commitments for all private equity investments totaled $56.1 million.

DIXON HUGHES GOODMAN LLP

# Independent Auditors' Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

To the Board of Trustees
Virginia Pooled OPEB Trust Fund

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 Virginia Pooled OPEB Trust Fund, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Virginia Pooled OPEB Trust Fund's basic financial statements, and have issued our report thereon dated June 9, 2020.

### *Internal Control Over Financial Reporting*

In planning and performing our audit of the financial statements, we considered the Virginia Pooled OPEB Trust Fund'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 Virginia Pooled OPEB Trust Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Virginia Pooled OPEB Trust Fund'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 Virginia Pooled OPEB Trust Fund'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*.

DIXON HUGHES GOODMAN LLP

***Purpose of this Report***

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

Dixon Hughes Goodman LLP

**Richmond, Virginia**
**June 9, 2020**